

ANNUAL REPORT 2011



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ANNUAL GENERAL MEETING

The Annual General Meeting of ThinkSmart Limited

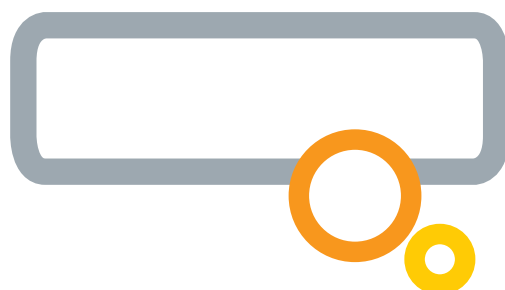
will be held at Level 36, 250 St Georges Terrace, Perth,

Western Australia on Thursday 24th May 2012 at 2.30 pm.

ThinkSmart Limited is a leading provider of point of sale financing solutions in Australia and the UK.

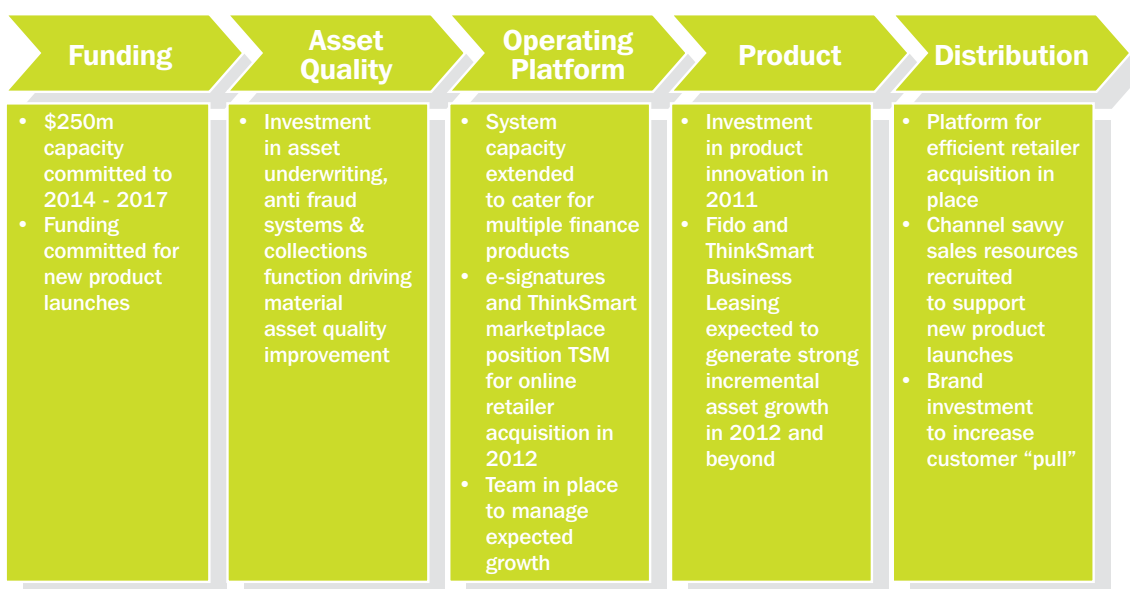
ThinkSmart's vision is to be a leading online financial services marketplace providing innovative consumer financial services products at the point of sale through multichannel retailers.

ThinkSmart processes high volumes of finance transactions quickly and efficiently through its patented QuickSmart technology, which enables online credit approval in just a few minutes whether in retail stores, online or in multi-channel environments.



Transformation for growth

ThinkSmart has leveraged its core competencies, expanded the management team and increased its funding capacity to grow distribution through product innovation, in both Australia and the UK.

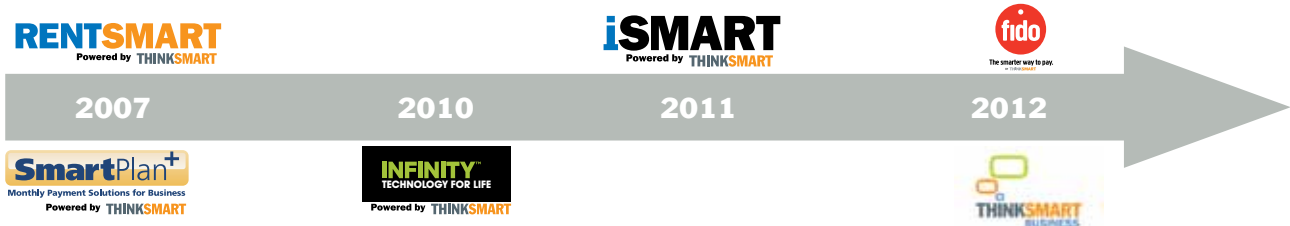


- ✓ Funding arrangements extended to dates between 2014 and 2017 and delivering \$100m net new and increased facilities (+74% yoy) covering both new and pre-existing products;
- ✓ Agreements with major retailers extended to dates between 2014 and 2016;
- ✓ Strategy to diversify the business and expand addressable market well advanced:
 - Strong UK performance following launch of Infinity with NPBT up 61% on pcp;
 - Fido 'no interest ever' payment plan product launched in Australia with committed funding and retailer agreements at launch; and
 - ThinkSmart Business Leasing small ticket commercial leasing product targeting under serviced UK small business sector;
- ✓ Expanded management team in place to support delivery of growth agenda; and
- ✓ Completion of operational review, resulting in the exit of continental Europe with \$0.6m after tax restructuring costs incurred.

Product & category diversification for growth

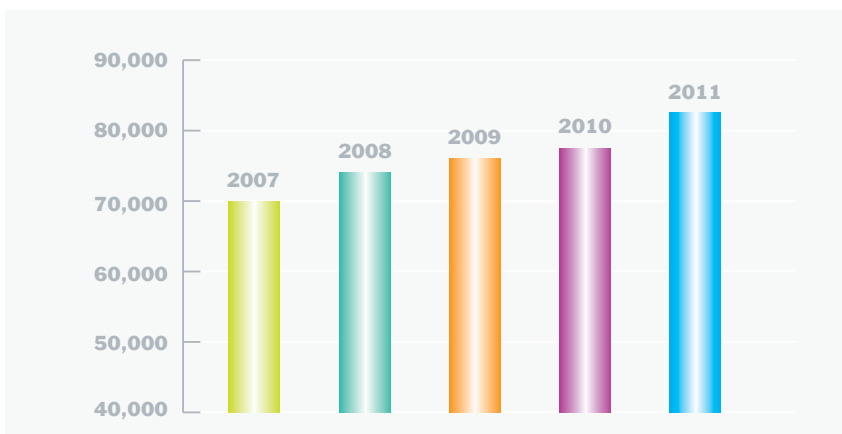
The ThinkSmart product range and offering has evolved in the five years since listing and now addresses a broader demographic across multiple retail categories through a significantly larger distribution network.

	At the time of IPO (2007)			Today (2012)	
	Australia	United Kingdom		Australia	United Kingdom
B2B/B2C Rental Product for Technology	✓	✓	➔	✓	✓
B2C Service focused Rental Product for Technology - includes tablet specific offering				✓	✓
Consumer Payment Plan across categories				✓	
B2B Rental product for Small Business					✓



ThinkSmart continues to evolve its product range both through introduction of new products and also through enhancing existing products to support consistent customer acquisition growth.

Active Customers



Product & category diversification for growth

Infinity – Technology for Life

www.infinity-online.co.uk

Launched as a computer only product in November 2010, Infinity was expanded to encompass the tablet market in September 2011. Infinity is a full service technology solution for the customer providing the use of a computer or tablet as well as a support and protection package encompassing 24/7 remote IT support, anti-virus protection and repair or replacement of broken equipment all for a fixed monthly fee. At the end of the contract, customers can earn a cash back of up to 25% for taking out a new contract.

SmartPlan – for Business

www.smartplan-online.co.uk

The original product launched in the UK market in 2003, SmartPlan has proven a resilient offering through the tough economic conditions that have prevailed in much of Europe over the past four years. SmartPlan is a core computer rental product offering businesses a simple and tax efficient monthly payment solution to get the latest technology.



RentSmart

www.rentsmart.com.au

The core RentSmart product upon which ThinkSmart was founded in 1996 underwent the next phase of its evolution with the launch of iSmart in late 2011. iSmart is a product enhancement aimed at capturing a greater share of the fast growing tablet market.

Fido – the smarter way to pay

www.smartfido.com.au

Undoubtedly one of the most exciting developments for ThinkSmart in recent years, the launch of Fido in February 2012, opens up a significantly broader market and customer demographic. Fido is a simple and uncomplicated payment plan that allows customers to pay off purchases with 'no interest ever' and there is no asterisk. It is a continuing credit contract meaning customers are able to keep using their Fido plan for their large purchases without needing to reapply or pay upfront application fees. The 'no interest ever' proposition makes Fido more attractive than a credit card or similar products as customers can choose from a six, twelve, eighteen or twenty four month repayment schedule and never incur interest over that period.

From launch on 20 February 2012, Fido was available online and through a network of retail outlets across four different categories including homeware, jewellery, sport and leisure and automotive goods. Fido will enable ThinkSmart to access many other new high margin categories in the future.



The smarter way to pay.
BY THINKSMART



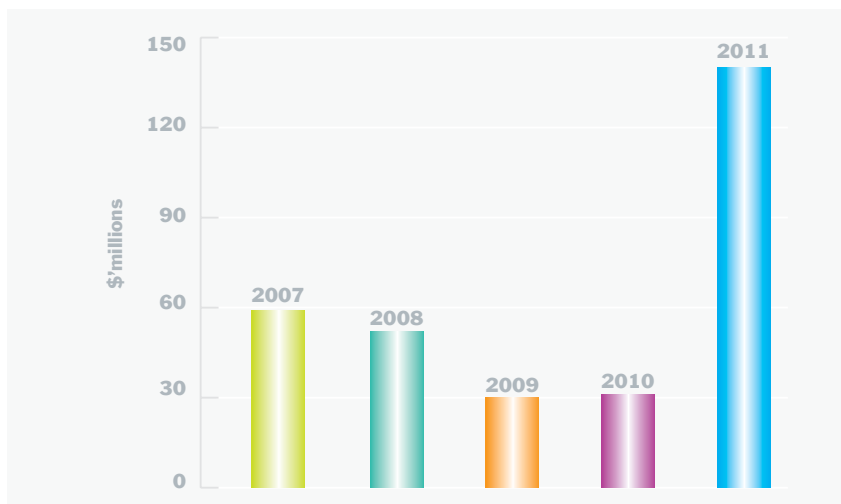
ThinkSmart Business Leasing

www.thinksmartbusiness.co.uk

Also in February 2012, ThinkSmart launched ThinkSmart Business Leasing, a product aimed at diversifying ThinkSmart's presence in the UK and capitalising on the large underserved UK small business sector. Essentially a finance lease product, ThinkSmart Business Leasing is available over lease periods between one and five years on equipment across a range of categories such as professional tools, medical and dentistry equipment, professional photography and related equipment as well as secure payment technologies.

Funding

Undrawn Funding Capacity



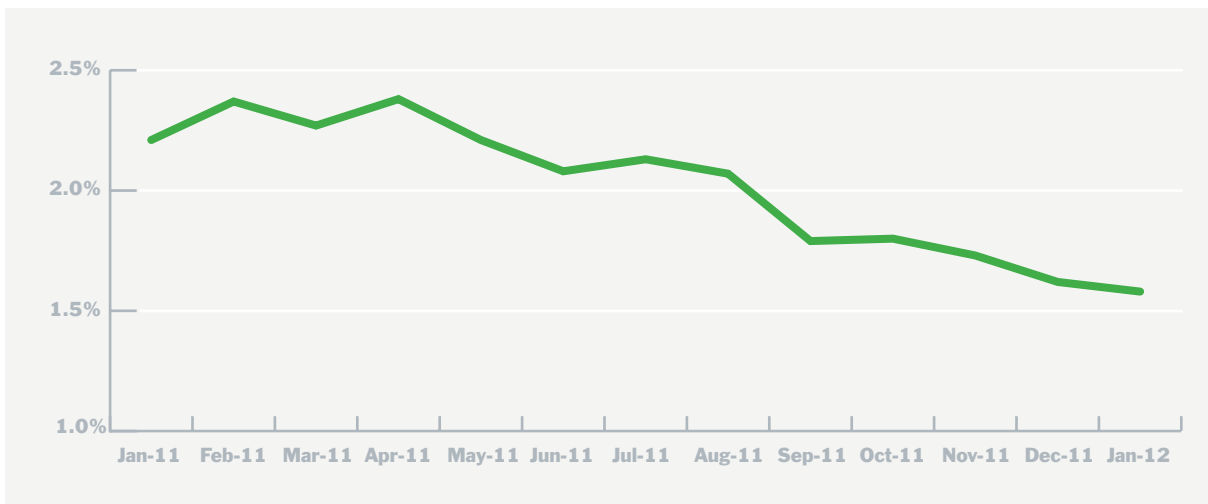
ThinkSmart achieved a four fold increase in undrawn funding over 2010, increasing capacity to pre-GFC levels. The business carries no refinancing risk on its product financing facilities which are contracted to also fund recently launched new products, Fido and ThinkSmart Business Leasing.

Through the securitisation based funding model employed in Australia, funding cost savings have been achieved, further improving the return to shareholders from the funds invested in establishing this critical business infrastructure. Further funding diversification initiatives are planned, including the addition of a second UK funder by December 2012 to support forecast growth.

Corporate banking facilities have been extended, with total available facilities of \$8 million, repayable in June 2013.

Asset quality

Group 60+ Days Past Due Delinquency %



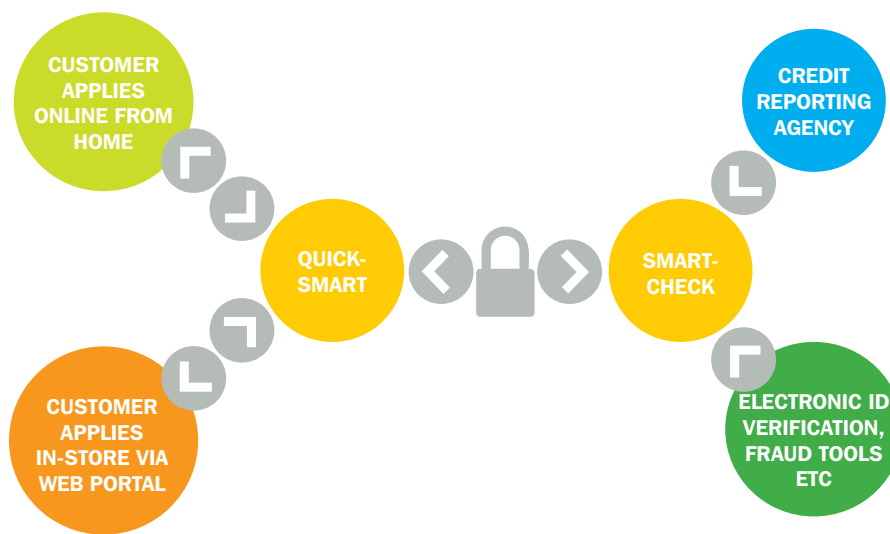
Significant investment has been incurred in improving ThinkSmart’s credit risk management capability during 2011. In particular, changes to credit assessment criteria and new tools implemented in the second half of 2011 have resulted in arrears on new originations experiencing approximately 50% lower delinquency rates compared to previous vintages.

Improved credit risk management capability has impacted short term results in the second half of 2011 as up front income recognition under the brokerage funding model was affected. However, in the medium to long term when ThinkSmart bears credit risk under the securitisation funding model, the benefit to profitability will be realised.

In addition to incorporating more advanced loss prevention tools into its systems, ThinkSmart has also invested in skilled personnel to drive further improvements. During 2012 a specialist credit risk team has been created reporting to a newly appointed Head of Risk and Treasury, further supported by improved analytical capabilities.

ThinkSmart will continue to invest in the ongoing improvement of its market leading systems, a core competitive advantage for the business.

Operating platform



ThinkSmart has made considerable investment in developing portable, scalable, multi-lingual, proprietary software that enables it to deliver on-the-spot finance approval within minutes.

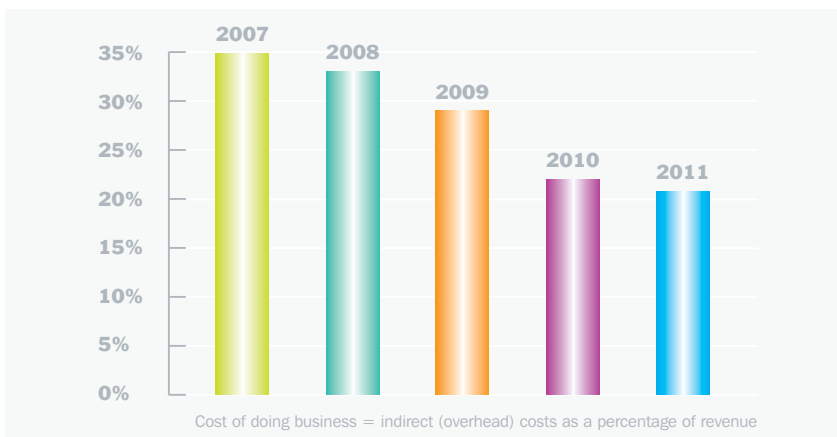
QuickSmart is the patented proprietary system that creates significant value for retail partners, maximises operational efficiencies for ThinkSmart and improves customer experience. It allows a customer to be pre-approved online within minutes, 24 hours a day, seven days a week. This pre-approval is then processed in the retail environment via a web portal. This not only supports the retailer multi-channel strategy, it expedites the order fulfilment process. If the customer is not pre-approved prior to entering the store, the finance application can easily be performed in-store via the web portal.

ThinkSmart is continually developing and evolving QuickSmart. The short-term development road map includes the ability for the customer to be approved and their order fulfilled completely online through the introduction of e-signature technology which was rolled out in the UK in late 2011 and will be operational in Australia from the second quarter of 2012.

In addition to improving the ability to manage credit risk effectively and efficiently, ThinkSmart's ongoing investment in its patented, market leading systems has delivered ongoing efficiency gains every year since listing as illustrated in the chart opposite.

Operating platform

Cost of Doing Business



Distribution

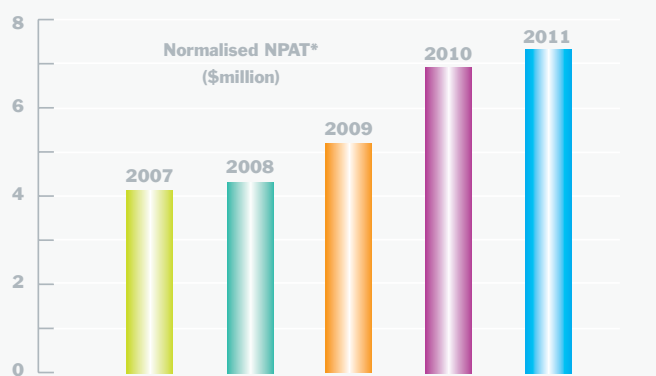
ThinkSmart is able to seamlessly offer its products in diverse retail environments through the use of its proprietary systems which mean that as long as the retailer has access to the internet, they can transact. ThinkSmart has a long established capability to engage with and transact through leading international retailers with a combined reach of over 1,700 retail outlets accessible to over 83 million people. The ThinkSmart Marketplace (www.thinksmartmarketplace.com.au) was launched in Australia in late 2011 and will follow in the UK in 2012 to allow smaller retailers to efficiently access and offer ThinkSmart's products to their customers after they themselves have satisfied ThinkSmart's stringent qualification criteria.

Expanded Management Team

To power the next phase of the ThinkSmart growth story, several key appointments have been made to ThinkSmart's management team. These new appointments, along with the experienced professionals already on the team, bring considerable talent and experience to bear to realise ThinkSmart's goals.

Financial highlights

ThinkSmart has delivered consistent profit growth since listing.



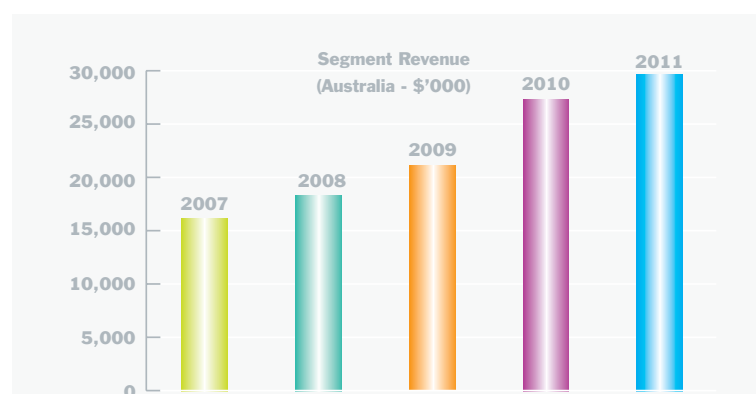
A key measure of earnings is operating margin, being statutory NPAT before depreciation, amortisation, tax, corporate interest and restructuring costs (a measure akin to EBITDA). This has increased 5% (9% at constant FX rates) in 2011 when compared to 2010.

	2011 \$Am	2010 \$Am	% Change
Australia and NZ	11.7	11.5	+2%
United Kingdom	7.5	5.8	+29%
Continental Europe	0.1	0.1	0%
Operating Margin Pre Corporate	19.3	17.4	+11%
Corporate & Development Costs	(5.3)	(4.1)	+29%
Operating Margin	14.0	13.3	+5%
Depreciation & Amortisation	(2.3)	(2.5)	-8%
Financing Costs & FX	(1.3)	(1.1)	+18%
Restructuring Costs	(0.4)	-	
Profit before Tax	10.0	9.7	+3%

*Normalised NPAT is Statutory Net Profit after tax excluding listing costs and one-off restructuring costs (after tax) of \$0.6m (2010: \$(0.3)m, 2007: \$3.3m).

Australia

In Australia, the value of equipment financed declined 17% as deteriorating conditions within the electrical retail sector resulted in heavy price discounting by retailers which had a 10% impact on average transaction values. Ahead of completing transition to the new securitisation funding platform, the Group also tightened its credit policy significantly, leading to a 7 percentage point reduction in approval rates. This initiative, while reducing volume in the short term is expected to significantly enhance asset quality in the medium term with a resultant benefit to group earnings. Primarily as a result of the volume decline, the Australian business recorded an operating margin growth of 2% to \$11.7 million.



A key achievement in the Australian business unit during the period was the completion of the significant investment in its funding platforms after raising the capital to do so in 2010. The group has completed its multi-funder securitisation platform and launched this with a facility from Westpac and later added Bendigo and Adelaide Bank to the panel of funders able to finance lease and other receivables in the Australian market

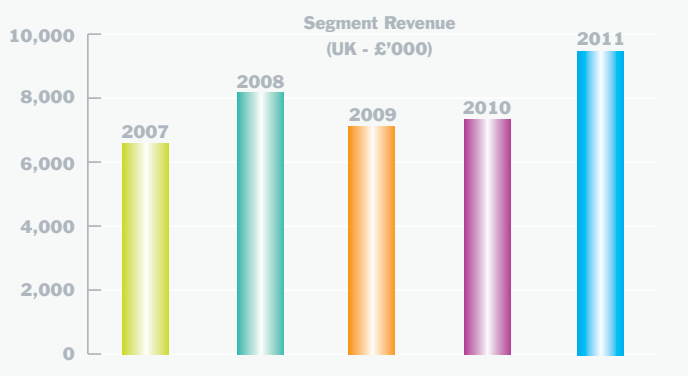
Financial highlights

through this vehicle. Funding arrangements now extend into 2017 and provide the capacity for ThinkSmart to grow its receivables under management through the launch of new products such as Fido.

In addition, ThinkSmart has also extended its key technology retailer relationships to between 2014 and 2016.

United Kingdom

In the UK, the Group achieved a 29% increase in operating margin to \$7.5 million. This stellar result was driven by the 47% increase in the value of equipment financed and 20% increase in active customers, mainly as a result of the new Infinity product which was launched in late 2010.



The next wave of systems enhancements have been rolled out in its UK operations by ThinkSmart, with integration into retailers' point of sale systems and from late 2011, e-signature technology, positively impacting operating costs.

While the Dixon's B2B contract has been extended to 2015, the launch in early 2012 of ThinkSmart Business Leasing is an important step in diversifying ThinkSmart's retail presence in the UK.

Continental Europe

During the year, operating conditions in the Spanish and Italian markets deteriorated significantly. Following a review which sought to establish whether the territories could be operated profitably using online only support, ThinkSmart decided to cease writing new business in these territories. Restructuring costs were incurred in exiting these territories, however the results of future years will benefit from the reduction in costs associated with maintaining a presence in these territories.

Management focus will remain on growing the core territories of Australia and the United Kingdom through the launch of new products and the diversification of retail channels.

Executive Chairman & CEO Report

Dear Shareholders

I am pleased to report that during 2011 we have made significant progress with our business transformation agenda. In addition we have delivered a very solid result in what has been a reasonably challenging operating environment.

Net Profit After Tax was \$6.8 million in line with last year's result. Adjusting for one-off items, normalised Net Profit After Tax increased 13% to \$7.4 million, and was up 20% on a constant currency basis. Revenue increased by 8% to \$45.5 million and we have continued to reduce our cost of business to 21% from 22% in 2010.

Our business in the UK delivered a stand-out result with pre-tax profit increasing 61% to \$7.0 million. A 47% increase in new originations in the UK was driven by the success of our new Infinity product and the relative strength of our UK retail partner, Dixons.

In Australia revenue increased 8% to \$29.5 million with one third of new business volumes now generated online. A 5% decline in assets under management reflected a combination of factors including a reduction in average transaction value, a prudent tightening of credit approval standards and weak consumer sentiment impacting the technology retail environment.

The Board has taken a decision to focus on growth opportunities in the UK and Australian markets and to exit the Spanish and Italian markets. The economies in Italy and Spain have been hit hard by the GFC which has made them less appealing markets for ThinkSmart to operate in. The decision to exit those markets resulted in a one-off charge of \$0.56 million during the year.

The warranty services contract with Dick Smith and The Warranty Group, which is not core to ThinkSmart's strategy, will not be extended beyond its expiry in April 2012. The impact of the non-renewal of this contract will be ~A\$1.2m in NPAT for the remainder of 2012.

Growth agenda

During 2011 we made great progress with our plans to transform our business and position ThinkSmart to capture high growth opportunities in our markets, leveraging our core competencies and technology platform. We have significantly diversified the funding platform of the business and are now well progressed in our strategy of diversifying our product platform and expanding our addressable market. Our core rental finance business remains solid and we are now leveraging our technology platform and other capabilities into other areas.

In February of this year we launched Fido, a new payment plan product in the attractive Australian 'no interest ever' market. Fido opens up many new high margin retail categories to ThinkSmart and is suitable for categories such as homewares, sports equipment, auto accessories and jewellery. The reaction to Fido has been positive; a number of major retailers were signed up at launch significantly increasing our distribution in the Australian market. Our patented QuickSmart technology gives us a real competitive advantage over traditional phone and paper based processes. The addition of e-signature capabilities later in the year will position Fido very strongly to benefit from growth in multi-channel retailing.

In October 2011 we introduced new innovative products for the fast growing tablet market in Australia and the UK. We also launched the ThinkSmart Marketplace in Australia in October which enables thousands of retail partners to access ThinkSmart products through an online platform.

The momentum in our new product pipeline has continued into the current financial year with the launch of ThinkSmart Business Leasing in the UK, a new e-signature enabled leasing product for equipment over £250. ThinkSmart Business Leasing is suitable for a wide range of categories including medical and dental equipment, professional/trade and power tools, auto and professional photography equipment. These new products, and in particular Fido, are important components of our growth and diversification agenda.

Executive Chairman & CEO Report

Funding platform

The transition to our new funding model is now largely complete and this puts us in a stronger position to capture future growth opportunities. We have \$125 million in undrawn committed funding capacity across Australia and the UK which means we are well placed to fund our projected growth in 2012 and beyond.

As part of this transition ThinkSmart has adopted lease accounting from March 2012. This will result in the business recognising revenue more evenly over the period in which it is earned. While this will lower income recognition in the first year, this will be more than offset by a material increase in the second and subsequent years relative to the previous funding model.

Entitlement Offer and Dividend

ThinkSmart announced in February 2012 that we would raise approximately \$9 million in equity to support new growth opportunities including our move into the attractive 'no interest ever' market. Retail and institutional shareholders were given the opportunity to participate in the Entitlement Offer and I am pleased to say that it was well supported.

In light of the equity raising and the priority of investing in new growth initiatives, the Board made a decision to not pay a dividend for the 2011 financial year. It remains the Board's intention to declare a final dividend for the 2012 financial year.

Management Team

I am delighted to report that we have further strengthened our management team and the board to support the future growth and diversification of the business.

Alistair Stevens joined us in April as Chief Financial Officer and Company Secretary having previously served as Deputy CFO of BSkyB plc, one of the UK's largest listed companies.

We have strengthened the management team in the UK with the appointment of a new Managing Director, Andrew Deller, and Head of Sales and Business Development, Mark Randerson. We have also invested in our Australian team with the appointment of a new Head of Sales and Business Development, Matthew Dunstan.

I would also like to take this opportunity to welcome Nancy Fox who brings over 30 years of financial services and insurance experience to our Board of Directors.

Market and Opportunities

While we continue to expect challenging retail market conditions we are confident that ThinkSmart has put in place a strategy, a team, and an operating platform which leaves us well placed to grow the business.

We expect to do this by:

- Growing our core rental finance business through strong retailer relationships with partners gaining market share
- Growing online through multi-channel retail and customer acquisition capability
- Achieving growth objectives for Fido and ThinkSmart Business Leasing products
- Further diversification by product, channel and category, leveraging investment in our QuickSmart technology and the ThinkSmart Marketplace
- Finalising the transition to a new funding model

We thank you, our shareholders for your support, our employees for their continued hard work and enthusiasm and look forward to continuing to deliver on our strategic agenda in 2012 and beyond.



NED MONTARELLO

Executive Chairman & CEO

Corporate & Social Responsibility

People

ThinkSmart recognises the value of its staff in delivering on its corporate goals. Accordingly, ThinkSmart is committed to providing the right training, tools, leadership and professional support, required to enable its employees to develop into highly productive, knowledgeable, and loyal individuals. ThinkSmart also seeks to create a values based culture, providing the guiding principles within which our employees can develop and excel.

These goals are primarily fostered through our “PeopleSmart” programme in Australia and the “Investor in People” accreditation of our UK business. The PeopleSmart programme 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 organize activities that align employees to the ThinkSmart values. PeopleSmart also acts as a forum for the discussion of workplace issues, in order to improve the work environment for ThinkSmart’s employees.

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. ThinkSmart has donated a number of computers and other equipment to a Queensland primary school which had lost all its technology equipment in the floods.

At a team level, ThinkSmart supports employee driven charitable initiatives both by making the time available and in most cases, matching employee donations. Employees in the business have given generously and participated actively in a range of community based initiatives including: blood and financial donations to the Red Cross; Australia’s Biggest Morning Tea (the Cancer Council); National Ride to Work Day; Make a Wish Foundation; and Movember (Prostate Cancer Foundation and Beyond Blue).

Responsible Lending

ThinkSmart has been a practitioner of responsible lending practices for a number of years. Primarily these practices are reflected within its lending criteria; however ThinkSmart is also a member of an approved external dispute resolution scheme and regularly reviews the competence of its lending staff and its end to end processes as it strives to achieve best practice. ThinkSmart regularly undertakes research and elicits customer feedback to ensure that its product offering is aligned to community needs and that its customer service is the best it can be.

FINANCIAL REPORT

FINANCIAL YEAR ENDED 31 DECEMBER 2011

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THINKSMART Annual Report 2011

ABN

24 092 319 698

DIRECTORS

N R Montarello (Chairman and Chief Executive Officer)

D Griffiths (Deputy Chairman)

S Penglis

F de Vicente

N Fox

COMPANY SECRETARY

J Ferreira

REGISTERED OFFICE

Level 1, The West Centre

1260 Hay Street

West Perth WA 6005

Australia

PRINCIPAL PLACE OF BUSINESS

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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

AUDITORS

KPMG

235 St Georges Terrace

Perth WA 6000

Australia

BANKERS

Westpac Banking Corporation

109 St Georges Terrace

Perth WA 6000

Australia

The Directors of ThinkSmart Limited (the "Company") submit herewith the annual financial report of the consolidated entity ("the Group") for the financial year ended 31 December 2011 and the auditor's report thereon. 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

Ned Montarello

Executive Chairman and Chief Executive Officer

Ned was appointed Executive Chairman on 22 May 2010. Ned has over 24 years experience in the finance industry. He founded ThinkSmart in 1996 and through this vehicle has been credited with elevating the Nano-Ticket rental market sector in Australia, receiving the Telstra and Australian Government's Entrepreneur of the Year Award in 1998. Ned steered the expansion of the business into Europe, establishing agreements in 2002/2003 with DSG International and HBoS to launch in the UK.

David Griffiths

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

Non-Executive Director, Deputy Chairman

David joined the Board on 28 November 2000 and was appointed Deputy Chairman on 22 May 2010. David has over fourteen years experience in investment banking, most recently as Division Director of Macquarie Bank Limited and previously as Executive Chairman of Porter Western Limited. He holds an Honours Degree in Economics and an honorary Doctor of Economics from The University of Western Australia, a Masters Degree in Economics from Australian National University and is a Fellow of the Australian Institute of Company Directors. David sits on the Board of the Perth International Arts Festival and is currently a deputy chairman of Automotive Holdings Group Limited and chairman of Northern Iron Limited. David is currently Chair of the Audit and Risk Committee of ThinkSmart.

Steven Penglis

B. Juris and B. Law

Non-Executive Director

Steven joined the Board on 1 July 2000 and stepped down as Chairman on 6 May 2007. Steven has been a Partner at Freehills since 1987. Steven 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; a former elected member and Chairman of the Legal Practice Board of Western Australia; and an elected member of the Council of the Law Society of Western Australia. Steven is currently Chair of the Nomination and Remuneration Committee of ThinkSmart.

Fernando de Vicente

B. Econ, MBA Bus

Non-Executive Director

Fernando is a citizen of Spain who joined the Board on 7 April 2010. Fernando has a Degree in Economics (International Development) from the University Complutense in Madrid, and an Executive MBA from IESE Business School in Madrid. Fernando spent nine years at DSG International, one of Europe's largest electrical retailers, where he most recently held the role of International Managing Director, with responsibility for DSG's Central & Southern European operations, a A\$3 billion business with 350 stores across six countries.

Fernando started his career with DSG as Finance Director for PC City Spain, and became the MD for Spain in 2003. In 2006 he was promoted to Regional Managing Director for South-East Europe based in Greece, before assuming the role of International Managing Director in 2008. In March 2010, Fernando left DSG to become the Executive Chairman of BodyBell Group, one of Spain's largest speciality retailers. On 15 February 2012, Fernando was appointed non-executive director of Levantina, a multinational company dealing in natural stone products.

Nancy Fox

BA, JD (Law), FAICD

Non-Executive Director

Nancy joined the Board on 10 October 2011 and the Audit and Risk Committee on 25 November 2011. Nancy is currently Chairman of Adelaide Managed Funds Limited, a subsidiary of Bendigo & Adelaide Bank and is also a board member of APA Ethane Limited, the responsible entity of the Ethane Pipeline Income Fund (EPX), the Energy Security Council, HCF Life, the Taronga Conservation Society of Australia and the Australian Theatre for Young People.

Nancy was previously the Managing Director of Ambac Assurance Corporation with responsibility for the Asia Pacific Region. Prior to joining Ambac, Nancy was an investment banker for over 15 years and has held a number of senior positions as head of securitisation and structured finance at ABN AMRO, AIDC and Citibank. Before moving to investment banking, she was an attorney in New York. Nancy was a National Committee member of the Australian Securitisation Forum for 9 years and received the Australian Securitisation Forum's inaugural Distinguished Service Award in 2005.

COMPANY SECRETARY

Jan Ferreira

B.Compt, ACMA, CPA

Jan was appointed Company Secretary on 1 July 2011.

Jan is a Chartered Management Accountant and Certified Practising Accountant with over 18 years experience. Prior to his appointment to this role, he was Chief Financial Officer of ThinkSmart's Australian business unit for 4 years. Prior to joining ThinkSmart, Jan held a number of finance roles in the funds management and utilities sectors based in the UK and Australia after commencing his career with Ernst & Young.

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		Audit and Risk Committee		Nomination and Remuneration Committee	
	Meetings		Meetings		Meeting†	
	A	B	A	B	A	B
N Montarello	8	8	2*	-	-	-
D Griffiths	8	8	2	2	-	-
S Penglis	7	8	2	2	-	-
F de Vicente	8	8	-	-	-	-
N Fox	2	2	-	-	-	-

A – Number of meetings attended

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

† – During the year the full Board considered all matters of nomination and remuneration

* – Attendance by invitation from the Committee

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 Chief Executive Officer;
- 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 operational budgets, 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 19 and 20 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.
- The Board regularly reviews the independence of each director in light of the interests disclosed to the Board.
- A minimum of three directors and a maximum of twelve.

The Board is aware of the ASX Corporate Governance Recommendation which stipulates that the roles of Chair and Chief Executive Officer should not be exercised by the same individual. Given the breadth of the Group's operations and the Executive Chairman's extensive business experience, the Board considers it appropriate that the Executive Chairman be considered the most senior executive overseeing and supervising the Group as well as managing the Group's small executive team in regard to this.

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), S Penglis and N Fox (appointed 25 November 2011).

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. The external auditors, Chief Executive Officer and Chief Financial Officer, are invited to the Audit Committee meetings at the

discretion of the Committee. The external auditor met with the Audit Committee and the Board of Directors twice during the year without management being present.

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 31 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 (provided they are not in possession of inside information) 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,

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 Chief Executive Officer; and
- all other Relevant persons must receive approval from the Company Secretary.

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 Chief Executive Officer, or the Group Chief Financial Officer / 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.

DIVERSITY

The Board is committed to having an appropriate blend of diversity on the Board and in the group's senior executive positions. The Board does not currently have a policy on diversity but intends to develop one during 2012, to complement and enhance the Anti-Discrimination & Equal Employment Opportunity Policy it displays on its intranet site.

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 reviews and makes recommendations to the Board on remuneration

packages and policies applicable to the executives and directors of the Company as well as the Group. 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 Chief Executive Officer 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 S Penglis (Chair), D Griffiths and F De Vicente.

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, the majority being non-executive directors, and an 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).

REMUNERATION REPORT

The remuneration report for 2011, as presented below, has been prepared for consideration by shareholders. The remuneration report is set out under the following main headings:

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

A. PRINCIPLES OF REMUNERATION

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 executives.

The following are Key Management Personnel of the Group:

Executive Director

N Montarello (Executive Chairman and Chief Executive Officer, ThinkSmart Limited)

Non-Executive Directors

D Griffiths (Deputy Chairman, ThinkSmart Limited)

S Penglis (Non-Executive Director, ThinkSmart Limited)

F de Vicente (Non-Executive Director, ThinkSmart Limited)

N Fox (Non-Executive Director, ThinkSmart Limited) – appointed 10 October 2011

Executives

A Baum (Group Chief Operating Officer, ThinkSmart Limited)

N Barker (Group Chief Financial Officer, ThinkSmart Limited) – resigned 30 June 2011

J Ferreira (Group Chief Financial Officer (acting), ThinkSmart Limited) – appointed 1 July 2011

S McDonagh (Head of Product & Marketing – ThinkSmart Limited) – re-appointed 25 July 2011

G Varma (Group Chief Information Officer, ThinkSmart Limited)

G Parry (Managing Director - UK, RentSmart Limited)

Remuneration 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 remuneration packages of both the company and the Group given trends in comparative companies both locally and internationally and the objectives of the company's remuneration strategy.

The remuneration 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 remuneration 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; and
- the Group's performance.

Remuneration packages include a mix of fixed and variable remuneration and short-term 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. Base pay is set at levels that are intended to attract and retain executives capable of managing the Group's performance and is therefore indirectly linked to Group performance. A direct link between executive remuneration and Group performance is achieved through the application of short and long term incentives which are subject to performance criteria which, if met, reflect the performance of the Group.

In considering the Group's performance and benefits for shareholder wealth, the Executive Chairman and Nomination and Remuneration Committee have regard to the following indices of the current financial year and the previous four financial years.

	2011	2010	2009	2008	2007
Profit attributable to owners of the company	\$6,798,347	\$6,773,013	\$5,171,776	\$3,210,752	\$73,066
Basic EPS	5.23 cents	6.52 cents	5.35 cents	3.34 cents	0.80 cents
Dividends paid	\$4,545,779	\$1,937,788	\$2,900,682	\$1,933,788	-
Dividend paid per share	3.5 cents	2 cents	3 cents	2 cents	-
Share price at year end	\$0.41	\$0.73	\$0.90	\$0.17	\$1.92
Change in share price	(\$0.32)	(\$0.17)	\$0.73	(\$1.75)	(\$0.23)
Return on capital employed	18%	36%	34%	22%	6%

Profit is considered as one of the financial performance targets setting of the short term incentive. Profit amounts for 2007 to 2011 have been calculated in accordance with Australia Accounting Standards (AASBs).

The level of key management personnel remuneration takes into account the performance of the Group over a number of years. Over the past four years, the group's profit from ordinary activities after income tax has grown at an average rate per annum of over 27%. During the same period, average key management personnel remuneration has grown by approximately 8.9% per annum.

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. As a result, the Executive remuneration is linked to the Group's financial performance.

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 fees include Director's fee as well as Board Committee membership fee. The current maximum aggregate annual sum approved by shareholders at a previous general meeting is \$600,000 (2010: \$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 Groups 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; and
- 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 Group’s business objectives. An incentivised reward structure is necessary to ensure a competitive package in the 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 Executive’s salary, consideration is given to external competitiveness, position responsibilities and individual skills and experience. The STI component of Executive remuneration is based on annual performance targets and delivered in the form of cash. The Long Term Incentive Plan recognises performance and behaviour that delivers sustainable long term shareholder value and seeks to align the interests of management with those of the shareholders.

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 Executives is reviewed annually by the Executive Chairman to ensure the executive’s pay is competitive with the market. An executive’s pay is also reviewed on promotion. Base pay for the Executive Chairman is reviewed annually by the Nomination and Remuneration Committee.

Short-term performance incentive

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

- a component of the STI is linked to the individual performance of the executive (this is based on a number of factors, including performance against budgets, achievement of key performance indicators (KPIs) and other personal objectives); and
- a component of the STI is linked to the financial performance of the 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 Group 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 bonus is delivered in the form of cash.

For the 2011 financial year, STI performance targets for Executives were based on the respective territories’ targets of Earnings before Tax, Depreciation and Amortisation (“EBTDA”), penetration rate, application volumes, settlement volumes, Average Transaction Value 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 F of the Remuneration Report.

Long term incentive

During 2009, the Board introduced a new Executive Share Option Plan ("ESOP") which recognises performance and behaviour that delivers sustainable long term shareholder value and seeks to align the interests of management with those of the shareholders. Consequently, options are issued to executives, and the ability to exercise the options is conditional on the Group achieving the pre-determined performance criteria.

The table below sets out the details of the performance options issued to Key Management Personnel:

Instrument	Each option represents an entitlement to one ordinary share.
Exercise price	Performance Options Tranche 1 - \$0.62 Performance Options Tranche 2 - \$1.11 Performance Options Tranche 3 - \$0.84
Vesting conditions	Performance options will vest on, and become exercisable on or after, the Vesting Date to the extent that certain performance conditions that are based on the achievement of pre-determined financial performance of the Group over the performance measurement period, as follows: <ul style="list-style-type: none"> - 50% of performance options are subject to achievement of Earnings Per Share (EPS) performance condition; and - 50% of performance options are subject to achievement of Total Shareholder Return (TSR) performance condition. Subject to the executive remaining an employee of the Group. If the executive ceases to be an employee of the Group before the option is exercised, all options held by the executive will automatically lapse one month after the date of cessation of employment.
EPS performance target	The Group's EPS growth will be measured relative to a target of more than 7.5% per annum compound growth. The proportion of the EPS award that vests will be: <ul style="list-style-type: none"> - Compound EPS growth of 7.5% p.a. or less: 0% - Compound EPS growth between 7.6% to 9.9%: 4% of the EPS award for each 0.1% of compound EPS growth above 7.5% - Compound EPS growth of 10% p.a. or more: 100%
EPS performance period	Performance Options Tranche 1: 3 year period commencing 1 January 2009 with the base year being the period ended 31 December 2008. Performance Options Tranche 2: 3 year period commencing 1 January 2010 with the base year being the period ended 31 December 2009. Performance Options Tranche 3: 3 year period commencing 1 January 2011 with the base year being the period ended 31 December 2010.
Why vesting conditions are chosen	The vesting conditions were chosen as performance conditions as they reflect, at the date they were granted, the improvement of earnings.

TSR performance target	The Group will be given percentile ranking having regards to its performance relative to a comparator group consisting of the S&P/ASX Small Ordinaries Index (ASX code: ASO). The Group will be given a percentile ranking having regard to its performance relative to the comparative group of companies. The percentage of the TSR reward that vests will be determined by the Group's ranking as follows: <ul style="list-style-type: none"> - TSR rank less than 50th percentile: 0% - TSR ranks 50th percentile: 50% - TSR rank between 50th and 75th percentile: 50% plus an additional 2% of this award for each additional percentile ranking above 50th percentile - TSR rank at or above 75th percentile: 100%
TSR performance period	Performance Options Tranche 1: As at 1 January 2009 Performance Options Tranche 2: As at 1 January 2010 Performance Options Tranche 3: As at 1 January 2011
Why vesting conditions are chosen	The vesting conditions were chosen as performance conditions as they reflect, at the date they were granted, alignment with shareholder expectations.
Vesting date	Performance Options Tranche 1: 1 January 2012 Performance Options Tranche 2: 31 December 2012 Performance Options Tranche 3: 31 December 2013
Exercise period	Performance Options Tranche 1: From vesting date to expiry date Performance Options Tranche 2: From vesting date to expiry date Performance Options Tranche 3: From vesting date to expiry date
Expiry date	Performance Options Tranche 1: 31 December 2013 Performance Options Tranche 2: 31 December 2014 Performance Options Tranche 3: 31 December 2015
Disposal restriction	No disposal restriction imposed at the time of this grant.

B. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

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 within the senior management team having responsibility for planning, directing and controlling the activities of the Group. This includes Group executives who received the highest remuneration for the year ended 31 December 2011.

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:

DIRECTORS' REPORT

		Short Term			Total	Post employment	Termination benefits	Share-based payments		Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary and fee	STI cash bonus	Non-monetary benefits		Superannuation benefits		Options and rights	Shares		%	%
		\$	\$	\$		\$		\$	\$		\$	\$
DIRECTORS												
Non-Executive Directors												
P Mansell*	2011	-	-	-	-	-	-	-	-	-	-	-
	2010	24,751	-	-	24,751	2,228	-	-	-	26,979	-	-
S Penglis	2011	63,500	-	-	63,500	5,714	-	-	-	69,214	-	-
	2010	62,145	-	-	62,145	5,593	-	-	-	67,738	-	-
D Griffiths	2011	67,500	-	-	67,500	6,075	-	-	-	73,575	-	-
	2010	67,500	-	-	67,500	6,075	-	-	-	73,575	-	-
F de Vicente	2011	54,895	-	-	54,895	9,255	-	-	-	64,150	-	-
	2010	49,050	-	-	49,050	-	-	-	-	49,050	-	-
N Fox*	2011	13,452	-	-	13,452	1,211	-	-	-	14,663	-	-
	2010	-	-	-	-	-	-	-	-	-	-	-
Executive Director												
N Montarelli	2011	616,545	149,753	2,206	768,504	54,167	-	232,491	-	1,055,162	36%	22%
	2010	649,527	48,000	-	697,527	31,651	-	87,531	-	816,709	17%	11%
Executives												
A Baum	2011	436,410	-	2,206	438,616	27,500	-	68,351	81,889	616,356	11%	11%
	2010	141,666	-	-	141,666	10,000	-	10,903	24,889	187,458	6%	6%
N Barker*	2011	160,647	113,000	1,103	274,750	28,716	29,092	38,973	-	371,531	41%	10%
	2010	322,996	26,000	-	348,996	31,410	-	35,671	-	416,077	15%	9%
M Radotic†	2011	-	-	-	-	-	-	-	-	-	-	-
	2010	103,859	17,816	15,317	139,992	9,076	-	5,949	-	152,017	16%	4%
J Ferreira	2011	215,406	31,228	2,206	248,840	21,728	-	28,957	-	299,525	20%	10%
	2010	-	-	-	-	-	-	-	-	-	-	-
S McDonagh*	2011	80,775	-	552	81,327	7,476	-	13,457	-	102,260	13%	13%
	2010	165,046	22,425	-	187,471	16,872	-	-	-	204,343	11%	0%
G Varma	2011	266,353	31,687	2,206	300,246	26,789	-	23,597	-	350,632	16%	7%
	2010	268,623	15,089	-	283,712	25,534	-	13,872	-	323,118	9%	4%
G Parry	2011	154,567	28,329	6,244	189,140	100,210	-	47,193	-	336,543	22%	14%
	2010	228,807	21,010	9,946	259,763	11,440	-	18,685	-	289,889	14%	6%
Total	2011	2,130,050	353,997	16,723	2,500,770	288,841	29,092	453,019	81,889	3,353,611	24%	14%
Total	2010	2,083,970	150,340	25,263	2,259,573	149,879	-	172,611	24,889	2,606,953	12%	7%

* - During the year, the Key Management Personnel has either resigned or been appointed.

† - This information provided for comparative purposes. This person was not a Key Management Personnel during the year.

C. SERVICE AGREEMENTS

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 Chief Executive Officer are formalised in a service agreement. The Chief Executive Officer's employment agreement is for a fixed term of 3 years to 28 August 2012. All other employment agreements are unlimited in term but capable of termination with one to three months' notice by either the Company or the executive. The Company can make a payment in lieu of notice.

In the event of retrenchment, the executives listed in the table on page 30 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 (OPTIONS)

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

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2011	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2011
DIRECTORS						
N Montarello	1,000,000	11/04/2011	0.423	0.84	31/12/2015	-
EXECUTIVES						
A Baum	333,333	11/04/2011	0.404	0.84	31/12/2015	-
J Ferreira	150,000	11/04/2011	0.404	0.84	31/12/2015	-
S McDonagh	250,000	25/07/2011	0.276	0.84	31/12/2015	-
G Varma	100,000	11/04/2011	0.404	0.84	31/12/2015	-
G Parry	200,000	11/04/2011	0.404	0.84	31/12/2015	-

No options were granted since the end of the financial year. The options are provided at no cost to the recipients.

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

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as remuneration

During the 2011 reporting period, no shares were issued as a result of the exercise of options.

DIRECTORS' REPORT

Analysis of options and rights over equity instruments granted as remuneration

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					
	Number of shares	Grant Date	% vested in year	% forfeited in year (a)	Financial year in which grant vest
DIRECTORS					
N Montarello	1,000,000	30/06/2009	-%	-%	2012
	1,000,000	05/05/2010	-%	-%	2013
	1,000,000	11/04/2011	-%	-%	2014
EXECUTIVES					
A Baum	333,333	01/09/2010	-%	-%	2013
	333,333	11/04/2011	-%	-%	2014
N Barker	280,000	17/04/2007	-%	100%	2009
	500,000	30/06/2009	-%	7%	2012
	333,333	05/05/2010	-%	50%	2013
J Ferreira	150,000	30/06/2009	-%	-%	2012
	100,000	05/05/2010	-%	-%	2013
	150,000	11/04/2011	-%	-%	2014
S McDonagh	250,000	25/07/2011	-%	-%	2014
G Varma	150,000	30/06/2009	-%	-%	2012
	100,000	05/05/2010	-%	-%	2013
	100,000	11/04/2011	-%	-%	2014
G Parry	280,000	17/04/2007	-%	100%	2009
	300,000	30/06/2009	-%	-%	2012
	200,000	05/05/2010	-%	-%	2013
	200,000	11/04/2011	-%	-%	2014

- (a) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the retirement of the executive.

Analysis of movement of options

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)	Expired and Lapsed in year \$ (c)
DIRECTORS			
N Montarello	423,000	-	-
EXECUTIVES			
A Baum	134,667	-	-
N Barker	-	-	55,387
J Ferreira	60,600	-	-
S McDonagh	69,000	-	-
G Varma	40,400	-	-
G Parry	80,800	-	7,343
	808,467	-	62,730

- The value of options granted in the year is the fair value of the options calculated at grant date using a binomial 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.
- 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.
- The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using original fair value.

E. SHARE BASED COMPENSATION (SHARES)

All shares refer to shares over ordinary shares of ThinkSmart Limited.

Shares granted as remuneration – audited

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

	Number of shares granted during 2011	Grant Date	Fair value at grant date (\$)	Vesting period	Number of shares vested during 2011
EXECUTIVES					
A Baum	125,000	01/09/2011	0.52	3 years	-

No shares were granted since the end of the financial year. The shares are provided at no cost to the recipient.

These shares were issued to A Baum and are held in escrow. The shares are ordinary shares in the Company and will vest upon completion of a 3 year service period. During this period, Mr Baum is entitled to any dividends declared by the Company and normal voting rights are attached. In the event that Mr Baum's employment with the Company ceases before the vesting period (i.e. through resignation or termination), the shares will be cancelled. If Mr Baum is retrenched by the Company due to changes in the Company's structure or operations, he will be entitled to retain the shares and they will become immediately unconditional if this occurs before the escrow period expires.

Analysis of shares granted as remuneration

Details of vesting profiles of the shares 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.

Shares granted						
	Number of shares	Grant Date	% vested in year	% forfeited in year (a)	Financial year in which grant vest	
EXECUTIVES						
A Baum	350,000	01/09/2010	-%	-%	2013	
A Baum	125,000	01/09/2011	-%	-%	2014	

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

Analysis of movement of shares

The movement during the reporting period, by value of 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)	Vested in year \$ (b)	Lapsed in year \$ (c)
EXECUTIVES			
A Baum	65,000	-	-
	65,000	-	-

- (a) The value of shares granted in the year is the fair value of the shares as determined in reference to the prevailing market price of the Company's shares on the ASX.
- (b) The value of shares vested during the year is calculated as the market price of shares of the Company on the ASX as at close of trading on the date the shares were vested.
- (c) The value of the shares that lapsed during the year represents the benefit forgone and is determined in reference to the prevailing market price of the Company's shares on the ASX at the date the shares lapsed, with no adjustments for whether the service criteria had been achieved.

F. BONUS REMUNERATION

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)	Maximum entitlement \$	% vested in year	% forfeited in year (b)
DIRECTORS				
N Montarello	149,753	249,589	60.00%	40.00%
EXECUTIVES				
N Barker	113,000	165,000	68.50%	31.50%
J Ferreira	31,228	35,689	87.50%	12.50%
G Parry	28,329	57,369	35.00%	65.00%
G Varma	31,687	50,297	63.00%	37.00%

- (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 2011 financial year.
- (b) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

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.

During the year, the Group completed its new multi-funder securitisation platform in Australia as the financing vehicle for the leases it arranges for customers.

OPERATING AND FINANCIAL REVIEW

The after tax net profit of the Group for the year was \$6,798,347 (2010: \$6,773,013). This result includes the net income derived from lease accounting for the portfolios of receivables the group acquired during the year as well as the costs incurred in restructuring its operations, primarily in Spain and Italy. The strong Australian dollar again weighed on earnings, with an estimated \$476,000 impact on the reported after tax profit.

In the UK, the Group achieved a 61% increase in profit before tax contribution of \$7.0 million. After adding back the recognition in the year of \$1 million of deferred service income (Note 6) and \$0.6 million from the change in estimate relating to UK insurance income (Note 4), the UK business recorded an underlying 23% increase. This stellar result was driven by the 47% increase in the value of equipment financed as a result of the new Infinity product which was launched in late 2010.

In Australia, the value of equipment financed declined 17% as deteriorating conditions within the electrical retail sector resulted in heavy price discounting by retailers which had a 10% impact on average transaction values. Ahead of completing transition to lease accounting, the Group also tightened its credit policy significantly, leading to a 7 percentage point reduction in approval rates. This initiative, while reducing volume in the short term is expected to significantly enhance asset quality in the medium term with a resultant benefit to group earnings. Primarily as a result of the volume decline, the Australian business recorded a decline in profit before tax contribution of 9% to \$8.7 million.

This period has been a transformational one for the Group which has undertaken significant investment in its funding platforms after raising the capital to do so in 2010. The group has completed its multi-funder securitisation platform and launched this with a facility from Westpac and later added Bendigo and Adelaide Bank to the panel of funders able to finance lease and other receivables in the Australian market through this vehicle. The funding arrangements with these funders now extended into 2016 and provide the capacity for the Group to grow its receivables under management through the launching of new products in its core territories.

The Group secured ongoing funding for both its Infinity consumer rental product which was launched in November 2010, as well as its existing SmartPlan commercial small ticket leasing product. The new funding facility for £40 million extends three years to 2014 and has allowed the group to fund the 23% increase in UK assets under management it has generated, primarily through its Infinity product.

In furtherance of its strategy to expand distribution within its core territories, the Group extended retailer operating agreements with Dixons (B2B) to 2015, JB Hi-Fi to 2014, Officeworks to 2013 and signed a new retailer operating agreement to 2016 with the Leading Edge group. In the second half of the year, the group also launched the ThinkSmart Marketplace, a web portal allowing prospective retailers to apply, undergo credit checks and upon approval, become affiliated retailers of the RentSmart product in Australia. This allows the group to access the underserved portion of the estimated \$6 billion Australian technology market. This same platform will allow the group to launch new products in 2012.

During the period the group has invested significantly in its technology platform to improve customer delivery, signing an agreement with Silanis Inc to deliver e-signature technology across both Australia and the UK, a move which will see the group be able to transact fully on line from end to end. The group has also invested heavily in fraud and credit risk mitigation functionality in its patented QuickSmart credit decisioning system, with the aim of minimising credit risk further ahead of completing its full transition to lease accounting for new originations.

Given the adverse economic environment, particularly on continental Europe, the Group made the decision to cease writing new business in Spain and Italy and has incurred restructuring costs in exiting those businesses.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the Group significantly transformed its funding arrangements as described in the Operating and Financial Review and the financial statements and the notes thereto. There were no other significant changes in the state of affairs of the Company other than that referred to in the financial statements or notes thereto.

DIVIDENDS

Dividends declared and paid 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 2011				
Final 2010 ordinary	3.5c	4,545,779	45% franked	29 April 2011

Dividends have been dealt within the financial report as:

	Note	Total amount (\$)
Declared and paid during the year 2011		
Final 2010 ordinary	24(b)(ii)	4,545,779

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Since the end of the financial year the Group has extended the maturity date of its corporate banking facilities to 30 June 2013 and has drawn a further \$1.2 million under this facility, taking the drawn balance of the \$5 million facility to \$3.7 million. Also since the end of the financial year the Group has succeeded in removing the requirement for a £2 million Standby Letter of Credit which has been issued in favour of its UK clearing bank and has received conditional credit approval for a \$3 million extension of its corporate banking facilities to \$8 million in total.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will launch 2 new products in February 2012 which will see it significantly expand its addressable market both in Australia and the UK. In Australia, the Group will launch the Fido payment plan product into new retail categories suited to payment plans such as furniture, sports equipment and jewellery. In the UK, the Group will launch ThinkSmart Business Leasing, a non-Dixons commercial small ticket leasing product aimed at the under serviced commercial small ticket leasing market in the UK.

The Group will seek equity funding to complement available debt facilities to invest in the growth opportunities provided by these new products.

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' 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 Securities 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	22,520,997	3,000,000
S Penglis	1,272,600	-
D Griffiths	2,160,000	-
F de Vicente	-	-
N Fox	68,000	-

SHARE OPTIONS

Options granted to directors and officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
DIRECTORS			
N Montarello	1,000,000	\$0.84	31/12/2015
EXECUTIVES			
A Baum	333,333	\$0.84	31/12/2015
J Ferreira	150,000	\$0.84	31/12/2015
S McDonagh	250,000	\$0.84	31/12/2015
G Varma	100,000	\$0.84	31/12/2015
G Parry	200,000	\$0.84	31/12/2015

All options were granted during the financial year. No options have been granted since the end of the financial year.

Shares granted to directors and officers of the Company

During or since the year end of the financial year, the Company granted shares for no consideration to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

	Number of options granted	Share price at grant date	Vesting date
EXECUTIVES			
A Baum	125,000*	\$0.52	01/09/2014

*Shares are escrowed for 3 years until 1 September 2014.

All shares were granted during the financial year. No shares have been granted since the end of the financial year.

Shares issued as a result of the exercise of options

During the 2011 reporting period, no shares were issued as a result of the exercise of options.

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
2,616,667	\$0.62	31 December 2013
2,166,667	\$1.11	31 December 2014
2,383,333	\$0.84	31 December 2015

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 pages 24 to 35.

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

In accordance to the Company's constitution, the Company must indemnify its directors and officers on a full indemnity basis and to the full extent permitted by law against all liabilities incurred by the directors and officers in their capacity as an officer of the Company or of a related body corporate.

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 41 of the financial report.

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

On behalf of the Directors



N Montarelli

Director

Perth, 21 February 2012



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 2011 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' in a cursive, stylized font.

KPMG

A handwritten signature in black ink that reads 'Denise McComish' in a cursive font.

Denise McComish
Partner

Perth

21 February 2012

DIRECTORS' DECLARATION

1. In the opinion of the Directors of ThinkSmart Limited (the "Company"):
 - a) The consolidated 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 19 to 104, are in accordance with the Corporations Act 2001, including:
 - I. Giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance, for the financial year ended on that date; and
 - II. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and
 - c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2011.

Signed in accordance with a resolution of the directors:



N Montarello

Director

Perth, 21 February 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

THINKSMART

	Notes	2011 \$	2010 \$
Revenue	6(a)	45,474,004	42,110,562
Employee benefits expense	6(b)	(13,796,347)	(12,590,923)
Indirect customer acquisition cost		(9,752,934)	(10,983,096)
Occupancy costs		(1,179,752)	(1,065,424)
Printing and stationery		(371,347)	(354,317)
IT and communication costs		(860,894)	(690,852)
Impairment losses on finance leases and receivables		(1,521,704)	(233,431)
Professional services		(1,504,025)	(1,224,825)
Insurance costs		(201,714)	(207,847)
Travel costs		(894,089)	(906,518)
Other costs		(492,784)	(608,800)
Finance revenue	6(e)	880,244	441,009
Finance costs	6(e)	(3,048,441)	(959,036)
Depreciation	6(c)	(541,153)	(465,167)
Foreign exchange (loss)/gain		13,030	(492,911)
Restructuring costs		(401,856)	-
Impairment of intangible assets		(68,683)	-
Earnings before tax and amortisation (EBTA)		11,731,555	11,768,424
Amortisation of intangibles	6(d)	(1,720,343)	(2,053,385)
Profit before Tax		10,011,212	9,715,039
Income tax expense	7	(3,212,865)	(2,942,026)
Profit from continuing operations		6,798,347	6,773,013
Other comprehensive income			
Foreign currency translation differences for foreign operations		(64,556)	(1,337,529)
Effective portion of changes in fair value of cash flow hedges, net of tax		(208,051)	-
Other comprehensive income for the period, net of income tax		(272,606)	(1,337,529)
Total comprehensive income for the period attributable to owners of the Company		6,525,741	5,435,484
Earnings per share			
Basic (cents per share)	33	5.23	6.52
Diluted (cents per share)	33	5.23	6.29

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
Current Assets			
Cash and cash equivalents	24(a)	4,610,532	21,186,022
Trade and other receivables	8	11,102,753	2,582,338
Lease receivables	9	38,419,290	-
Inventories	10	57,672	57,707
Prepayments	11	3,335,775	3,276,469
Other	12	771,029	394,083
Total Current Assets		58,297,051	27,496,619
Non-Current Assets			
Deposits held by funders	8	5,175,350	6,737,156
Lease receivables	9	28,006,496	-
Prepayments	13	1,601,516	2,372,572
Plant and equipment	14	873,638	1,120,251
Intangibles	15	10,688,825	4,348,343
Goodwill	17	3,538,625	3,540,774
Deferred tax assets	7	-	287,676
Total Non-Current Assets		49,884,450	18,406,772
Total Assets		108,181,501	45,903,391
Current Liabilities			
Trade and other payables	19	6,903,386	4,317,611
Deferred service income	19	1,379,848	-
Borrowings	20	2,426,713	2,489,944
Other interest bearing liabilities	21	36,731,444	-
Tax payable		1,607,325	521,144
Provisions	19	510,805	507,867
Total Current Liabilities		49,559,521	7,836,566
Non-Current Liabilities			
Deferred service income	19	1,191,573	-
Other interest bearing liabilities	21	16,990,940	-
Deferred tax liability	7	173,293	367,698
Total Non-Current Liabilities		18,355,806	367,698
Total Liabilities		67,915,327	8,204,264
Net Assets		40,266,174	37,699,127
Equity			
Issued Capital	22(a)	39,663,558	39,615,239
Reserves	23	(3,869,576)	(4,135,736)
Accumulated profits/(losses)		4,472,192	2,219,624
Total Equity		40,266,174	37,699,127

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

THINKSMART

Consolidated	Fully paid ordinary shares \$	Equity settled employee benefits reserve \$	Foreign currency translation reserve \$	Hedging reserve \$	Accumulated (Losses)/ Profit \$	Attributable to equity holders of the parent \$
Balance at 1 January 2010	23,614,091	199,726	(3,034,333)	-	(2,615,601)	18,163,883
Profit for the period	-	-	-	-	6,773,013	6,773,013
Exchange differences arising on translation of foreign operations	-	(5,176)	(1,332,353)	-	-	(1,337,529)
Net income recognised directly in equity	-	(5,176)	(1,332,353)	-	6,773,013	5,435,484
Total comprehensive income for the period	-	(5,176)	(1,332,353)	-	6,773,013	5,435,484
Transactions with owners of the Company, recognised directly in equity						
<i>Contributions by and distributions to owners of the Company</i>						
Issue of ordinary shares, net of after tax capital raising costs	15,252,148	-	-	-	-	15,252,148
Share options exercised	525,000	-	-	-	-	525,000
Dividends paid	-	-	-	-	(1,937,788)	(1,937,788)
Share-based payments held in escrow	224,000	(224,000)	-	-	-	-
Recognition of share-based payments	-	260,400	-	-	-	260,400
Balance at 31 December 2010	39,615,239	230,950	(4,366,686)	-	2,219,624	37,699,127
Balance at 1 January 2011	39,615,239	230,950	(4,366,686)	-	2,219,624	37,699,127
Profit for the period	-	-	-	-	6,798,347	6,798,347
Exchange differences arising on translation of foreign operations	-	-	(64,556)	-	-	(64,556)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(208,051)	-	(208,051)
Net income recognised directly in equity	-	-	(64,556)	(208,051)	6,798,347	6,525,741
Total comprehensive income for the period	-	-	(64,556)	(208,051)	6,798,347	6,525,741
Transactions with owners of the Company, recognised directly in equity						
<i>Contributions by and distributions to owners of the Company</i>						
Capital raising costs	(16,681)	-	-	-	-	(16,681)
Dividends paid	-	-	-	-	(4,545,779)	(4,545,779)
Share-based payments held in escrow	65,000	(65,000)	-	-	-	-
Recognition of share-based payments	-	603,767	-	-	-	603,767
Balance at 31 December 2011	39,663,558	769,717	(4,431,242)	(208,051)	4,472,192	40,266,174

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
Cash Flows from Operating Activities			
Receipts from customers		45,961,583	36,882,735
Payments to suppliers and employees		(27,907,991)	(28,668,294)
Interest received		943,669	437,417
Interest paid on corporate borrowings		(154,692)	(121,109)
Interest paid on other interest bearing liabilities		(1,130,184)	-
Payments for security guarantee		(1,635,245)	-
Finance charges		(1,593,724)	(846,899)
Income tax paid		(2,071,359)	(1,722,399)
Net cash from operating activities	24(b)	12,412,057	5,961,451
Cash Flows from Investing Activities			
Payments for plant and equipment		(340,822)	(625,535)
Proceeds from sale of plant and equipment		-	132,611
Payment for intangible assets – Software		(1,573,780)	(1,182,736)
Payment for intangible assets – Contract rights		(2,973,439)	(1,551,111)
Payment for leased assets		(36,860,707)	-
Net cash used in investing activities		(41,748,748)	(3,226,771)
Cash Flows from Financing Activities			
Hire purchase and lease finance repaid		-	(3,543)
Proceeds from rights issue		-	16,000,000
Proceeds from exercise of share options		-	525,000
Payment for equity raising cost		-	(1,068,354)
Payment for establishing financing facilities		(81,430)	-
Proceeds from other interest bearing liabilities		26,490,000	-
Repayment of other interest bearing liabilities		(9,260,377)	-
Proceeds of borrowings		2,500,000	-
Repayment of borrowings		(2,500,000)	-
Dividend paid		(4,545,779)	(1,937,788)
Net cash from financing activities		12,602,414	13,515,315
Net (decrease)/increase in cash and cash equivalents		(16,734,277)	16,249,995
Effect of exchange rate fluctuations on cash held		158,787	(532,144)
Cash and cash equivalents at beginning of the financial year		21,186,022	5,468,171
Total cash and cash equivalents at the end of the financial year	24(a)	4,610,532	21,186,022
Restricted cash and cash equivalent at the end of the financial year		(2,028,210)	(2,917,361)
Net available cash and cash equivalent at the end of the financial year		2,582,322	18,268,661

The attached notes form an integral part of these consolidated 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 2011 comprise of the Company and its subsidiaries (the “Group”). The Group’s principal activity is to arrange or provide finance for renting of equipment in Australia, New Zealand and Europe. The address of the Company’s registered office is Level 1, The West Centre, 1260 Hay Street West Perth WA 6005.

2. BASIS OF PREPARATION

(A) STATEMENT OF COMPLIANCE

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

The consolidated financial statements were authorised for issue by the Board of Directors on 21 February 2012.

(B) 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.

(C) FUNCTIONAL AND PRESENTATION CURRENCY

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

(D) CHANGES IN ACCOUNTING POLICIES

Information regarding changes to the accounting policies of the Group are found as follows:

(i) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 34.

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

A number of new standards and interpretations are effective for annual periods beginning after 1 July 2011 and have not been applied in preparing this financial report. Where an assessment has been completed, none of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group’s 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 <i>Financial Instruments: Recognition and Measurement</i>). These requirements improve and simplify the approach for classification, measurement and de-recognition of financial assets compared with the requirements of AASB 139.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	(a) These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that set out requirements for the classification and measurement of financial assets (b) This Standard shall be applied when AASB 9 is applied.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: (a) The change attributable to changes in credit risk are presented in other comprehensive income (OCI). (b) The remaining change is presented in profit or loss if this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements.	1-Jul-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2014

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard makes amendments to many Australian Accounting Standards, reducing the disclosure requirements for Tier 2 entities, identified in accordance with AASB 1053, preparing general purpose financial statements.	1-Jul-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2014
AASB 2011-4	Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements	The amendment removes the requirement to include individual key management personnel disclosures in the notes to the financial statement. These disclosures will still need to be provided in the Remuneration Report under s.300A of the Corporations Act 2001. Early adoption is not permitted.	1-Jul-2013	The Group's financial statements will exclude these disclosures in the notes to the financial statements but still disclose these in the Directors Report – remuneration report.	1-Jan-2014
AASB 10	Consolidated Financial Statements	Consolidated Financial Statements introduces control as the single basis for consolidation for all entities, regardless of the nature of the investee. AASB 10 replaces those parts of AASB 127 'Consolidated and Separate Financial Statements' that address when and how an investor should prepare consolidated financial statements and replaces SIC-12 'Consolidation – Special Purpose Entities' in its entirety.	1-Jan-2013	Amendments are not expected to have any significant impact on the Group.	1-Jan-2013

NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 11	Joint Arrangements	Amendments to these standards are concurrent with the issue of AASB 10.	1-Jan-2013	Amendments are not expected to have any significant impact on the Group's financial statements.	1-Jan-2013
AASB 12	Disclosure of Interest in Other Entities	Key changes include: Using control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12.			
AASB 127	Separate Financial Statements	The definition of control includes three elements: power over an investee, exposure or rights to variable returns of the investee, and ability to use power over the investee to affect the investor's returns.			
AASB 128	Investments in Associates	An investor would reassess whether it controls an investee if there is a change in facts and circumstances. AASB 12 'Disclosure of Interests in Other Entities' applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. It serves to integrate the disclosure requirements of interests in other entities, currently included in several standards, and also adds additional requirements in a number of areas.			
AASB 119	Employee Benefits	Amendments will result in changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.	1-Jan-2013	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013
AASB 101	Presentation of Financial Statements	The amendment changes the disclosure of items presented in OCI in the Statement of Comprehensive Income. The key changes include: Items are presented separately, in two groups in OCI, based on whether or not they may be recycled to profit or loss in the future; and Where OCI items have been presented before tax, the amount of tax related to the two groups will need to be shown.	1-Jan-2012	The Group has not yet determined the extent of the impacts of the amendments, if any.	1-Jan-2013

3. SIGNIFICANT ACCOUNTING POLICIES

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

Certain comparative amounts have been reclassified to conform with the current year's presentation (see Note 6(f)).

(A) BASIS OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). 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.

(ii) Special purpose entities

The Group has established a special purpose entity (SPE) ThinkSmart Trust for the purpose of securitising finance lease receivables acquired and other receivables it intends to originate. The SPE entity is wholly owned by the Group and included in the consolidated financial statements of the Group, based on the evaluation of the substance of its relationship with the Group and the SPE's risks and rewards. The following circumstances indicate a relationship in which the Group controls and subsequently consolidates the SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot mechanism', the Group has delegated these decision making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activity of the SPE.
- The Group retains the majority of the residual of ownership risks of the SPE or its asset in order to obtain benefits from its activities.

(iii) Transactions eliminated on consolidation

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

(B) BUSINESS COMBINATIONS

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

NOTES TO THE FINANCIAL STATEMENTS

Measuring goodwill

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

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

Share-based payment awards

When share-based payment awards exchanges (replacement awards) for awards held by acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination remuneration cost.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(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

Recognition and measurement

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

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

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

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant component of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The following estimated useful lives are used in the calculation of depreciation:

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

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

(E) 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.

(H) FINANCIAL INSTRUMENTS

(i) Non-derivative financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Investments

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value net of transaction costs. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. 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.

Lease receivable

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

Unearned interest

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

Initial direct transaction costs

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

Allowance for losses

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

Effective interest method

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

Loans and receivables

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

Insurance prepayment

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

(ii) *Non-derivative financial liabilities*

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

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

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

Financial guarantee contracts

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

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

Any increase in the liability relating to financial guarantees is recognised in the Statement of Comprehensive Income. Any liability remaining is derecognised in the Statement of Comprehensive Income when the guarantee is discharged, cancelled or expires.

(iii) *Impairment of assets**Financial assets, including finance lease receivables*

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

In assessing collective impairment, the Group uses modelling of historical trends of the probability of defaults, timing of recoveries and the amount of loss incurred. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted as the assets original effective interest rate. Given the relatively short period between the recognition of arrears balances and recovery or write-off, the effect of discounting is not generally considered material.

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 other comprehensive income.

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.

(I) INTANGIBLE ASSETS

Intellectual property

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

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 "distribution networks" acquired on the acquisition of RentSmart Limited on 1 December 2006.

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.

Inertia Assets

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

Amortisation is based on cost less estimated residual value.

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

Contract Rights

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

Software development

Software development 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.

(J) 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.

(K) 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 remuneration for expenses or losses already incurred are recognised as income of the period in which it becomes receivable.

(L) 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.

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

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

Share-based payments

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

(M) 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.

(N) REVENUE RECOGNITION

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

Finance Lease Income

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

Commission income

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

Residual interest in equipment (inertia income)

- Secondary rental income

Rental income from extended rental assets is recognised when receivable usually on a monthly basis. No ongoing rental income is brought to account in respect of the unexpired rental contracts.

- Income earned from sale of equipment

Proceeds from the sale of rental assets are brought to account at the time of the sale.

Insurance income

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

Deferred service income

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

(O) DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING HEDGE ACCOUNTING

The Group holds derivative financial instruments to hedge its interest rate risk exposures, predominately in the ThinkSmart Trust.

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in cash flows of the respective hedged items attributable to hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below. The fair values of derivatives used for hedging purposes are disclosed in Note 30(b). Movements in the hedging reserve in shareholder equity are shown in the Statement of Changes in Equity.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount recognised in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

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.

(P) 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 2009. As a consequence, all members of the tax-consolidated group are taxed as a single entity from 1 January 2009. The head entity within the tax-consolidated group is ThinkSmart Ltd.

(Q) GOODS AND SERVICES TAX

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

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

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

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

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

Foreign currency transactions

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

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

Foreign operations

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

The income and expenses of foreign operations in hyperinflationary economies are translated to the functional currency at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

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

(S) 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.

(T) 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.

(U) LEASE PAYMENTS

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

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

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

(V) 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.

(W) SEGMENT REPORTING

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

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

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

(X) 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 is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets (refer to Note 3(i)).

Intangible inertia asset

The fair value of inertia asset is measured at inception of the hiring agreement and is based on discounted cash flows expected to be derived from the sale or hire of the assets at the end of the hire term.

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). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of employee shares provided as remuneration is measured using the closing share price on the date the shares are granted.

Contingent consideration

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term in nature, it is discounted to present value.

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 2010.

(A) KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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 6(a)	-	revenue from finance lease operations
■	Note 7	-	measurement and recognition of tax losses
■	Note 9	-	lease receivables, including estimation of unguaranteed residual value
■	Note 15	-	recoverable amount of intangible assets
■	Note 17	-	measurement of the recoverable amounts of cash-generating units containing goodwill
■	Note 19	-	measurement deferred services income
■	Note 22	-	measurement of share based payments
■	Note 28-29	-	contingent assets and liabilities

Change in Accounting Estimates

During the year, the Group has reassessed the percentage of insurance commission income recognised at the inception of insurance contracts that the Group has received from referring its customers' insurance contracts to an insurer in respect of its UK business. This review considered the level of continuing involvement in servicing these insurance contracts and the historical trend of cancellations that result in commission being refunded. As a result, the Group has increased the percentage of commission income being recognised at inception of the insurance contracts resulting in an increase of \$1,094,041 to insurance commission income. This comprises an amount of \$496,855 relating to contracts referred during the year and an amount of \$597,186 representing an acceleration of commission income that would have been recognised in future years.

5. FINANCIAL RISK MANAGEMENT

Overview

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

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

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

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

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims 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 Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit Risk

Credit risk refers to the risk that a counterparty or customer will default on its contractual obligations resulting in financial loss to the Group and arises principally from the Group's assessment of recoverability from debtors and lease receivables. 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. During the financial year, the Group has appointed an experienced Head of Treasury and Risk who has day to day responsibility for managing credit risk within the risk appetite of the Board. Appropriate oversight occurs via monthly credit performance reporting to Board on both brokerage funded leases as well as leases financed via ThinkSmart Trust the special purpose entity ("SPE") established by the Group.

The Group has minimal concentrations of credit risk in relation to debtors and lease receivables. In the case of most of its brokerage funded operations, credit risk arising from customer rental contracts are not borne by the Group but by the funding institutions. In the case of the SPE funded operations, ThinkSmart's exposure to credit risk is limited to the value of its notes in the relevant series of the SPE. Losses in excess of that are borne by the senior financier's notes. The notes in the various series of the SPE are structured such that on a probability weighted outcomes basis, ThinkSmart bears the credit risk.

To manage credit risk in relation to its customers, the Group employs a sophisticated credit assessment and fraud minimisation process delivered through its patented QuickSmart system. The credit underwriting system uses a combination of credit scoring and credit bureau reports as well as electronic identity verification and a review of an applicant's details

against a fraud database. The credit policy is developed and applied by the group's Head of Treasury and Risk who monitors ongoing credit performance on different cohorts of customer contracts. The Group has a specialist collections function which manages all delinquent accounts. Delinquent accounts are those which are overdue on a contractual payment by one day. The total principal balance outstanding on a delinquent account is defined as the arrears amount. The collectability of lease receivables is assessed on an ongoing basis and a provision is made for losses based on historical cure rates of arrears and the current delinquency position of the portfolio.

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

The Group assesses the 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 34.

Liquidity risk

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

The consolidated entity manages liquidity risk by maintaining adequate reserve facilities by continuously reviewing its facilities and cash flows, and for the Group's securitisation activities, in accordance with the terms of the Group's Australian Financial Services License (AFSL).

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:

- Committed Cash Advance Facility of \$5,000,000, in which \$3,700,000 is presently drawn down. Interest is payable at prevailing bank rate.
- Other operational facilities are set out in Notes 20 and 21.

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

NOTES TO THE FINANCIAL STATEMENTS

(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 (2010: 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 corporate borrowings. The terms and conditions of current interest-bearing borrowings are set out above. Exposure to interest rate risk on any future corporate borrowings will be assessed by the Board and where appropriate, the exposure to movement in interest rates may be hedged by entering into interest rate swaps, when considered appropriate by the management and the Board.

The Group has interest rate risk exposure to the notes in the SPE that it has issued to the financiers of its lease receivables. These notes are floating rate notes with the rate based on a fixed margin above a benchmark interest rate. Interest rate risk results principally from changes in the benchmark interest rate and accordingly the Group has mitigated this risk by entering into an interest rate swap to hedge against the variability in the cash flows due to changes in the interest rate.

Operational risk

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirements for the reconciliation and monitoring of transactions

- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Development of business continuity plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Capital management

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

Under the terms of its financing arrangements in the SPE, the Group is required to subscribe to and hold a minimum value of notes based on the value of receivables outstanding to ensure ongoing financing. The SPE is bankruptcy remote in that ThinkSmart's risk exposure is limited to the amount of capital that it holds within the relevant series of the SPE.

ThinkSmart Finance Limited holds an Australian Financial Services Licence (AFSL) in relation to its role as Trust Manager of the SPE. Under the terms of its AFSL it must have assets that exceed its liabilities and there are also liquidity conditions (measured on a Group basis).

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

	2011	2010
	\$	\$
Total liabilities	67,915,327	8,204,264
Less cash and cash equivalents	(4,610,532)	(21,186,022)
Net debt/(cash)	63,304,795	(12,981,758)
Total equity	40,266,174	37,699,127
Less adjustments	-	-
Adjusted capital	40,266,174	37,699,127
Debt-to-adjusted capital ratio at 31 December	1.6	-

The Board encourages employees to hold shares in the Company. At present employees hold 20.4% (2010: 20.8%) of ordinary shares.

Other than as described above in relation to the SPE, the Group is not subject to externally imposed capital requirements. For the purposes of capital management, capital consists of share capital, reserves and retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

6. PROFIT

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

	2011 \$	2010 \$
a) Revenue		
Commission income from funders	21,859,946	25,551,047
Surplus unguaranteed residual income	4,408,098	4,675,138
Extended rental income	6,205,307	5,984,721
Other inertia income	1,037,047	-
Finance lease income	6,306,791	-
Services revenue – insurance and warranty	4,897,702	5,064,455
Other revenue	759,113	835,201
	45,474,004	42,110,562
b) Employee benefits expense		
Payments to employees	11,895,555	11,660,160
Employee superannuation cost	786,986	641,783
Share based payment expense	603,767	260,400
Provision for employee entitlements	510,039	28,580
	13,796,347	12,590,923
c) Depreciation expense		
Depreciation of plant and equipment	397,017	365,650
Depreciation of leasehold improvements	8	63,827
Depreciation of lease equipment & software	144,128	35,690
	541,153	465,167
d) Amortisation expense		
Amortisation of software	639,754	660,681
Amortisation of contract rights	1,009,591	635,406
Amortisation of distribution network	38,907	100,988
Amortisation of inertia contracts	-	624,219
Amortisation of intellectual property	32,091	32,091
	1,720,343	2,053,385
e) Finance (costs)/benefits		
Interest revenue – other entities	880,244	441,009
Total finance benefits	880,244	441,009
Interest expense – corporate banking facilities	(176,630)	(121,109)
Interest expense – other interest bearing liabilities	(1,115,787)	-
Finance charges	(1,756,024)	(837,927)
Total finance costs	(3,048,441)	(959,036)

f) **Reclassification of items of income and expense**

To facilitate accurate comparison to 2011, certain items of income and expense have been reclassified as follows:

	Prior year accounts 2010 \$	Reclassification \$	Current year comparative 2010 \$
Revenue	42,110,562	-	42,110,562
Employee benefits expense	(10,908,454)	(1,682,469)	(12,590,923)
Indirect customer acquisition cost	-	(10,983,096)	(10,983,096)
Sales and marketing costs	(10,520,320)	10,520,320	-
Occupancy costs	(1,062,593)	(2,831)	(1,065,424)
Printing and stationery	-	(354,317)	(354,317)
Communication costs	(662,027)	(28,825)	(690,852)
Doubtful and bad debts	(239,514)	6,083	(233,431)
Professional services	-	(1,224,825)	(1,224,825)
Legal and consulting costs	(682,473)	682,473	-
Credit bureau costs	(656,468)	656,468	-
Corporate development costs	(2,594,617)	2,594,617	-
Insurance costs	(207,847)	-	(207,847)
Travel costs	-	(906,518)	(906,518)
Other expenses	(1,319,156)	710,356	(608,800)
Finance revenue	-	441,009	441,009
Finance costs	(530,591)	(428,445)	(959,036)
Depreciation	(465,167)	-	(465,167)
Foreign exchange (loss)/gain	(492,911)	-	(492,911)
Earnings before tax and amortisation (EBTA)	11,768,424	-	11,768,424

NOTES TO THE FINANCIAL STATEMENTS

7. INCOME TAX

	2011 \$	2010 \$
The major components of income tax expense for the year ended 31 December are:		
<i>Current income tax expense</i>		
Current income tax charge	3,258,680	2,562,286
Adjustment for prior period	(101,140)	54,694
<i>Deferred income tax expense</i>		
Origination and reversal of temporary differences	(282,344)	348,182
De-recognition of previously recognised tax asset	230,178	-
Adjustment for prior period	107,491	(48,435)
Change in unrecognised temporary differences	-	25,299
Income tax expense/(benefit) reported in income statement	3,212,865	2,942,026
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:		
Accounting profit/(loss) before tax	10,011,212	9,715,039
At the statutory income tax rate of 30%	3,003,364	2,914,512
Effect of tax rates in foreign jurisdictions	(120,361)	12,229
Non deductible expenses:		
- corporate development	21,489	30,619
- other	106,796	(51,988)
Overseas tax losses not recognised	80,024	30,394
Adjustments in respect of prior periods	121,553	6,260
Income tax expense reported in the income statement	3,212,865	2,942,026
Income tax recognised directly in equity		
Equity raising cost	-	320,500
Income tax recognised in other comprehensive income		
Cashflow hedges	89,164	-

7. INCOME TAX (CONT.)

	2011 \$	2010 \$
Deferred tax asset		
Doubtful debts	502,023	-
Accrued expenses	134,272	-
Employee entitlement	178,415	194,110
Equity raising costs	191,249	553,128
Consulting costs	-	2,026
Borrowing cost	10,670	13,919
Plant & equipment	523,871	241,675
Tax losses	159,576	477,214
Derivatives	89,164	-
Other	90,614	133,604
Total	1,879,855	1,615,676

Deferred tax liability		
Prepayments	2,152	-
Receivables	386,427	118,225
Intangible assets	142,927	246,732
Software	1,186,302	300,424
Amounts held by funders	-	792,637
Other	335,340	237,680
Total	2,053,148	1,695,698
Net deferred tax asset (i)	-	287,676
Net deferred tax liability (i)	173,293	367,698

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

Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Tax losses	957,098	726,920
	957,098	726,920

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets that relate to tax losses in France, Italy and USA 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 there from.

NOTES TO THE FINANCIAL STATEMENTS

8. TRADE AND OTHER RECEIVABLES

	2011 \$	2010 \$
Current		
Trade receivables (i)	10,015,423	2,362,465
Allowance for doubtful debts	(85,299)	(112,178)
Deposits held by funder (ii)	-	143,398
Sundry debtors	1,172,629	188,653
	11,102,753	2,582,338
Non-current		
Deposits held by funder (ii)	5,175,350	6,737,156
	5,175,350	6,737,156

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

9. LEASE RECEIVABLE

	2011 \$	2010 \$
Current		
Rental receivables (net of GST)	17,267,656	-
Unguaranteed residuals	2,816,500	-
Unearned finance income	(2,385,368)	-
Net lease receivables (i)	17,698,787	-
Other lease receivable (ii)	21,583,587	-
Allowance for losses	(863,804)	-
	38,419,290	-
Non-current		
Rental receivables (net of GST)	8,870,371	-
Unguaranteed residuals	1,463,275	-
Unearned finance income	(1,239,286)	-
Net lease receivables (i)	9,094,360	-
Other lease receivable (ii)	19,637,163	-
Allowance for losses	(725,027)	-
	28,006,496	-
Lease receivables due within 12 months	38,419,290	-
Lease receivables due in greater than 12 months and less than 5 years	28,006,496	-
	66,425,786	-

9. LEASE RECEIVABLE (CONT.)

- (i) On 14 June 2011 the Group acquired a portfolio of finance lease receivables from Bendigo and Adelaide Bank (BEN). These receivables were previously originated by the Group on behalf of BEN. The receivables were acquired by ThinkSmart Trust at a fair value of \$36 million at the date of acquisition. The receivables were acquired into series 2 of ThinkSmart Trust with funding provided by the issue of \$26 million of a series notes in series 2 of ThinkSmart Trust to Westpac with the balance provided by internally funded notes in the same series of ThinkSmart Trust issued to ThinkSmart. Further details of the notes are disclosed in Note 21.
- (ii) During the second half of 2011 the Group progressed the acquisition of the remaining lease receivables from BEN. The acquisition of these receivables is subject to APRA approval as set out in Note 24(c). On 22 December 2011 agreement was reached with BEN resulting in the rights to the lease receivables held by BEN being assigned to the Group effective from 1 October 2011. This is recognised as a “pass through” arrangement under AASB 139 *Financial Instruments* whereby the risks and rewards of the underlying finance lease receivables have been transferred to the Group. A notional liability of \$36.5 million relating to the assigned receivables is recognised in Note 21.

10. INVENTORIES

	Note	2011 \$	2010 \$
Rental asset inventory		57,672	57,707
		57,672	57,707

11. PREPAYMENTS – CURRENT

Insurance prepayment	3(h)	1,992,999	1,296,775
Retailer marketing prepayment		21,569	1,004,617
Other prepayment		1,321,207	975,077
		3,335,775	3,276,469

12. OTHER ASSETS – CURRENT

Deals awaiting settlement		385,252	394,083
Other		385,777	-
		771,029	394,083

13. PREPAYMENTS – NON CURRENT

Insurance prepayment	3(h)	1,601,516	2,372,572
		1,601,516	2,372,572

NOTES TO THE FINANCIAL STATEMENTS

14. PLANT & EQUIPMENT

	Plant & Equipment \$	Leasehold improvements \$	Self funded rentals \$	Web Sites \$	Lease equipment & software \$	Total \$
Gross Carrying Amount						
Cost or deemed cost						
Balance at 1 January 2010	2,123,880	276,689	149,958	76,450	2,332,283	4,959,260
Net foreign currency translation differences	(179,554)	(41,467)	-	-	(9,012)	(230,033)
Additions	384,004	-	-	-	241,531	625,535
Disposals	(665,179)	(4,718)	(149,958)	(76,450)	(1,636,053)	(2,532,358)
Balance at 31 December 2010	1,663,151	230,504	-	-	928,749	2,822,404
Net foreign currency translation differences	(2,372)	(140)	-	-	49	(2,463)
Additions	237,629	350	-	-	97,207	335,186
Disposals	(1,130)	-	-	-	-	(1,130)
Transfers	-	-	-	-	(44,476)	(44,476)
Balance at 31 December 2011	1,897,278	230,714	-	-	981,529	3,109,521
Accumulated Depreciation						
Balance at 1 January 2010	(1,375,218)	(206,997)	(143,355)	(75,722)	(2,066,634)	(3,867,926)
Effect of movement in exchange rate	111,068	37,247	-	-	9,010	157,325
Disposals	566,746	3,073	143,355	75,722	1,684,719	2,473,615
Depreciation expense	(365,650)	(63,827)	-	-	(35,690)	(465,167)
Balance at 31 December 2010	(1,063,054)	(230,504)	-	-	(408,595)	(1,702,153)
Effect of movement in exchange rate	10,359	140	-	-	(49)	10,450
Disposals	253	-	-	-	-	253
Depreciation expense	(397,017)	(8)	-	-	(144,128)	(541,153)
Impairment loss	(3,280)	-	-	-	-	(3,280)
Balance at 31 December 2011	(1,452,739)	(230,372)	-	-	(552,772)	(2,235,883)
Net Book Value						
At 31 December 2010	600,097	-	-	-	520,154	1,120,251
At 31 December 2011	444,539	342	-	-	428,757	873,638

15. INTANGIBLE ASSETS

	Contract rights \$	Software \$	Distribution network \$	Intellectual Property \$	Inertia Contracts \$	Total \$
Gross carrying amount						
At cost						
Balance at 1 January 2010	1,124,884	2,984,549	541,295	641,816	3,434,254	8,726,798
Additions	1,551,111	1,182,736	-	-	-	2,733,847
Effect of movement in exchange rate	(32,357)	-	(130,676)	-	(523,613)	(686,646)
Balance at 31 December 2010	2,643,638	4,167,285	410,619	641,816	2,910,641	10,773,999
Additions	2,890,989	1,573,780	-	-	3,608,468	8,073,237
Disposals	-	-	-	-	(2,908,874)	(2,908,874)
Effect of movement in exchange rate	(5,656)	-	(248)	-	(1,767)	(7,671)
Transfers	1,771	42,705	-	-	-	44,476
Balance at 31 December 2011	5,530,742	5,783,770	410,371	641,816	3,608,468	15,975,167
Accumulated amortisation and impairment						
Balance at 1 January 2010	(587,973)	(952,424)	(336,785)	(304,868)	(2,768,764)	(4,950,814)
Amortisation expense	(635,406)	(660,681)	(100,988)	(32,091)	(624,219)	(2,053,385)
Effect of movement in exchange rate	31,034	-	65,167	-	482,342	578,543
Balance at 31 December 2010	(1,192,345)	(1,613,105)	(372,606)	(336,959)	(2,910,641)	(6,425,656)
Amortisation expense	(1,009,591)	(639,754)	(38,907)	(32,091)	-	(1,720,343)
Disposals	-	-	-	-	2,908,874	2,908,874
Effect of movement in exchange rate	13,274	-	1,142	3	1,767	16,186
Impairment loss	(65,403)	-	-	-	-	(65,403)
Balance at 31 December 2011	(2,254,065)	(2,252,859)	(410,371)	(369,047)	-	(5,286,342)
Net book value						
At 31 December 2010	1,451,293	2,554,180	38,013	304,857	-	4,348,343
At 31 December 2011	3,276,677	3,530,911	-	272,769	3,608,468	10,688,825

NOTES TO THE FINANCIAL STATEMENTS

16. INTEREST IN SUBSIDIARIES

		% of Equity	
		2011	2010
Interest in Subsidiaries	Country of Incorporation		
RentSmart Unit Trust	Australia	100%	100%
RentSmart Pty Ltd	Australia	100%	100%
ThinkSmart Finance Ltd	Australia	100%	100%
RentSmart Servicing Pty Ltd	Australia	100%	100%
RentSmart Limited	UK	100%	100%
SmartCheck Pty 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	Spain	100%	100%
SmartPlan Spain SL	Spain	100%	100%
ThinkSmart France SARL	France	100%	100%
ThinkSmart Sweden AB	Sweden	100%	100%
ThinkSmart Italy Srl	Italy	100%	100%
ThinkSmart Inc	USA	100%	100%
ThinkSmart Trust	Australia	100%	n/a

17. GOODWILL

	2011 \$	2010 \$
Balance at beginning of financial year	3,540,774	4,177,746
Effect of movement in exchange rate	(2,149)	(636,972)
Balance at end of financial year	3,538,625	3,540,774

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 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 Administration Ltd cash-generating unit was 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 2012 and 2013, 2.0% year-on-year growth to 2016, and estimated terminal growth at 2.0%.
- A post tax discount rate of 13.21% (16.64% pre tax) 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 13.67% consistent with independent determinations of the Group's cost of equity.

18. ASSETS PLEDGED AS SECURITY

ThinkSmart Limited and ThinkSmart Finance Limited have pledged all their present and future assets to Westpac as security for the used corporate financing facilities Westpac has provided, as disclosed in Notes 20 and 21. ThinkSmart Europe Limited has provided an equitable mortgage over the shares it holds in the main UK operating entity, RentSmart Limited.

19. TRADE AND OTHER PAYABLES, PROVISIONS AND DEFERRED SERVICE INCOME

	2011 \$	2010 \$
Trade and other payables (i)	3,219,720	2,048,014
Hedging derivative	297,214	-
Product plan	250,792	218,442
GST Payable	1,664,860	585,006
Other accrued expenses	1,470,800	1,466,149
	6,903,386	4,317,611
Provisions		
Annual leave	310,211	231,200
Long service leave (ii)	199,828	276,667
Other	766	-
	510,805	507,867
Deferred service income		
Inertia income	3,608,468	-
Less recognised in year	(1,037,047)	-
	2,571,421	-
Deferred service income recognised within 12months	1,379,848	-
Deferred service income recognised in greater than 12 months	1,191,573	-

(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.

NOTES TO THE FINANCIAL STATEMENTS

20. CURRENT BORROWINGS

	2011 \$	2010 \$
Term loans (i)(ii)	2,500,000	2,489,944
Borrowing costs	(73,287)	-
	2,426,713	2,489,944

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

- (i) The \$2,500,000 fixed term loan relates to the amount drawn of a \$5,000,000 cash advance facility denominated in Australian Dollars with a fixed interest of 7.55% pa. Subsequent to balance date the Company has drawn a further \$1,200,000 against this facility with a fixed interest of 7.40%. Subsequent to year end the annual review was completed and the drawn balance of the cash advance facility is repayable on 8 June 2013.
- (ii) Corporate financing facilities

	2011 \$	2010 \$
Secured bank overdraft facility reviewed annually and payable at call:		
- amount used	-	-
- amount unused	-	250,000
	-	250,000
Hire purchase and/or leasing facilities:		
- amount used	-	-
- amount unused	-	10,000
	-	10,000
Cash advance/Secured bill acceptance facility:		
- amount used	2,500,000	2,500,000
- amount unused	2,500,000	2,500,000
	5,000,000	5,000,000
Standby letter of credit facility		
- amount used	3,035,400	-
- amount unused	-	-
	3,035,400	-
Other finance facilities (business credit card, payroll facility, term loan, multi-option facility):		
- amount used	-	121,500
- amount unused	129,000	7,523,500
	129,000	7,645,000
Total corporate financing facility	8,164,400	12,905,000

The total corporate facility of \$8,164,400 (2010: \$12,905,000) identified above is reviewed annually and secured over the assets of the group. The next annual review is scheduled to be completed by 30 June 2013.

21. OTHER INTEREST BEARING LIABILITIES

	2011 \$	2010 \$
Current		
Loan advances – secured (i)	14,929,538	-
Financial liability – secured (ii)	21,801,906	-
	36,731,444	-
Non-Current		
Loan advances – secured (i)	2,300,084	-
Financial liability – secured (ii)	14,690,856	-
	16,990,940	-
Customer financing facilities		
Secured financing facilities		
- amount used – lease financing arrangement	53,722,384	-
- amount used – brokerage arrangement (iii)	9,459,895	-
- amount unused	104,317,721	-
	167,500,000	-

- (i) The loans are provided in the form of notes in a series of ThinkSmart Trust. The notes are secured by all payments receivable in respect of the underlying lease receivable contracts assigned to the relevant series of ThinkSmart Trust and pay down in line with the repayments of the underlying leases. The notes are interest bearing and during the period the weighted average rate was 7.62% (2010: n/a).

The customer financing facility of \$100,000,000 (2010: n/a) identified above is reviewed annually and secured over the assets of the relevant series of the SPE. The next annual review for the customer financing facility of \$100,000,000 is scheduled to be completed by 8 June 2012. Regardless of the outcome of the review, the notes in ThinkSmart Trust pay down in line with the repayments of the underlying leases.

- (ii) The financial liability arises from a contractual obligation the Group has to remit funds to Bendigo and Adelaide Bank arising from the “pass through” arrangement referred to in Note 9. The obligation is secured by all payments receivable in respect of the underlying lease receivable contracts subject to the “pass through” arrangement and pay down in line with the repayments of the underlying leases. The obligation is interest bearing and during the period the weighted average interest rate was 8.49% (2010: n/a).
- (iii) The group has entered into a new 5 year, \$67,500,000 financing agreement with Bendigo and Adelaide Bank under which it has established series 3 of ThinkSmart Trust. An application is currently before APRA to allow Bendigo and Adelaide Bank to provide financing for the acquisition by ThinkSmart Trust of receivables currently on Bendigo and Adelaide Bank’s balance sheet. In the interim the group continues to fund lease receivables that it originates as agent for Bendigo and Adelaide bank under the terms of the pre-existing funding agreement it has with Bendigo and Adelaide bank and recognises brokerage income from the origination of those leases. The aggregate of leases originated under the two agreements with Bendigo and Adelaide Bank comprise the utilised portion of the available facility limited. The \$67,500,000 customer financing facility is available until December 2016 on an offer and accept basis.

22. ISSUED CAPITAL

	2011 \$	2010 \$
(a) Issued and Paid up Capital		
130,004,390 Ordinary Shares fully paid (2010: 129,879,390)	39,663,558	39,615,239
	Number	2011 \$
<i>Fully Paid Ordinary Shares</i>		
Balance at beginning of the financial year	129,879,390	39,615,239
Issue of new shares for employee share based payment	125,000	65,000
Capital raising costs	-	(16,681)
Balance at end of the financial year	130,004,390	39,663,558

During the year no employee share options were exercised (2010: 840,000 employee share options were exercised for \$525,000). The Company has issued 125,000 escrowed shares to Mr A Baum (Group Chief Operating Officer) during the year as part of his remuneration, refer to Note 22(b)(ii).

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

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

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

(b)(i) Share Options – Employee Options

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

Options issued in previous periods:

- 640,000 options over ordinary shares were issued 17 April 2007 and exercisable at \$1.375, 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.
- 3,350,000 options over ordinary shares were issued 30 June 2009 and exercisable at \$0.62, with an exercise period between 1 January 2012 to 31 December 2013. Vesting of the options is subject to achievement of the following performance conditions:
 - 50% of options are subject to achievement of Earnings per Share (“EPS”) performance conditions; and
 - 50% of options are subject to achievement of Total Shareholder Return (“TSR”) performance condition.
- 2,200,000 and 333,333 options over ordinary shares were issued 5 May 2010 and 1 September 2010 respectively. The options are exercisable at \$1.11, with an exercise period between 1 January 2013 to 31 December 2014. Vesting of the options is subject to achievement of the following performance conditions:
 - 50% of options are subject to achievement of Earnings per Share (“EPS”) performance conditions; and
 - 50% of options are subject to achievement of Total Shareholder Return (“TSR”) performance condition.

Options issued in the current period:

- 2,133,333, 100,000 and 250,000 options over ordinary shares were issued 11 April 2011, 15 June 2011 and 25 July 2011 respectively. The options are exercisable at \$0.84, with an exercise period between 1 January 2014 to 31 December 2015. Vesting of the options is subject to achievement of the following performance conditions:
 - 50% of options are subject to achievement of Earnings per Share (“EPS”) performance conditions; and
 - 50% of options are subject to achievement of Total Shareholder Return (“TSR”) performance condition.

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

Below are options that were issued in 2010 and 2011:

Options series issued in 2011	Number	Grant date	Exercise period	Exercise price \$	Fair value at grant date
Employee options	1,000,000	11/04/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.42
Employee options	1,133,333	11/04/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.40
Employee options	100,000	15/06/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.30
Employee options	250,000	25/07/2011	1 Jan 2014 to 31 Dec 2015	\$0.84	\$0.28

Options series issued in 2010	Number	Grant date	Exercise period	Exercise price \$	Fair value at grant date
Employee options	2,200,000	05/05/2010	1 Jan 2013 to 31 Dec 2014	\$1.11	\$0.27
Employee options	333,333	01/09/2010	1 Jan 2013 to 31 Dec 2014	\$1.11	\$0.23

The weighted average fair value of the share options granted in 2011 is \$0.33 (2010: \$0.27). Options were priced using a binomial option pricing model. Expected volatility is based on that observed for comparable listed companies over the time period appropriate to the option grant in question.

NOTES TO THE FINANCIAL STATEMENTS

22. ISSUED CAPITAL (CONT.)

(b)(i) Share Options – Employee Options (cont.)

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

	Employee options	Employee options	Employee options	Employee options
Issued in 2011				
Grant date	11/04/2011	11/04/2011	15/06/2011	25/07/2011
Fair value at grant date	\$0.42	\$0.40	\$0.30	\$0.28
Grant date share price	\$0.83	\$0.83	\$0.70	\$0.66
Exercise price	\$0.84	\$0.84	\$0.84	\$0.84
Expected volatility	78%	78%	78%	78%
Option life	4.2 years	3.7 years	3.5 years	3.4 years
Dividend yield	4.15%	4.15%	4.88%	4.88%
Risk-free interest rate	5.85%	5.75%	5.50%	4.56%
Issued in 2010				
Grant date	5/05/2010	1/09/2010		
Fair value at grant date	\$0.27	\$0.23		
Grant date share price	\$0.82	\$0.62		
Exercise price	\$1.11	\$1.11		
Expected volatility	61.50%	83.70%		
Option life	3.7 years	3.3 years		
Dividend yield	3.50%	7.46%		
Risk-free interest rate	5.26%	4.35%		

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

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	6,293,333	\$1.05	6,736,667	\$1.05
Granted during the financial year	2,483,333	\$0.84	2,533,333	\$1.11
Forfeited during the financial year	(649,999)	\$0.85	(550,000)	\$0.71
Exercised during the financial year	-	-	(840,000)	\$0.63
Expired during the financial year	(960,000)	\$2.19	(1,586,667)	\$1.51
Balance at the end of financial year	7,166,667	\$0.84	6,293,333	\$1.05
Exercisable at end of the financial year	-	-	960,000	\$2.19

The options outstanding at 31 December 2011 have an exercise price in the range of \$0.62 to \$1.11 (2010: \$0.62 to \$3.00) and a weighted average contractual life of 2.97 years (2010: 3.08 years).

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2011 was Nil, no options exercised (2010: \$0.80).

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

	2011 \$	2010 \$
Share options granted in 2006 – equity settled	-	20,740
Share options granted in 2009 – equity settled	43,012	51,960
Share options granted in 2010 – equity settled	224,445	162,811
Share options granted in 2011 – equity settled	254,421	-
Shares as remuneration granted in 2010 and 2011 – equity settled	81,889	24,889
Total expense recognised as employee costs	603,767	260,400

(b)(ii) Share Compensation – Employee Shares

Details on shares of the Company that were granted as remuneration to each key management person and details on shares vested during the reporting period are as follows:

	No of shares	Grant date	Fair value at grant date (\$)	Vesting period	No of shares vested during 2011
Executives					
A Baum	350,000	01/09/2010	0.64	3 years	-
A Baum	125,000	01/09/2011	0.52	3 years	-

No shares are granted since the end of the financial year. The shares are provided at no cost to the recipients.

These shares were issued to A Baum upon him joining ThinkSmart Ltd and upon his first anniversary with the Company and are held in escrow. The shares are ordinary shares in the Company and will vest upon completion of a 3-year service period from the date of each issue. During this period, Mr Baum is entitled to any dividends declared by the Company and normal voting rights are attached. In the event that Mr Baum's employment with the Company ceases before the vesting period (i.e. through resignation or termination), the shares will be cancelled. If Mr Baum is retrenched by the Company due to changes in the Company's structure or operations, he will be entitled to retain the shares and they will become immediately unconditional if this occurs before the escrow period expires.

22. ISSUED CAPITAL (CONT.)

(c) Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount	Franked/unfranked	Date of payment
2011				
Final Ordinary 2010	3.5	\$4,545,779	45% Franked	29 April 2011
2010				
Final Ordinary 2009	2.0	\$1,937,788	100% Franked	23 April 2010

Franked dividend declared and paid during the year was 45% franked at the tax rate of 30% (2010: 100% franked at the tax rate of 30%).

(d) Franking credits

	2011 \$	2010 \$
Franking credit account balance as at the beginning of the financial year at a tax rate of 30% (2010: 30%)	615,005	545,068
Franking credits from the payment of income tax paid and payable as at the end of the financial year	1,644,354	1,160,426
Franking debits from the payment of dividends in the financial year	(1,069,463)	(1,090,489)
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	1,189,896	615,005

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 declared after the balance sheet date but not recognised as a liability is to reduce it by \$nil (2010: \$876,686). 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 2011, the subsidiaries have no franking credits for the benefit for the Company (2010: nil).

23. RESERVES

	2011 \$	2010 \$
Equity settled employee benefits reserve – options (i)	951,939	419,061
Equity settled employee benefits reserve – shares (i)	(182,222)	(188,111)
Foreign currency translation reserve (ii)	(4,431,242)	(4,366,686)
Hedge reserve (iii)	(208,051)	-
	(3,869,576)	(4,135,736)

- (i) The share-based remuneration reserve arises on the grant of share options and shares to executives under the employee share option plan. Amounts are transferred out of the reserves and into issued capital when the options are exercised. For shares issued as remuneration and accounted for as a share based payment arrangement, the full fair value of the shares are initially recognised in the reserve and share capital, and are subsequently transferred out of the reserve to the profit and loss over the vesting period. 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.
- (iii) The hedge reserve comprises the effective portion of the cumulative net change in fair value of the cash flow hedge relating to hedged transactions that have not yet occurred.

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:

Reconciliation of cash and cash equivalents

Cash balance comprises:

- Available cash and cash equivalents	2,582,322	18,268,661
- Restricted cash	2,028,210	2,917,361
	4,610,532	21,186,022

The restricted cash is held as part of the Group's funding arrangements and the restriction will cease as the contract term expires but will be replaced as new lease contracts are originated.

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

NOTES TO THE FINANCIAL STATEMENTS

24. NOTES TO THE CASH FLOW STATEMENT (CONT.)

	2011 \$	2010 \$
(b) Reconciliation of the profit/(loss) for the year to net cash flows from operating activities:		
Profit after tax	6,798,347	6,773,013
Add back non cash items:		
Depreciation	541,153	465,167
Amortisation	1,720,343	2,053,385
Impairment	68,683	-
Loss on disposal of plant and equipment	-	(73,866)
Impairment losses on finance lease receivables	1,521,704	239,514
Foreign currency gain unrealised	(13,030)	-
Provision for employee entitlements	2,938	6,620
Equity settled share based payment	603,767	260,400
(Increase)/decrease in assets:		
Trade receivables and deposits with funders	(6,958,609)	(7,082,898)
Prepayments	711,750	1,623,821
Deferred tax asset	287,676	133,372
Other assets	(376,946)	(83,465)
Rental asset inventory	35	16,879
Increase/(decrease) in liabilities:		
Trade and other creditors	6,612,470	1,272,890
Provision for income tax	1,086,181	(91,134)
Deferred tax liability	(194,405)	448,245
Other payable	-	(492)
Net cash from/(used in) operating activities	12,412,057	5,961,451

(c) Non-cash financing transactions

The consolidated entity entered into the non-cash finance transaction described below during the period (2010: Nil). During the second half of 2011 the Group progressed the acquisition of the remaining lease receivables from Bendigo and Adelaide Bank. The acquisition of these receivables is subject to APRA approval. On 22 December 2011 agreement was reached with Bendigo and Adelaide Bank resulting in the rights to the lease receivables held by Bendigo and Adelaide Bank being assigned to the Group effective from 1 October 2011 as described in Note 9.

Pending approval from APRA to allow the acquisition of the leases by ThinkSmart Trust, collections from customers have been retained in the collections account established for the purpose and held by Bendigo and Adelaide Bank. Bendigo and Adelaide Bank also have cash balances relating to items previously disclosed as funder deposits which comprise ThinkSmart's investment in the portfolio of leases acquired with effect from 1 October 2011. Distributions to both Bendigo and Adelaide Bank and ThinkSmart are expected to commence Q1 2012.

25. LEASES AND HIRE PURCHASE OBLIGATIONS

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.

	2011 \$	2010 \$
Non-cancellable operating lease payments:		
No later than 1 year	838,253	807,061
Later than 1 year and not later than 5 years	871,121	1,709,594
	1,709,374	2,516,655

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

26. SEGMENT INFORMATION

The Group has 2 main reportable segments which comprise the group's two core strategic business units, with the Australasian business unit further segmented to report segments relating to lease accounting and other operations. The strategic business units offer predominantly similar products and services, however have separate executive structures and separate operational teams. During the period the Australasian business unit commenced funding finance leases "on balance sheet", primarily through the SPE it has established, ThinkSmart Trust, although a tranche of assets acquired by pass through arrangement sit outside of the SPE at 31 December 2011.

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

Europe:

- RentSmart Limited
- ThinkSmart Europe Ltd
- ThinkSmart Insurance Administration Ltd
- SmartCheck Finance Spain SL
- ThinkSmart France SARL
- ThinkSmart Italy Srl
- ThinkSmart Inc

Australasia:

- Australasia – Leasing:
 - ThinkSmart Finance Ltd
 - ThinkSmart Trust
 - Tranche 2 of receivables acquired by RentSmart Unit Trust via pass through arrangement
- Australasia – Other:
 - RentSmart Unit Trust – except Tranche 2 of receivables assigned to leasing segment
 - RentSmart Servicing Pty Ltd
 - RentSmart Pty Ltd

NOTES TO THE FINANCIAL STATEMENTS

Operating Segments	Europe		Australasia				Total	
	2011	2010	Australasia - Leasing		Australasia - Other		2011	2010
Information about reportable segments for the year ended 31 December	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
External revenues	15,601,956	14,461,813	6,487,517	-	23,384,531	27,648,749	45,474,004	42,110,562
Inter-segment revenue	-	-	70	-	1,295,527	1,474,304	1,295,597	1,474,304
Interest income	123,499	9,627	29,690	-	490,385	2,484,275	643,575	2,493,902
Interest expense	-	(5,335)	-	-	-	-	-	(5,335)
Depreciation and amortisation	(579,162)	(1,166,759)	(114,672)	-	(1,535,571)	(1,351,793)	(2,229,405)	(2,518,552)
Reportable segment profit before income tax	7,110,053	4,309,684	2,076,238	-	6,680,458	9,743,199	15,866,750	14,052,883
Intercompany charges	(2,892,545)	(995,533)	-	-	(2,826,465)	(2,000,098)	(5,719,009)	(2,995,631)
Corporate costs	(1,259,761)	(1,036,413)	-	-	-	-	(1,259,761)	(1,036,413)
Reportable segment profit, after corporate costs and intercompany charges before income tax	2,957,748	2,277,738	2,076,238	-	3,853,994	7,743,101	8,887,980	10,020,839
Reportable segment assets	18,343,896	17,709,499	77,848,632	-	12,686,329	27,902,009	108,878,858	45,611,508
Reportable segment liabilities	4,572,737	1,790,870	54,447,983	-	10,822,422	6,473,983	69,843,143	8,264,853
Capital expenditure	639,263	444,331	931,370	-	3,229,322	2,915,050	4,799,956	3,359,381
Reconciliation of reportable segment revenue								
Total revenue for reportable segments							46,769,601	43,584,866
Elimination of inter-segment revenue							(1,295,597)	(1,474,304)
Consolidated revenue							45,474,004	42,110,562
Reconciliation of reportable segment profit or loss								
Total profit or loss for reportable segments							15,866,750	14,052,883
Elimination of inter-segment profits							(1,259,761)	(1,482,828)
Unallocated expenses							(4,595,777)	(2,855,016)
Consolidated profit before tax							10,011,212	9,715,039
Reconciliation of reportable segment assets								
Total assets for reportable segments							108,878,858	45,611,508
Other unallocated amounts							(697,357)	291,883
Consolidated total assets							108,181,501	45,903,391
Reconciliation of reportable segment liabilities								
Total liabilities for reportable segments							69,843,143	8,264,853
Other unallocated amounts							(1,927,816)	(60,589)
Consolidated total liabilities							67,915,327	8,204,264

Other than recognising that within the Australasian segment there are two reportable segments with the commencement during the year of a leasing segment, there has been no change to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2010.

26. SEGMENT INFORMATION (CONT.)

Major customer

Revenues from the Group's funding partners represent \$28,166,737 (2010: \$25,551,047) of the Group's total revenue.

27. REMUNERATION OF AUDITORS

	2011 \$	2010 \$
Audit services:		
<i>Auditors of the Company:</i>		
Audit and review of financial reports (Australia)	302,645	224,807
Audit and review of financial reports (Overseas)	96,373	68,337
	399,018	293,144
Services other than statutory audit:		
<i>Other assurance services:</i>		
Tax and other services	80,307	22,133
	80,307	22,133

The Group's auditors were KPMG in 2011 and 2010.

28. COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of the previous UK funding agreement the Group is potentially liable to refund part of its brokerage income in the event that the funders bad debts exceed certain pre-agreed levels. As at 31 December 2011, the maximum amount of brokerage income that the group may potentially have to refund in the future is \$29,982 (2010:\$492,027).

Under the terms of the UK current funding agreement with Secure Trust Bank ("STB"), the Group is obliged to purchase delinquent leases from the funder at the funded amount. At 31 December 2011, the total funded amount of all leases funded by the funder is \$25,952,670 (2010: \$11,845,103). The Group has entered into a Credit Default Swap ("CDS") with STB for which it has provided a deposit of \$4,395,872 as collateral for the obligation under the CDS. The Group has provided \$1,365,930 (2010: \$683,372) being its estimate of the funded amount of these leases that are likely to become delinquent in the future.

Included in cash and cash equivalents is \$2,028,210 (2010:\$2,917,361) which is held as part of the Group's funding arrangements (including the SPE) and are restricted.

Under the terms of its Australian non-SPE funding agreement the Group has deposits held by the funder as credit support for the portfolio of leases funded by the funder. These deposits represent amounts held in excess of expected future losses, however the group has a potential risk that, should losses exceed expected levels and alternate remedies are not made, a portion of these deposits may be forfeit. As at 31 December 2011, the maximum amount of funder deposits that the Group may potentially forfeit in the future is \$1,241,296 (2010: \$3,122,945). Further funder deposits are held by the funder against the risk of default by the group under the servicing provisions of its Australian funding agreement. Should the group default against these obligations, the entire deposit would be forfeit. As at 31 December 2011 the deposit held against servicing default was \$904,112 (2010: \$2,643,398).

Under the terms of its agreement with its UK clearing bank for the provision of direct debit facilities, the Group has issued a Standby Letter of Credit for £2,000,000 in favour of the UK clearing bank as a mitigant against the potential for the reversal

NOTES TO THE FINANCIAL STATEMENTS

of direct debit payments pursuant to individual customers' dispute of direct debit payments which the Group is unable to prove authorisation for. On 15 February 2012 this Standby letter of Credit was released and replaced by a parental guarantee issued by ThinkSmart Ltd in favour of the UK clearing bank.

The total balance of deposits recognised with funders net of associated provisions and financial guarantee contracts is \$5,175,350.

29. CONTINGENT INERTIA ASSETS

Under the Group's accounting policy (Note 3(n)), inertia revenue for those assets funded under the brokerage model, where the Group does not have an unconditional right to the asset and residual lease rights, 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. Where the Group does have an unconditional right to these future revenue streams it recognises an intangible asset as described in Note 3(i).

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 2011, are discounted using appropriate risk factors. The estimated value of future cash flows is \$1,794,114 (2010: \$9,572,203), representing the discounted after tax value of assets as determined by reference to auction sales history. The primary reason for the reduction in value of this contingent asset is the change in the Group's funding arrangements which means a proportion of these assets are no longer contingent because the Group has obtained unconditional rights to the future revenue streams.

30. FINANCIAL INSTRUMENTS

(a) Interest rate risk

Profile

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

	Carrying amount	
	2011 \$	2010 \$
Fixed rate instruments		
Lease receivables	66,425,786	-
	66,425,786	-
Variable rate instruments		
Cash and cash equivalent	4,610,532	21,186,022
Deposits held by funder (current)	-	143,398
Deposits held by funder (non-current)	5,175,350	6,737,156
Term loan	(2,426,713)	(2,489,944)
Secured note facility	(53,722,384)	-
Net financial (liability)/asset	(46,363,215)	25,576,632

Sensitivity analysis

Variable rate instruments

A change in 1% in interest rates would have increased or decreased the Group's profit by the amounts show below (2010: \$255,766). This analysis assumes that all other factor remain constant including foreign currency rates.

	Profit or Loss	
	Increase 1%	Decrease 1%
Variable rate instruments	(463,632)	463,632
Interest rate hedge	261,500	(261,500)
Net cash flow sensitivity	(202,132)	202,132

(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.

Fair value hierarchy

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

The different levels have been defined as follows:

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

The financial liability of the Group is comprised of interest rate swaps used for hedging. \$297,214 is classified as level 2 and an interest rate of 5.25% has been used to determine the hedge fair value.

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL INSTRUMENTS (CONT.)

(c) Credit risk management

Exposure to credit risk

The maximum credit risk exposure of the Group is the sum of the carrying amount of the Group's financial assets and the contingent liabilities in Note 28. The carrying amount of the Group's financial assets that is exposed to credit risk at reporting date is:

	Note	2011 \$	2010 \$
Cash and cash equivalent	24(a)	4,610,532	21,186,022
Trade receivables (current)	8	10,015,423	2,362,465
Deposits held by funder (current)	8	-	143,398
Deposits held by funder (non-current)	8	5,175,350	6,737,156
Sundry debtors	8	1,172,629	188,653
Lease receivable (current)	9	38,419,290	-
Lease receivable (non-current)	9	28,006,496	-
Deals awaiting settlement	12	385,252	394,083
Other assets	12	385,777	-
Prepayments (current)	11	3,335,775	1,296,775
Prepayments (non-current)	13	1,601,516	2,372,572
		93,108,040	34,681,124

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

Australasia	82,759,298	22,110,658
Europe	10,348,742	12,570,466
	93,108,040	34,681,124

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

	2011 \$	2010 \$
Banks	4,610,532	21,186,022
Funders	5,990,866	8,202,305
Retail partners	-	790,063
Insurance partners (i)	3,512,275	3,669,346
Retail finance customers (ii)	66,425,786	-
Others (ii)	12,568,581	833,388
	93,108,040	34,681,124

- (i) In 2011, 72% (2010: 66%) 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.
- (ii) Included in Others is an amount of \$7,297,323 relating to collections from lessee customers in relation to the portfolio of leases acquired by the Group via a pass through arrangement from Bendigo and Adelaide Bank. Bendigo and Adelaide Bank has not distributed any funds from this account as per Note 24(c). The credit risk exposure from retail customers also include an amount of \$41,220,750 which relates to the same portfolio of leases. Bendigo and Adelaide Bank controls the bank account to which the collections are deposited and accordingly the Group has a credit risk exposure to Bendigo and Adelaide Bank with respect to these amounts.

Impairment losses

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

	Gross 2011 \$	Impairment 2011 \$	Gross 2010 \$	Impairment 2010 \$
Not past due	343,820	-	2,088,171	53,993
Past due 0-30 days	9,602,141	29,981	104,134	5,468
Past due 31-120 days	35,331	21,190	88,350	25,172
Past due 120-365 days	31,684	31,681	79,042	27,545
More than 1 year	2,447	2,447	2,769	-
	10,015,423	85,299	2,362,466	112,178

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

	2011 \$	2010 \$
Balance at 1 January	112,178	214,448
Impairment loss recognised	148,230	239,513
Bad debt written off	(174,676)	(308,555)
Effect of exchange rate	(433)	(33,228)
Balance at 31 December	85,299	112,178

NOTES TO THE FINANCIAL STATEMENTS

30. FINANCIAL INSTRUMENTS (CONT.)

(c) Credit risk management (cont.)

Trade receivables are reviewed and considered for impairment on a periodic basis, based on the number of days outstanding and number of payments in arrears. 95% (2010: 90%) of the net trade receivables balance is owed by the Group's most significant financiers, and 4% (2010: 3%) of the remaining net receivables balance is owed by debtors with a good credit history with the Group.

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

	Gross 2011 \$	Impairment 2011 \$	Gross 2010 \$	Impairment 2010 \$
Not past due	59,564,689	-	-	-
Past due 0-30 days	5,200,079	225,586	-	-
Past due 31-120 days	2,986,309	1,208,439	-	-
Past due 120-365 days	258,648	152,967	-	-
More than 1 year	4,172	1,119	-	-
	68,013,897	1,588,111	-	-

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

	2011 \$	2010 \$
Balance at 1 January	-	-
Impairment loss recognised	1,588,111	-
Balance at 31 December	1,588,111	-

Since May 2011 when the Group acquired a portfolio of finance lease receivables from Bendigo and Adelaide Bank ("BEN") it has made \$27,251 of recoveries in relation to assets repossessed and cash recoveries.

The management of credit risk in relation to its customers is described in Note 5.

(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 2011			
	GBP	EUR	NZD	USD
Cash and cash equivalent	1,179,903	74,792	24,486	8,609
Trade and other receivables	955,128	29,261	116,445	-
Trade and other payables	1,109,365	51,382	44,153	2,637
Gross exposure	3,244,396	155,435	185,084	11,246

In AUD	31 December 2010			
	GBP	EUR	NZD	USD
Cash and cash equivalent	6,392,124	491,964	48,531	1,894
Trade and other receivables	1,913,291	70,180	107,939	-
Trade and other payables	(1,738,530)	(229,750)	(82,448)	(2,105)
Gross exposure	6,566,885	332,394	74,222	(212)

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
EUR	0.7412	0.6938	0.7847	0.7647
GBP	0.6434	0.5950	0.6589	0.6585
USD	1.0320	0.9197	1.0156	1.0163
NZD	1.3053	1.2744	1.3146	1.3171

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 2010:

	Equity \$	Profit or loss \$
31 December 2011		
EUR	121,022	49,171
GBP	(821,706)	(21,898)
USD	189,797	336
NZD	(4,293)	2,938
31 December 2010		
EUR	76,472	20,665
GBP	(1,447,168)	(82,553)
USD	19	1,544
NZD	(24,525)	(3,684)

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 (CONT.)

(e) Liquidity risk management

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

Non-derivatives	Carrying Amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years
31 December 2011					
Trade and other payables	6,903,386	(6,903,387)	(6,903,387)	-	-
Term loans	2,426,713	2,615,506	2,615,506	-	-
Secured note facility	53,722,384	(57,766,918)	(39,964,315)	(14,302,437)	(3,500,166)
	63,052,483	(62,054,799)	(44,252,196)	(14,302,437)	(3,500,166)
31 December 2010					
Trade and other payables	4,317,611	(4,317,615)	(4,317,615)	-	-
Term loans	2,489,944	(2,500,000)	(2,500,000)	-	-
	6,807,555	(6,817,615)	(6,817,615)	-	-

Derivatives	Carrying Amount	Contractual cash flow	Less than 1 year	1-2 years	2-5 years
31 December 2011					
Interest rate swaps used for hedging	297,214	(297,214)	(226,525)	(64,560)	(6,129)
	297,214	(297,214)	(226,525)	(64,560)	(6,129)

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

D Griffiths (Deputy Chairman)

S Penglis

F de Vicente

N Fox – appointed 10 October 2011

Executive Directors

N Montarello (Chairman, Managing Director and Chief Executive Officer)

Executives

A Baum (Group Chief Operating Officer, ThinkSmart Limited)

N Barker (Group Chief Financial Officer, ThinkSmart Limited) – resigned 30 June 2011

J Ferreira (Group Chief Financial Officer (acting), ThinkSmart Limited) – appointed 1 July 2011

S McDonagh (Executive General Manager, RentSmart Unit Trust) – re-appointed 25 July 2011

G Varma (Group Chief Information Officer, ThinkSmart Limited)

G Parry (Managing Director - UK, RentSmart Limited)

The KMP remuneration included in 'employee benefits expense' in Note 6(b) is as follows:

	2011 \$	2010 \$
Short-term employee benefits	2,500,771	2,259,573
Post-employment benefits	317,933	149,879
Share-based payment	534,908	197,501
	3,353,612	2,606,953

The KMP receive no remuneration in relation to management of the Company (2010: nil).

Individual directors and executives remuneration disclosures

Information regarding individual directors and executives remuneration 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 loans provided to KMP and their related parties as at 31 December 2011 (2010: nil).

Other KMP transactions

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

Options and rights over equity instruments

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

NOTES TO THE FINANCIAL STATEMENTS

31. RELATED PARTY DISCLOSURES (CONT.)

Employee Options

2011	Held at 1 January 2011	Granted as compensation	Exercised	Lapsed or forfeited	Held at 31 December 2011	Vested during the year	Vested and exercisable at 31 December 2011
Directors							
D Griffiths	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-
N Fox	-	-	-	-	-	-	-
N Montarello	2,000,000	1,000,000	-	-	3,000,000	-	-
Executives							
A Baum	333,333	333,333	-	-	666,666	-	-
N Barker	1,113,333	-	-	(479,999)	n/a	-	-
J Ferreira	250,000	150,000	-	-	400,000	-	-
S McDonagh	-	250,000	-	-	250,000	-	-
G Varma	250,000	100,000	-	-	350,000	-	-
G Parry	780,000	200,000	-	(280,000)	700,000	-	-
2010	Held at 1 January 2010	Granted as compensation	Exercised	Lapsed or forfeited	Held at 31 December 2010	Vested during the year	Vested and exercisable at 31 December 2010
Directors							
D Griffiths	-	-	-	-	-	-	-
S Penglis	-	-	-	-	-	-	-
F de Vicente	-	-	-	-	-	-	-
N Fox	-	-	-	-	-	-	-
N Montarello	2,400,000	1,000,000	-	(1,400,000)	2,000,000	-	-
Executives							
A Baum	-	333,333	-	-	333,333	-	-
N Barker	1,060,000	333,333	(280,000)	-	1,113,333	-	280,000
J Ferreira	n/a	-	-	-	-	-	-
S McDonagh	300,000	-	-	(300,000)	-	-	-
G Varma	336,667	100,000	-	(186,667)	250,000	-	-
G Parry	580,000	200,000	-	-	780,000	-	280,000

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:

2011	Held at 1 January 2011	Purchases	Rights issue	Sales	Received on exercise of options	Granted as compensation	Held at 31 December 2011*
Directors							
D Griffiths	2,160,000	-	-	-	-	-	2,160,000
S Penglis	1,272,600	-	-	-	-	-	1,272,600
F de Vicente	-	-	-	-	-	-	-
N Fox	68,000	-	-	-	-	-	68,000
N Montarello	22,021,697	500,000	-	-	-	-	22,521,697
Executives							
A Baum	626,910	-	-	-	-	125,000	751,910
N Barker	547,999	-	-	-	-	-	n/a
J Ferreira	-	-	-	-	-	-	-
S McDonagh	12,713	10,000	-	(11,713)	-	-	11,000
G Varma	185,082	-	-	-	-	-	185,082
G Parry	25,357	-	-	-	-	-	25,357
2010	Held at 1 January 2011	Purchases	Rights issue	Sales	Received on exercise of options	Granted as compensation	Held at 31 December 2010*
Directors							
P Mansell	1,550,000	-	-	-	-	-	n/a
D Griffiths	1,800,000	-	360,000	-	-	-	2,160,000
S Penglis	1,060,500	-	212,100	-	-	-	1,272,600
F de Vicente	-	-	-	-	-	-	-
N Montarello	17,404,565	1,134,819	3,480,913	-	-	-	22,020,297
Executives							
A Baum	-	5,800	271,110	-	-	350,000	626,910
N Barker	172,999	-	95,000	-	280,000	-	547,999
S McDonagh	111,000	-	-	(46,100)	-	-	n/a
M Radotic	35,000	-	-	-	-	-	35,000
G Varma	398,333	-	43,114	(256,365)	-	-	185,082
G Parry	25,357	-	-	-	-	-	25,357

n/a: Personnel have resigned before reporting date. The share movement only relates to the period up to their respective resignation dates.

NOTES TO THE FINANCIAL STATEMENTS

31. RELATED PARTY DISCLOSURES (CONT.)

* The following shares are subject to escrow as at 31 December 2011 (refer to Note 22 (b)(ii)):

	Held at 31 December 2011	Held at 31 December 2010
Executive		
A Baum	475,000	350,000

Parent

The parent entity of the Group is ThinkSmart Limited.

32. SUBSEQUENT EVENTS

Since the end of the financial year the Group has extended the maturity date of its corporate banking facilities to 30 June 2013 and has drawn a further \$1.2 million under this facility, taking the drawn balance of the \$5 million facility to \$3.7 million. Also since the end of the financial year the Group has succeeded in removing the requirement for a £2 million Standby Letter of Credit which has been issued in favour of its UK clearing bank and has received conditional credit approval for a \$3 million extension of its corporate banking facilities to \$8 million in total.

33. EARNINGS PER SHARE

	2011 Cents per share	2010 Cents per share
Basic earnings per share		
From continuing operations	5.23	6.52
Diluted earnings per share		
From continuing operations	5.23	6.29

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:

	2011 \$	2010 \$
Profit after tax from continuing operations	6,798,347	6,773,013
Earnings used in the calculation of basic EPS from continuing operations	6,798,347	6,773,013

	2011 Number	2010 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	129,921,171	103,818,543

Diluted earnings per shares

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

	2011 \$	2010 \$
Profit after tax from continuing operations	6,798,347	6,773,013
Earnings used in the calculation of diluted EPS from continuing operations	6,798,347	6,773,013

	2011 Number	2010 Number
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	129,921,171	103,818,543
Shares deemed to be issued for no consideration in respect of:		
Employee options	-	3,925,035
Weighted average number of ordinary shares used in the calculation of diluted EPS	129,921,171	107,743,578

At 31 December 2011 7,166,667 options (2010: 3,393,333) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

34. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 31 December 2011, the parent entity of the Group was ThinkSmart Limited.

	2011 \$	2010 \$
Result of parent entity		
Profit for the period	648,731	492,256
Other comprehensive income	(25,692)	-
Total comprehensive income for the period	623,039	492,256
Financial position of parent entity at year end		
Current assets	692,942	12,353,442
Total assets	35,044,913	39,391,828
Current liabilities	1,707,370	3,405,428
Total liabilities	1,733,304	3,662,416
Total equity of the parent entity comprising of:		
Share capital	39,663,556	39,615,237
Share based payment reserve	744,026	230,947
Retained earnings	(7,095,972)	(4,116,772)
Total equity	33,311,610	35,729,412

Parent entity contingencies

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

34. PARENT ENTITY DISCLOSURES (CONT.)

	Notes	2011 \$	2010 \$
Contingent liabilities considered unlikely			
Performance guarantees	(a)	-	7,000,000

(a) A bank guarantee had been issued on behalf of the parent entity, to an unrelated party, in relation to the performance of a subsidiary in the management of a portfolio of rental agreements. During the financial year this guarantee was returned and cancelled.

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

The parent entity has issued a parental guarantee in favour of its UK clearing bank to guarantee the obligations of RentSmart Limited with respect to its Direct Debit facilities as described in Note 28.



Independent auditor's report to the members of ThinkSmart Limited

Report on the financial report

We have audited the accompanying financial report of ThinkSmart Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report set out on pages 24 to 35 for the year ended 31 December 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.


KPMG



Denise McComish
Partner

Perth
21 February 2012

The shareholder information set out below was applicable as at 31 March 2012.

Substantial shareholders

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

	Number of ordinary shares	Percentage %
Include those above 5%		
UBS Wealth Management Australia Nominees Pty Ltd	27,599,936	17.69

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

	Number of equity security holders	
	Ordinary Shares	Options
1 – 1,000	110	-
1,001 – 5,000	793	-
5,001 – 10,000	589	-
10,001 – 100,000	1,195	-
100,001 and over	138	11

The number of shareholders holding less than a marketable parcel of ordinary shares is 218.

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the ESOP to take up ordinary shares	7,066,667	11

The Company has no other unquoted equity securities.

On-market buy-back

There is no current on-market buy-back.

SHAREHOLDER INFORMATION

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held (%)
UBS Wealth Management Australia Nominees Pty Ltd	27,599,936	17.69
Merrill Lynch (Australia) Nominees Pty Limited	6,701,105	4.30
JAWP Pty Ltd	5,775,250	3.70
Wroxby Pty Ltd	5,561,172	3.56
Citicorp Nominees Pty Limited	5,002,646	3.21
Kemast Investments Pty Ltd	4,752,000	3.05
JP Morgan Nominees Australia Limited <Cash Income Account>	4,672,334	2.99
National Nominees Limited	4,068,105	2.61
Cogent Nominees Pty Limited	3,675,017	2.36
Phoenix Properties International Pty Ltd	3,600,000	2.31
HSBC Custody Nominees (Australia) Limited	3,119,768	2.00
Aileendonan Investments Pty Ltd	2,500,000	1.60
Wulura Investments Pty Ltd <PJT Gammell Super Fund Account>	2,400,262	1.54
Darju Pty Ltd	2,107,239	1.35
Wulura Investments Pty Ltd	1,566,948	1.00
Osborne Properties Pty Ltd	1,274,000	0.82
Manfam Pty Ltd	1,159,761	0.74
JP Morgan Nominees Australia Limited	994,822	0.64
Mrs Kelyna Margaret Penglis	916,800	0.59
Mr Victor John Plummer	656,000	0.42