

THINKSMART

ThinkSmart Limited
Annual Report 2019

Contents

Highlights for the year ended 30 June 2019	1
Chairman's Statement	2
Directors' Report	4
Auditor's Independence Declaration	26
Directors' Declaration	27
Consolidated Statement of Profit & Loss and Other Comprehensive Income	28
Consolidated Statement of Financial Position	29
Consolidated Statement of Changes in Equity	30
Consolidated Statement of Cash Flows	31
Notes to the Consolidated Financial Statements	32
Independent Auditor's Report	70
Corporate Information	Back Cover

Highlights for the year ended 30 June 2019

Highlights

- Successfully completed the sale of 90% of Clearpay Finance Ltd (“Clearpay”) to Afterpay Touch Group Ltd (“APT” or “Afterpay”) on 23 August 2018, delivering £7.73 million profit after tax on the sale.
- ThinkSmart’s remaining 10%⁽¹⁾ holding in Clearpay provides shareholders with further upside potential given Afterpay’s 5 year call option, exercisable at any time after 23 August 2023, and ThinkSmart’s reciprocal put option 6 months later to be able to sell the remaining holding to Afterpay at a price calculated on agreed principles based on market valuations at the time of option exercise.
- Continuing to trade as Clearpay post acquisition by Afterpay, the Clearpay UK business onboarded more than 200,000 active customers in the first 15 weeks of trading - higher than the Afterpay US operation achieved at the same time post-launch which has since grown to over 2.1 million active US customers in just over a year.
- Group cash of £11 million at 31 August 2019 reflecting cash of £7.10 million at 30 June 2019, after the A\$8 million (£4.40 million) special dividend/capital return, and cash received post 30 June 2019 of AU\$6.93 million (£3.82 million) from the sale of the second tranche of 250,000 shares in Afterpay from the Clearpay sale.
- Leasing originations from continuing operations at £4.3 million, significantly lower than the same period last year (FY18: £13.4 million) with majority of reduction from the lower margin Flexible Leasing product.
- Operating costs reduced by 26% to £4.8 million and remain controlled, aligned to current volume performance, with further cost reductions made in July and August 2019.
- Net profit after tax of £8.67 million (FY18 restated⁽²⁾: loss of £4.56 million), reflecting net profit after tax from continuing operations of £0.94 million (FY18 restated: loss of £3.96 million), together with profit on the sale of 90% of Clearpay.
- Net Assets of £16.6 million at 30 June 2019, equivalent to 15.56 pence per share.

(1) A proportion of the 10% retained shareholding (up to 3.5% of the total share capital of Clearpay) will be made available to employees of Clearpay under an employee share ownership plan.

(2) Restated for the adoption of IFRS 15 in the current year applying the full retrospective transition approach with the date of initial application being 1 July 2018.

Commenting on the results, Ned Montarello, Executive Chairman of ThinkSmart, said:

“The sale of 90% of ThinkSmart’s Clearpay business to Afterpay has been a significant positive point for the Group and its shareholders.

“Our shareholders will be encouraged with the early growth of the Clearpay business in the UK, as announced by Afterpay in August 2019, given the stake we hold in the business. Continuing to trade as Clearpay post acquisition by Afterpay, the Clearpay UK business onboarded more than 200,000 active customers in the first 15 weeks of trading - higher than the Afterpay US operation achieved at the same time post-launch, which has since grown to over 2.1 million active US customers in just over a year. As well, Clearpay announced that it had established important new UK retail partnerships, including with PrettyLittleThing, boohoo, JD Sports and Missy Empire.

“ThinkSmart’s remaining holding in Clearpay provides shareholders with future upside profit potential through the 5 year call option for Afterpay to purchase ThinkSmart’s remaining holding in Clearpay any time after August 2023 at a price calculated on agreed principles based on market valuations at the time of option exercise. ThinkSmart has a reciprocal put option 6 months later to sell its remaining holding in Clearpay to Afterpay. Clearly, ongoing growth in Clearpay is beneficial for ThinkSmart shareholders.

We continue to look at options to leverage ThinkSmart’s established technology platform across the core leasing business.”

Chairman's Statement

Introduction

This year saw the successful completion of the Group's sale of 90% of Clearpay to ASX listed Afterpay, a global leader in online payments, with the transaction realising profit after tax of £7.7m. As well as generating a significant return on investment for Shareholders, the transaction also offers further significant upside potential from the retained 10% stake in Afterpay's UK business. A proportion of the 10% retained shareholding (up to 3.5% of the total share capital of Clearpay) will be made available to employees of Clearpay under an employee share ownership plan. Any such options will only be exercisable on an ultimate exit event or at such time as the Group no longer holds shares in Clearpay.

ThinkSmart is pleased to note the Afterpay 2019 results announcement on 29 August 2019 which stated that the launch into the UK, trading as Clearpay, had been successful. It stated Clearpay gained over 200,000 active customers in the first 15 weeks of trading, which is higher than Afterpay's US operation at the same time post launch which has since grown to over 2.1 million active US customers in just over a year (US now accounts for more than 10% of Afterpay group's underlying merchant sales).

The Group continues to align its cost base with its volumes and review the ongoing strategy of its leasing arm together with providing an outsourced customer contact centre for Clearpay in the UK.

The Group has a robust financing position, with cash of £11m at 31 August 2019 reflecting cash of £7.10 million at 30 June 2019, after the A\$8 million (£4.40 million) special dividend/capital return, and cash received post 30 June 2019 of AU\$6.93 million (£3.82 million) from the sale of the second tranche of 250,000 shares in Afterpay from the Clearpay sale, together with available headroom on its funding facilities of £58m.

Performance

Leasing volumes fell 68% to £4.3m (FY18: £13.4m) over the period, with the majority of this reduction experienced within our lower margin Flexible Leasing product. We are in ongoing discussions with our retail partner, Dixons Carphone, with regard to this performance.

Revenues were 15% lower for the period at £8.1m (FY18 restated: £9.6m) as the lower volumes in the period are partially offset by the majority of revenue for the period being derived from higher volumes in previous years.

Net profit after tax increased to £8.7 million (FY18 restated: loss of £4.6 million), reflecting net profit after tax from continuing operations of £0.9 million (FY18 restated: loss of £4.0 million), together with £7.7 million profit on the sale of 90% of Clearpay. Operating costs reduced by 26% to £4.8m for the period and remain controlled, aligned to current volume performance, with further cost reductions made in July and August 2019.

Statutory earnings per share of 8.21 pence (FY18 restated: loss of 4.34 pence per share) is largely due to the sale of 90% Clearpay.

The Group continues to have a good mix of consumer and business customers, in addition to being diversified by region and demography. The quality of the Group's underwriting procedures, as well as the small value of debt per customer and its high-quality credit customer portfolio continues to mitigate the risk to any adverse impact on its existing customers' financial position.

Position

As at 30 June 2019, lease receivables under management were £13.2m, with approximately 29,600 active customer contracts.

The Group held cash and cash equivalents of £7.1m at 30 June 2019, after the AU\$8m (£4.4m) special dividend/capital return and prior to the AU\$6.9m (£3.8m) cash received post 30 June 2019 from the sale of the remaining 250,000 Afterpay shares which increased group cash at 31 August 2019 to £11 million.

The Group has sufficient headroom available on its funding facilities totalling £70m (including £60m STB Operating agreement and £10m STB credit facility) in place of which less than 25% has been drawn leaving £58m available.

ThinkSmart Limited
Chairman's Statement (continued)

Disposal of Shares in Clearpay

As announced on 23 August 2018, the Company's subsidiary, ThinkSmart Europe Limited ("TSE"), completed the sale of 90% of the issued shares in Clearpay to Afterpay for 1,000,000 shares in the capital of Afterpay. On 24 August 2018, the Company sold its initial tranche of 750,000 shares in the capital of Afterpay at a price of A\$20 per share.

The Group received the second tranche of 250,000 shares in Afterpay, from the sale of Clearpay, on 25 February 2019. These shares have now been sold in two tranches of 125,000 (on 27 June and 28 August 2019) with cash received post 30 June 2019 of AU\$6.93 million (£3.82 million).

Dividend/Capital Return

As previously announced, the Group returned AU\$8m to its shareholders/depositary interest holders during the year in two payments, one for A\$3,999,875.72 being a capital return and the other for A\$3,999,875.72 being a special dividend with a record date of 15 March 2019 and payment date of 29 March 2019 for both payments.

Current Trading Update

Post the period end, leasing volumes have stabilised and remain broadly in line with the last two months of FY19 at c.£0.2m monthly settled value, whilst operating costs remain controlled aligned to current volume performance.

Looking ahead, the business will continue to align its cost base with its volumes and review the ongoing strategy of its leasing arm together with continuing to look at options to leverage its established technology platform across its core leasing business.



Ned Montarello
Executive Chairman

Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the “Group”) consisting of ThinkSmart Limited (“the Company” or “ThinkSmart”) and the entities it controlled at the end of, or during, the year ended 30 June 2019, and the auditor’s report there on.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Ned Montarello Executive Chairman & Interim CEO

Ned was appointed Executive Chairman on 22 May 2010 and is also interim CEO. Ned has over 30 years’ experience in the finance industry. He founded ThinkSmart in 1996 and through this vehicle has been credited with elevating the Nano-Ticket rental market sector in Australia, receiving the Telstra and Australian Government’s Entrepreneur of the Year Award in 1998. Ned led the development of the Group’s Australian distribution network by building partnerships with key retailers, including JB Hi-Fi and Dick Smith. Ned also steered the expansion of the business into Europe, establishing agreements with DSG International and a joint venture with HBOS to launch in the UK. In 2007 Ned successfully listed, via IPO, the business in Australia. In 2010 he led the development of the “Infinity” product with Dixons to move into the “Business to Consumer” market for the first time in the UK. Ned continued to drive the business to maintain its sector leading IP in point of sale finance with the introduction of e-sign to its process ensuring that it maintained its relevance to the fast moving retail environment. In 2017 Ned pioneered the launch of ClearPay in the UK, the buy now pay later business, and in 2018 successfully negotiated the sale of 90% of ClearPay to the emerging, global, industry leading Afterpay Touch Group.

Keith Jones MBA Bus Non-Executive Director (resigned 27 June 2019)

Keith joined the Board on 24 May 2013 and was appointed Chief Executive Officer on 1 February 2014 through to 31 December 2014. Keith subsequently moved to the role of Group Strategy and Development Director from 1 January 2015 before becoming a Non-Executive Director with effect from 2 December 2016. Keith has 30 years of retail experience in Europe including roles as Chief Executive Officer of JJB Sports plc and Group Retail Director of Dixons Retail plc, one of Europe’s largest electrical retailers. At Dixons, Keith was a member of the Group Executive Committee with responsibility for all UK and Ireland fasciae including PC World and Currys. Previously he was Managing Director of PC World Stores Group with responsibility for stores in the UK, Spain, France, Italy and Nordics in addition to Group Service Operations. Keith has a MBA from the Manchester Business School.

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

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

Gary Halton Chief Financial Officer

Gary was appointed to the Board on Admission to London AIM and has been Chief Financial Officer of the Group since 2008 when he joined the Group. Between October 2012 and January 2014, Gary acted as interim Managing Director of the Group. Prior to joining the Group, Gary held several senior positions, including Head of Finance Services and Head of Group Taxation, with De Vere Group plc. Gary is a qualified chartered accountant and a chartered tax advisor, with over 20 years post-qualification experience, having qualified with Ernst & Young, and then a subsequent senior manager role with PricewaterhouseCoopers.

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

David was appointed to the Board on Admission to London AIM and has over 30 years of experience. He has previously held executive roles including Chief Financial Officer and Deputy Chief Executive Officer of House of Fraser plc and non-executive roles including Jessops plc, Moss Bros plc, Fevertree Drinks plc, Conviviality plc and Hornby plc. David’s

ThinkSmart Limited
Directors' Report (continued)

current appointments include serving as the Senior Independent Non-Executive Director and Chair of the Audit Committee of Halfords plc and Non-Executive Director and Audit Committee Chairman of Debenhams plc, Chairman of Park Cameras Limited and Trustee of Walk the Walk (a Breast Cancer Charity). David is Chairman of the Audit Committee and a Member of the Nomination and Remuneration Committee.

Roger McDowell Non-Executive Director

Roger was appointed to the Board on Admission to London AIM and has 18 years of experience in the public company environment, having led the Oliver Ashworth Group through a main market initial public offering and a subsequent sale. Roger's current roles include serving as Chairman of Hargreaves Services Plc, Chairman of Avingtrans plc, Senior Independent Director & Remuneration Chair at Tribal plc, Non-Executive Director and Remuneration Chair of Swallowfield plc and Non-Executive Director and Audit Chair of Proteome. He is also a Non-Executive Director of Augean PLC and British Smaller Companies Venture Capital Trust II plc. Previous roles include Senior Independent Director & Audit Chair at Servelec plc prior to its successful sale in January 2018, and Non-Executive Director of D4t4 Solutions plc. Roger is a member of the Audit and Risk and Remuneration and Nomination Committees.

COMPANY SECRETARIES

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

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

The Board presents its Operating and Financial Review for the year ended 30 June 2019 and this information should be read in conjunction with the consolidated financial statements and accompanying notes.

Business model

ThinkSmart is a leading digital payments company and provider of leasing point of sale finance for both consumers and businesses.

Its core capability is to provide innovative payment propositions, digital credit decisions and customer life cycle contract management through its market leading proprietary technology platform 'SmartCheck'.

ThinkSmart's innovative payment propositions integrate seamlessly into both online and store customer journeys, creating differentiation and advantage for retailers in national distribution in high volume low value vertical sectors.

ThinkSmart Limited
Directors' Report (continued)

Key financial data

	12 Months to June 2019 £,000	Restated 12 Months to June 2018 £,000	Variance £,000	Variance %
Revenue	7,240	8,892	(1,652)	-19%
Other revenue	897	659	238	+36%
Total revenue	8,137	9,551	(1,414)	-15%
Customer acquisition costs	(965)	(1,317)	352	+27%
Cost of inertia assets sold	(901)	(842)	(59)	-7%
Other operating expenses	(4,813)	(6,508)	1,695	+26%
Depreciation and amortisation	(2,299)	(2,636)	337	+13%
Impairment losses ⁽¹⁾	(272)	(2,742)	2,470	+90%
Gain/(Loss) on Financial Instruments	1,647	-	1,647	+100%
Profit/(Loss) before tax from continuing operations	534	(4,494)	5,028	+112%
Income tax benefit	404	530	(126)	-24%
Profit/(Loss) after tax from continuing operations	938	(3,964)	4,902	+124%
Profit/(Loss) from discontinued operations net of tax ⁽²⁾	7,731	(594)	8,325	+1,402%
Profit/(Loss) after tax	8,669	(4,558)	13,227	+290%

(1) Impairment losses for the year ending June 2018 include a one-off impairment to write off goodwill of £2.33 million

(2) In June 2018, management committed to a plan to sell one of the subsidiary companies, ClearPay Finance Limited. The sale was completed on the 23 August 2018.

Summary of results

- Successfully completed the sale of 90% of ClearPay Finance Ltd (ClearPay) to Afterpay Touch Group Ltd (Afterpay) on 23 August 2018, delivering £7.73 million profit after tax on the sale.
- Net profit after tax of £8.67 million in the year, with £0.94 million from continuing operations, up 290% on the restated prior financial year.
- Basic Earnings Per Share of 8.21 pence at 30 June 2019 up 289% from restated Loss Per Share of (4.34) pence at 30 June 2018.
- Available cash assets of £7.1 million at 30 June 2019, up 181% on prior financial year end position.
- Second Tranche of 250,000 Afterpay shares, from the sale of ClearPay, received on 25 February 2019. The sale of 125,000 of those shares on 27 June 2019 at AUD \$27.69 per share raised GBP £1.9 million. The remaining 125,000 Afterpay shares held at 30 June 2019 valued at £1.7 million.

Review of operations

Continuing operations – UK

The UK business incurred a loss (before intercompany recharge of corporate costs) of £0.5m (2018 restated: £3.2m loss) which was driven by lower than expected business volumes achieved through longstanding partner Dixons Carphone. Inertia income performed well throughout the year as did insurance commission income which combined to mitigate the impact of the reduced volumes of new business.

Overall UK volumes at £4.6m for the year were down 66% on prior year of £13.7m driven by the sale of ClearPay and reduced volumes of established products due to business change within Dixons Carphone. SmartPlan volumes decreased from £4.8m to £2.7m, Upgrade Anytime volumes decreased from £2.0m to £0.8m and Flexible Leasing volumes decreased from £6.5m to £0.8m for the year. Due to the reduced business volumes being generated through established products the Group diversified its product range in FY2018 with the launch of ClearPay, a new and innovative consumer credit product. Despite being discontinued following the sale of the company in August 2018, ClearPay generated £0.3m of new business in the first two months of the financial year.

ThinkSmart Limited
Directors' Report (continued)

UK Operating costs reduced by 21% to £4.1m (2018 restated: £5.2m) and remained controlled, aligned to current business volumes.

Continuing operations – Corporate

Corporate costs (before intercompany recharge of corporate costs), excluding non-operating strategic review and advisory expenses, continue to fall being £0.7m for the 12 months to 30 June 2019 (down almost 50% on prior year).

Summary Financial Position

	30 June 2019	Restated 30 June 2018	Variance	Variance
	£,000	£,000	£,000	%
Cash and cash equivalents	7,099	2,523	4,576	+181%
Other assets	13,312	14,946	(1,634)	-11%
Goodwill and intangibles	2,183	3,116	(933)	-30%
Assets held for sale	–	1,528	(1,528)	-100%
Total assets	22,594	22,113	481	+2%
Other liabilities	6,020	9,728	3,708	+38%
Liabilities held for sale	–	141	141	+100%
Total liabilities	6,020	9,869	3,849	+39%
Equity	16,574	12,244	4,330	+35%

GROUP STRATEGY

The sale of 90% of ClearPay Finance Ltd ("ClearPay") to Afterpay Touch Group Ltd ("Afterpay") on 23 August 2018, delivering £7.73 million profit after tax on the sale, has been a significant pivot point for the Group.

ThinkSmart's remaining 10%* holding in ClearPay provides the Group with further upside potential given Afterpay's 5 year call option and ThinkSmart's reciprocal put option 6 months later to be able to sell the remaining holding to Afterpay at a price calculated on agreed principles based on market valuations at the time of option exercise.

Continuing to trade as ClearPay post acquisition by Afterpay, the ClearPay UK business onboarded more than 200,000 active customers in the first 15 weeks of trading – higher than the Afterpay US operation achieved at the same time post-launch which has since grown to over 2.1 million active US customers in just over a year. Ongoing growth in ClearPay is beneficial to ThinkSmart.

The Group is in ongoing discussions with its sole retail distribution partner, Dixons Carphone, with regard to leasing volume performance.

The Group will continue to align its cost base with its volumes and review the ongoing strategy of its leasing arm together with continuing to look at options to leverage its established technology platform across its core leasing business.

* A proportion of the 10% retained shareholding (up to 3.5% of the total share capital of ClearPay) will be made available to employees of ClearPay under an employee share ownership plan.

RISKS

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

The Group is exposed to the risk of default or fraud by its customers

The credit quality of accepted customers and the Group's policies and procedures to mitigate payment defaults has an impact on the Group's financial performance either directly through impairment losses or indirectly through funding costs. Robust credit checking and collection processes combined with continual development of our IP capability in this area assist in managing and mitigating this risk.

The Group is subject to inherent risks from general macro-economic conditions in the UK, the Eurozone and globally

The Group's business is subject to general macro-economic conditions in the UK and volatility in the global economic and financial markets, both generally and as they specifically affect finance providers. The outlook for the UK economy remains somewhat uncertain (especially so in the light of Brexit which may take place on 31 October 2019). Adverse economic conditions in the UK, such as unemployment, could also have a negative impact on the financial circumstances of the customers to whom the Group has financial exposure to.

The Group faces risks associated with interest rate levels and volatility

Interest rates affect the cost and availability of the principal sources of the Group's funding, which is provided by Santander (under the terms of the Santander Facility Agreement) and Secure Trust Bank ("STB" through the STB Operating Agreement and through the STB Invoice Discounting Agreement). The interest rate risk is carried by STB under the STB Operating Agreement, but by the Group under the Santander Facility Agreement and the STB Invoice Discounting Agreement. A sustained low interest rate environment keeps the Group's costs of funding low by reducing the amount of interest the Group pays to Santander and STB and also, the cost for STB to finance the leases which it funds.

In August 2018, the Bank of England base rate was increased by 0.25% to 0.75%. If interest rates are increased, the ability of the Group to pass, and the speed in which it passes, the increased cost of funding to its customers will impact the Group's results and profitability. Additionally, if the Group passes the increased cost of funding to its customers, there is a risk that, in doing so, the Group's products will become more expensive and the Group will experience decreased demand for its products. A significant increase in the base rate could have a material adverse impact on the Group's results, profitability and consequently the return on capital.

The Group's business is dependent on its access to funding

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

The Group is reliant on its relationships with Dixons Retail and Carphone Warehouse

The vast majority of the Group's new business volumes are from its retail partners, Dixons Retail and Carphone Warehouse, one of Europe's leading specialist electrical and telecommunications retailers. The Group has a long term exclusive contract with Dixons which has been extended to 2020 which is conditional on the group continuing to perform and develop the financial products it provides to Dixons just as it has done since 2003.

The Group is exposed to changes in Government policies

Government policies (of both the UK and Australia) are subject to review and change on a periodic basis. Such changes are likely to be beyond the control of the Group and may adversely affect its operating and financial performance. At present, the Group is not aware of any reviews or changes that would materially affect its business.

The consumer credit industry is subject to extensive regulation, and companies operating in this sector are generally required to obtain authorisation from the FCA

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

The Group operates in a competitive landscape

The industry in which the Group operates is competitive. Due to the price point of equipment at which the Group's Products are sold, there is a risk that "competition" could arise for the Group from customers using their own cash, or use of their credit cards to fund an outright purchase. The Group's competitors include traditional finance providers, such as banks, and other commercial finance companies (including 'disruptive' innovative finance companies) that provide, or may seek to provide, retail point-of-sale finance. The price at which the Group's competitors make finance available (whether or not such competitors' business models are sustainable) could result in a reduction in the number of lease contracts the Group enters as well as reducing its margins.

The Group is dependent on information technology

The Group relies on information technology to process new lease contracts and the Group benefits from software developed for this purpose. The successful operation of the Group's business depends upon maintaining the integrity of its computer, communication and information technology systems. These systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond the Group's control, such as fire, flood and other natural disasters; power loss or telecommunications or data network failures; improper or negligent operation of the Group's systems by employees, or unauthorised physical or electronic access; and interruptions to internet system integrity. Any such damage or interruption could cause significant disruption to the operations of the Group, its ability to trade and its reputation.

The Group's growth strategy is reliant on third parties

A key aspect of the Group's growth strategy is the expansion of its existing products into new equipment ranges and partnerships with new retailers. While the Group will investigate the areas into which it intends to expand, there can be no guarantee that it will be possible to successfully launch products in respect of new equipment ranges. Additionally, if the Group forms relationships with new retail partners, there is a risk that any adverse change in the Group's relationships with these retail partners, or its inability to establish alternatives to these relationships in a timely and effective manner, could adversely affect the Group's business and results.

The Group is dependent on key personnel and an effective Board

The Group's continued success depends on its ability to retain current key members of the senior management team, with their experience and knowledge of the business. While the Group endeavours to retain key management personnel, there can be no guarantee that its key management personnel will continue in their employment with the Group. Any loss of key members of the senior management team would disrupt the Group's operations and may also have a material adverse effect on the Group's operating and financial performance and prospects.

DIVIDENDS

At the AGM on 14 November 2018 shareholders approved a return of capital of up to AUD \$8.0m with the final amount and timing to be determined by the directors of the company. On 5 March 2019 the Group announced that the Company would distribute AUD \$7,999,751.44 to shareholders (the "Distribution") in two parts:

1. a capital reduction, pursuant to which the Company will return 3.772 cents per share (or depositary interest) to shareholders (or depositary interest holders) ("Return of Capital"); and
2. a special dividend of 3.772 cents per ordinary share (or depositary interest) – 0.440 cents of which will be fully franked, with the remaining 3.332 cents declared as attaching conduit foreign income ("Dividend").

The return of capital and dividend have a record date of 15 March 2019 and were paid on 29 March 2019.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD END DATE

Subsequent to the reporting period end, the Group sold its remaining holding of 125,000 Afterpay (APT) shares on 28 August 2019 at AUD 27.73 per share (see Note 11(i)).

SIGNIFICANT CHANGES IN THE GROUP'S STATE OF AFFAIRS

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

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

The Principles of Corporate Governance

As a Board we recognise the importance of high standards of corporate governance and their importance and support to our strategic goals and long-term success. The Company is listed on AIM and is therefore required to provide details of a recognised corporate governance code that the Board of directors have decided to apply. We have, since listing, acknowledged the importance of the principles set out in the Quoted Companies Alliance corporate governance code for small and mid-sized companies 2013 (the QCA Code). This QCA Code was updated in April 2018 we believe that, with the exception of principle 7, we apply the principles of the current QCA Code.

Deliver Growth

The Board has collective responsibility for setting the strategic aims and objectives of the Group. This strategy is set out in the Group Strategy section of the Directors' Report.

The Board also has responsibility for the Group's internal control and risk management systems and structures. Our risk management process is embedded into the business and starts at Board level but is delivered through the Group.

Dynamic Management Framework

As Chairman, I consider the operation of the Board as a whole and the performance of the directors individually regularly. We have not, so far however, carried out a board performance evaluation so we have not complied with principle 7 of the QCA Code which requires the Company to carry out a board performance evaluation.

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

Build Trust

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



Ned Montarello
Executive Chairman, 26 September 2019

BOARD STRUCTURE AND OPERATION

The Board comprises two Executive Directors being Ned Montarello (Chairman) and Gary Halton (CFO), and three Non-Executive Directors, being David Adams, Peter Gammell and Roger McDowell, whom the Board believe are independent. It is considered that this gives the necessary mix of industry specific and broad business experience necessary for the effective governance of the Group.

There are certain matters specifically reserved to the Board for its decision which includes approvals of the annual budget, major expenditure and investments and key policies. Board meetings are held on a regular basis and effectively no decision of any consequence is made other than by the Board. Directors also have ongoing contact on a variety of issues between formal meetings. All Directors participate in the key areas of decision making, including the appointment of new Directors. The agenda for the board meetings is prepared by the Company Secretary in consultation with the Chairman and the Board.

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. All Directors have access to the Company Secretary. The Directors who served during the year, and a brief biography of each, is set out on pages 4 and 5. The Board is supported in its work by Board Committees which are responsible for a variety of tasks delegated by the Board.

Training and Development

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

Time Commitment

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

External Advisers

The Board seeks advice on various matters from its Nominated Adviser (Canaccord Genuity) and lawyers (Shoosmiths). The Board also uses the services of an external company secretarial provider, Prism Cosec.

Board Evaluation

The Company does not currently comply with principle 7 of the QCA Code, which requires the Company to carry out a formal Board performance evaluation. Given the changes to the Board during the year it has not been felt appropriate to carry out an evaluation over this time. The Board will keep this under review and work towards compliance with this principle.

Succession Planning

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

BOARD MEETING ATTENDANCE

Directors' attendance at Board meetings is shown below

Director	Board Meetings	Audit and Risk Committee Meetings	Nomination and Remuneration Committee Meetings
N Montarello	4/4	–	–
P Gammell	4/4	3/3	2/2
K Jones ¹	3/4	–	2/2
G Halton	4/4	–	–
D Adams	4/4	3/3	2/2
R McDowell	3/4	3/3	2/2

1 Resigned 27 June 2019

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

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

AUDIT COMMITTEE

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

Duties

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

- To engage in the pro-active oversight of the Company's financial reporting and disclosure processes and overseeing and reviewing the outputs of the process
- To monitor the integrity of the consolidated financial statements of the Company, including its annual and half-year reports
- To review and challenge where necessary the consistency of and any changes to significant accounting policies, whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, the going concern assumption and all material information presented with the consolidated financial statements
- Ensure procedures are in place which are designed to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management
- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls and auditing matters and the procedures for the confidential, anonymous submission of concerns by employees
- To consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the Company's external auditor
- To oversee the relationship with the external auditor including approval of their remuneration, approval of their terms of engagement, annual assessment of their independence and objectivity taking into account relevant

ThinkSmart Limited
Directors' Report (continued)

professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services

- To meet regularly with the external auditor and at least once a year, without any Executive Director or other member of management present to discuss any issues arising from the audit
- To review and approve the Audit Plan and review the findings of the audit

The main activities of the Audit Committee during the year

The principal areas of focus for the Committee included the following items:

- Review of the audit plan, process and scope
- Review of significant risks
- Review of significant issues from the audit report
- Going concern review
- Review of the Annual and half year Reports
- Approval of management representation letter
- Review of the independence of the Auditor, review of Auditor fees and engagement letter

Role of the external auditor

The Audit Committee monitors the relationship with the external auditor, BDO (2018: KPMG), to ensure that auditor independence and objectivity are maintained. As part of its review the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided on page 24. The Audit Committee also assess the auditor's performance. Following the completion of a competitive tender process, the Group has appointed BDO Audit (WA) Pty Ltd ("BDO") as the Group's new external auditor. BDO will conduct the audit of the Company's consolidated financial statements for the financial year ended 30 June 2019. Any proposal to re-appoint BDO in respect of the financial year beginning 1 July 2019 will be subject to shareholder approval at the 2019 AGM.

Internal audit

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

INTERNAL FINANCIAL CONTROL

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

Management structure – The Board meets regularly to discuss all issues affecting the Group.

Investment appraisal – The Group has a clearly defined framework for investment appraisal and approval is required by the Board where appropriate.

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

ThinkSmart Limited
Directors' Report (continued)

DIRECTORS' INTERESTS

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

	Number of ordinary shares	Options granted over ordinary shares
N Montarello	31,339,886	1,073,863
P Gammell	10,082,572	–
K Jones (resigned 27 June 2019)	341,000	–
G Halton	–	470,659
D Adams	–	–
R McDowell	1,600,000	–

Unissued Shares under Options

At the date of this report there were 1,757,352 unissued ordinary shares of the Company subject to option or performance rights, comprising:

Number of shares under option	Exercise price of options	Expiry date of options
1,757,352	£0.22	21 December 2026

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

REMUNERATION REPORT (AUDITED)

The Nomination and Remuneration Committee is comprised of Peter Gammell (Chairman of the committee with effect from 27 June 2019), David Adams and Roger McDowell. Keith Jones was Chairman of the committee during the year ended 30 June 2019 until his resignation from the Board on 27 June 2019. The Committee is responsible for making recommendations to the Board on the Group's framework of Executive remuneration and its cost, and recommendations on Board recruitment and succession planning. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors. The Board itself determines the remuneration of the Non-Executive Directors. The report on Directors' remuneration is set out on page 19.

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

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

ThinkSmart Limited
Directors' Report (continued)

- Be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise.

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

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

- A: Principles of remuneration
- B: Key Management Personnel remuneration
- C: Service agreements
- D: Share Plans
- E: Share-Based Compensation
- F: Bonus remuneration
- G: Key Management Personnel transactions

A. Principles of Remuneration

Key Management Personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group and, for the year ended 30 June 2019, comprise:

Executive Directors

N Montarello – Executive Chairman & Interim Chief Executive Officer
G Halton – Chief Financial Officer

Non-Executive Directors

P Gammell
D Adams
R McDowell
K Jones (Deputy Chairman, resigned 27 June 2019)

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

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

The remuneration structures take into account:

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

ThinkSmart Limited
Directors' Report (continued)

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

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

Non-Executive Directors

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

Non-Executive Directors' Fees

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool of \$600,000 per annum and were approved by shareholders at a previous general meeting. The total fees paid in the financial year were £167,835. In addition to these fees, Directors also receive superannuation contributions as required under government legislation. The Company also pays all reasonable expenses incurred by Directors attending meetings and carrying out their duties.

Executive Pay

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

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

	Fixed remuneration	At risk	
		Short-term incentive	Long-term incentive
CEO	68%	32%	–
Other executives	57%	43%	–

Base Pay – Fixed Compensation

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

Short-Term Performance Incentive

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

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

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

ThinkSmart Limited
Directors' Report (continued)

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

Long-Term Performance Incentive

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

Consequences of Performance on Shareholder Wealth

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

	12 Months to June 2019	Restated 12 Months to June 2018	12 Months to June 2017	12 Months to June 2016
Profit/(loss) attributable to owners of the company (£,000)	£8,669	(£4,558)	(£1,842)	£301
Basic EPS (pence per share)	8.21 pence	(4.34) pence	(1.77) pence	0.31 pence
Dividends paid (£,000)	£2,214	–	£536	£2,094
Dividend paid per share (pence)	2.08 pence	–	5.36 pence	2.23 pence
Capital return paid (£,000)	£2,186	–	–	–
Capital returned per share (pence)	2.05 pence	–	–	–
Share price at year end	£0.078	£0.093	£0.145	£0.211
Change in share price	(£0.015)	(£0.052)	(£0.066)	£0.06

B. Audited Key Management Personnel Remuneration

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

		Short Term			Post Employment			Other			Share-Based payments		
		Salary & Fees £	Cash Bonus £	STI £	Non-monetary Benefits £	Total £	Superannuation Benefits £	Termination Benefits £	Long Service Entitlement £	Options & Rights #	Shares £	Total £	
Directors													
Non-Executive Directors													
K Jones	YE Jun19	48,500			0	48,500	0	0	0	0	0	48,500	
(resigned 27 June 2019)	YE Jun18	56,875			0	56,875	0	0	0	0	0	56,875	
P Gammell	YE Jun19	37,335				37,335	4,069	0	0	0	0	41,404	
	YE Jun18	44,658				44,658	4,242	0	0	0	0	48,900	
D Adams	YE Jun19	46,000				46,000						46,000	
	YE Jun18	50,000				50,000						50,000	
R McDowell	YE Jun19	36,000				36,000						36,000	
	YE Jun18	40,000				40,000						40,000	
Executive Directors													
N Montarello	YE Jun19	162,701	0	0	0	162,701	16,581	(2,662)	0	195,000	0	371,620	
	YE Jun18	185,797	0	0	0	185,797	17,287	(2,776)	8,100	37,500	0	245,908	
G Grimes (resigned 3 January 2018)	YE Jun19	0	0	0	0	0	0	0	0	0	0	0	
	YE Jun18	137,617	0	0	0	137,617	0	0	0	0	0	137,617	
G Halton	YE Jun19	148,000	111,500	1,257	1,257	260,757	0	0	0	0	0	260,757	
	YE Jun18	137,000	16,000	1,257	1,257	154,257	0	0	3,550	0	0	157,807	
Total	YE Jun19	478,536	111,500	0	1,257	591,293	20,650	0	(2,662)	0	195,000	804,281	
Total	YE Jun18	651,947	16,000	0	1,257	669,204	21,529	0	(2,776)	11,651	37,500	737,107	

(i) Gerald Grimes appointed 1 July 2017 resigned 3 January 2018

(ii) Keith Jones resigned 27 June 2019

C. Service Agreements

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

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

In the event of retrenchment, the Executives listed on page 16 are entitled to the payment provided for in the service agreement, where applicable. The employment of the Executives may be terminated by the Company without notice by payment in lieu of notice. The service agreements also contain confidentiality and restraint of trade clauses.

D. Share Plans

Long Term Incentive Plan

In May 2012 the Company adopted a Long Term Incentive Plan ("LTIP") for executives and key staff. The LTIP is a loan-funded share plan under which, broadly, the Board can invite participants to take up the opportunity to be issued Ordinary Shares ("Plan Shares").

No consideration is payable by participants in the LTIP at the time Plan Shares are issued. Instead, the purchase price for the Plan Shares is 100% funded by a loan provided by the Company. The Plan Shares are issued to and held by a trustee on trust for the participants until the Plan Shares vest and the loan is repaid, or beyond that point at the election of the participants.

Loans under the LTIP are limited recourse, in that participants' liability is limited to the lesser of the outstanding loan value and the value of the Ordinary Shares. The loans are interest free. They are repayable in full on the earlier of 5 years after the date of issue, or the date on which the participant disposes of their Plan Shares.

The Plan Shares vest subject to the continued employment of participants for 3 years from the date of issue and subject to the satisfaction of any performance conditions attached to the Plan Shares by the Board at the time of issue. Under the rules of the LTIP, the Board also has the discretion to determine that unvested Plan Shares vest where a participant's employment ceases in certain circumstances before the expiry of the 3 year period.

The LTIP was intended for participation by Australian-based executives only. Accordingly, there are no Plan Shares currently on issue. The last 250,000 plan shares were held by Ned Montarello and were exercised on 03 July 2018. It is not currently intended that further Plan Shares will be issued given that, from Admission, all of the Company's executives (except for Ned Montarello) will be UK-based. The vesting of the Plan Shares held by Ned Montarello is conditional on the performance of the Ordinary Shares during the relevant performance period. If at any time during the relevant performance period the 30 day volume-weighted average price of the Company's shares exceeds the relevant target price, a percentage of the Plan Shares as set out below will vest at the end of the relevant performance period.

Loan funded shares held by Ned Montarello

Number of shares	Performance period	Target price for vesting			Exercise price	Last date for exercise
		25%	25%	50%		
–	Vested	–	–	–	£0.1559	03/07/18*

* The loan has been repaid by Ned Montarello prior to 3 July 2018 and therefore the 250,000 shares have been exercised.

Executive Option Plan

The Company has had in place since 2007 an Employee Share Option Plan ("ESO Plan") under which it may issue options ("Plan Options") to eligible participants. Eligible participants in the ESO Plan are employees or executive directors of the Group.

Plan Options may be issued with a corresponding exercise price and/or a fee for grant of the Plan Options. The Board determines the expiry date, conditions of exercise of the Plan Options and other terms and conditions at the time the Plan Options are granted. Plan Options may carry any conditions precedent to their exercise as may be determined by the

ThinkSmart Limited
Directors' Report (continued)

Board, and, unless any such conditions are satisfied, the Company is not obliged to issue any shares in respect of the Plan Options to their holder. Plan Options expire on the earliest of:

- their expiry date;
- their holder purporting to transfer them in a manner not in accordance with the ESO Plan;
- the Board determining that the participant has acted fraudulently, dishonestly or in breach of their obligations to the Company;
- the participant ceasing to be an eligible participant, except in the case of:
 - the death of the participant, in which case their legal personal representatives may exercise the Plan Options at any time until they otherwise lapse (where no conditions were placed on the exercise of the Plan Options or the conditions had been met) or within one month of the date of death (where any condition placed on the exercise of the Plan Options had not been met); or
 - the cessation of employment of the participant, in which case the Plan Options may be exercised within one month;
- the Company becoming the target of a successful takeover bid of a kind specified in the ESO Plan, in which case the Plan Options will lapse after 30 days from the date of a notice given for this purpose by the Board;
- any failure to meet a condition placed by the Board on the exercise of the Plan Options in the prescribed period; or
- the date 10 years after the Plan Options were granted.

Plan Options do not give their holders any right to participate in the issue of new securities by the Company, including as part of a bonus or rights issue, subject to the Board's discretion.

There are no Plan Options currently on issue, as set out in the table below. The vesting conditions of the Plan Options on issue in the prior year were not met and therefore the options have lapsed.

Number of plan options	Performance period	Target price for vesting			Exercise price	Last date for exercise
		25%	25%	50%		
–	Vested	–	–	–	£0.1559	03/07/18*

* The 125,000 options were not exercised and therefore have lapsed in the year.

Non-Executive Director Share Plan

In April 2009, the Company adopted a Non-Executive Director Share Plan (“NED Plan”). The NED Plan allows Non-Executive Directors of the Company to elect to sacrifice part of their directors' fees to acquire Ordinary Shares rather than receiving all of their fees in cash.

New Long Term Incentive Plan

The Company adopted a new long term incentive plan from December 2016 to align the interests of senior management with those of the Shareholders. The New LTIP allows the Company to either grant options over Ordinary Shares or make conditional awards over Ordinary Shares to selected employees of the Group.

The options are subject to the performance condition set out below and will normally be exercisable on or after the Vesting Date to the extent that the performance condition has been satisfied. The options will normally lapse and cease to be exercisable on the 10th anniversary of the Date of Grant.

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

Vesting of 75% of the Shares over which the Award has been granted (rounded down to the nearest whole number) will be subject to the satisfaction of EPS Condition 1 (these Shares are referred to as the “Shares subject to EPS Condition 1”) and Vesting of the balance of the Shares over which the Award has been granted will be subject to the satisfaction of EPS Condition 21 (these Shares are referred to as the “Shares subject to EPS Condition 2”).

ThinkSmart Limited
Directors' Report (continued)

Earnings per share condition 1

- If the growth in EPS over the Performance Period is less than 15% the Award shall lapse in respect of all of the Shares subject to EPS Condition 1.
- If the growth in EPS over the Performance Period is equal to 15% ("Lower Target 1") the Award shall Vest in respect of 25% of the Shares subject to EPS Condition (rounded down to the nearest whole number).
- If the growth in EPS over the Performance Period is equal to or greater than 50% ("Upper Target 1") the award shall Vest in respect of 100% of the Shares subject to EPS Condition 1.
- If the growth in EPS over the Performance Period falls between Lower Target 1 and Upper Target 1 the award shall Vest on a straight line basis between 25% and 100% of the Shares subject to EPS Condition 1 (rounded down to the nearest whole number).

Earnings per share condition 2

- If the growth in Non Dixons EPS over the Performance Period is less than 15% the Award shall lapse in respect of all of the Shares subject to EPS Condition 2.
- If the growth in Non Dixons EPS over the Performance Period is equal to 15% ("Lower Target 2") the Award shall Vest in respect of 25% of the Shares subject to EPS Condition 2 (rounded down to the nearest whole number).
- If the growth in Non Dixons EPS over the Performance Period is equal to or greater than 50% ("Upper Target 2") the award shall Vest in respect of 100% of the Shares subject to EPS Condition 2.
- If the growth in Non Dixons EPS over the Performance Period falls between Lower Target 2 and Upper Target 2 the award shall Vest on a straight line basis between 25% and 100% of the Shares subject to EPS Condition 2 (rounded down to the nearest whole number).

There are currently 1,757,352 of the above Plan Options currently on issue, as set out in the table below.

Number of plan options	Performance period	Performance conditions for vesting		Exercise price	Vesting date
		75%	25%		
1,757,352	01/07/16–30/06/19	EPS 1	EPS 2	£0.22	21/12/19

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

	Instrument	Number granted	Grant Date	% vested in period	% forfeited, cancelled or expired in period ^(a)	Financial year in which grant vests
Directors						
N Montarello	Share options	1,073,863	22/12/2016	–%	–%	2020
G Halton	Share options	470,659	22/12/2016	–%	–%	2020

(a) The % forfeited, cancelled or expired in the year represents the reduction from the maximum number of loan-funded shares or options available to vest due to either the performance conditions attached to the loan-funded shares or options not being met or the departure of the Executive from the Group.

E. Share-Based Compensation (shares)

During the year there were 1,781,250 new shares granted to N Montarello in lieu of salary of £75,000 plus £120,000 bonus for performance of the CEO role. No shares were granted since the end of the financial year.

Employee Options and Loan-Funded Shares

	Held at 30 June 2018	Held at date of new appointment	Granted as compensation	Exercised	Cancelled, forfeited or expired	Held at 30 June 2019	Vested during the year	Vested and exercisable at 30 June 2018
Directors								
N Montarello	1,323,863	–	–	–	(250,000)	1,073,863	–	–
G Halton	533,159	–	–	–	(62,500)	470,659	–	–

ThinkSmart Limited
Directors' Report (continued)

	Held at 30 June 2017	Held at date of new appointment	Granted as compensation	Exercised	Cancelled, forfeited or expired	Held at 30 June 2018	Vested during the year	Vested and exercisable at 30 June 2018
Directors								
N Montarello	2,823,863	–	–	(250,000)	(1,250,000)	1,323,863	250,000	250,000
G Halton	533,159	–	–	–	–	533,159	–	62,500

Note: During the year ended 30 June 2018 the above amounts in respect of N Montarello included 250,000 Loan Funded Shares and are therefore also included in his shareholding on the following page. All of the amounts held at 30 June 2019 are Employee Share Options.

Movement in shares

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

	Held at 1 July 2018	Purchases	Rights issue	Held at date of appointment	Sales	Received on exercise of options	Loan- funded share issue	Loan-funded cancelled, forfeited or expired	Granted as compensation	Held at 30 June 2019
Directors										
N Montarello	29,558,636	–	–	–	–	–	–	–	1,781,250	31,339,886
P Gammell	10,082,572	–	–	–	–	–	–	–	–	10,082,572
K Jones	341,000	–	–	–	–	–	–	–	–	341,000
R McDowell	1,600,000	–	–	–	–	–	–	–	–	1,600,000

	Held at 1 July 2017	Purchases	Rights issue	Held at date of appointment	Sales	Received on exercise of options	Loan- funded share issue	Loan-funded cancelled, forfeited or expired	Granted as compensation	Held at 30 June 2018
Directors										
N Montarello	30,308,636	–	–	–	–	–	–	(1,250,000)	500,000	29,558,636
P Gammell	10,082,572	–	–	–	–	–	–	–	–	10,082,572
K Jones	341,000	–	–	–	–	–	–	–	–	341,000
R McDowell	1,600,000	–	–	–	–	–	–	–	–	1,600,000

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

F. Bonus Remuneration

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

	Short term incentive bonus			
	Included in remuneration ^(a) £	Maximum entitlement £	% vested in year	% forfeited in year ^(b)
Executive Directors				
N Montarello	–	–	–%	–%
G Halton	111,500	27,400	58%	42%

(a) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on the discretion of the Board pertaining to the financial year ended 30 June 2019. No amounts vest in future financial years.

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

G. Key Management Personnel Transactions

Loans to Key Management Personnel and their related parties

There have been no loans provided to Key Management Personnel and their related parties as at 30 June 2019 (30 June 2018: nil), with the exception of the limited recourse loans in relation to the loan-funded share scheme (refer to Note 21(b)(i) and page 20 of the Remuneration Report).

ThinkSmart Limited
Directors' Report (continued)

Other Key Management Personnel transactions

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

Options and rights over equity instruments

Options over ordinary shares in ThinkSmart Ltd issued to Key Management Personnel during the financial year are detailed in Note 21(b)(i) and page 20 to 23 of the Remuneration Report.

H. Indemnification and Insurance

During the year ended 30 June 2019, the Company paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. Disclosure of the total amount of the premium and the nature of the liabilities in respect of such insurance is prohibited by the policy.

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

End of audited Remuneration Report

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

As of 1 July 2019 KPMG LLP resigned as company auditor by notice to the Company under 329(5) of the Corporations Act 2001 (Cth) following consent from the ASIC. Following the completion of a competitive tender process, ThinkSmart has appointed BDO Audit (WA) Pty Ltd ("BDO") as the Company's new external auditor. BDO will conduct the audit of the Company's consolidated financial statements for the financial year ended 30 June 2019.

During the year BDO have not provided any services to ThinkSmart prior to conducting the audit of the financial statements for the year ended 30 June 2019, this includes any non-audit services.

During the year KPMG, the outgoing 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 KPMG and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

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

	12 Months to 30 June 2019 £,000
Services other than audit and review of consolidated financial statements	
<i>Other services</i>	
Taxation compliance and advisory services (KPMG)	82
	<hr/> 82
Audit and review of consolidated financial statements (BDO £109,000 and KPMG £105,000)	214
Total paid or payable to Company auditors (BDO £109,000 and KPMG £187,000)	<hr/> 296

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration which forms part of this report is included in page 26 of the financial report.

ROUNDING

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

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

On behalf of the Directors

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

N Montarello
Chairman
Perth, Western Australia, 26 September 2019

Declaration of Independence by Wayne Basford to the Directors of ThinkSmart Limited

As lead auditor of ThinkSmart Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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



Wayne Basford
Director

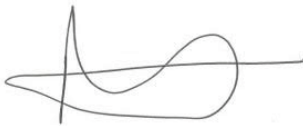
BDO Audit (WA) Pty Ltd
Perth, 26 September 2019

ThinkSmart Limited
Directors' Declaration

Directors' Declaration

1. In the opinion of the Directors of ThinkSmart Limited ('the Company'):
 - (a) The consolidated financial statements, notes and disclosures are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
 - ii. Complying with the Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2019.
3. The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



N Montarello
Chairman
Perth, Western Australia, 26 September 2019

Consolidated Statement of Profit & Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2019

	Notes	12 Months to June 2019 £,000	Restated 12 Months to June 2018 £,000
Continuing operations			
Revenue	6(a)	7,240	8,892
Other revenue	6(b)	897	659
Total revenue		8,137	9,551
Customer acquisition cost	6(c)	(965)	(1,317)
Cost of inertia assets sold	6(d)	(901)	(842)
Other operating expenses	6(e)	(4,813)	(6,508)
Depreciation and amortisation	6(f)	(2,299)	(2,636)
Impairment losses	6(g)	(272)	(2,742)
Gains/(Losses) on Financial Instruments	6(h)	1,647	–
Profit/(Loss) before tax		534	(4,494)
Income tax benefit	7	404	530
Net Profit/(Loss) after tax from continuing operations		938	(3,964)
Gain/(Loss) from discontinued operations net of tax	8	7,731	(594)
Net Profit/(Loss) after tax – attributable to owners of the Company		8,669	(4,558)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation differences for foreign operations		(134)	(140)
<i>Total items that may be reclassified subsequently to profit or loss net of income tax</i>		(134)	(140)
Other comprehensive loss for the year, net of income tax		(134)	(140)
Total comprehensive income/(loss) for the year attributable to owners of the Company		8,535	(4,698)
Earnings/(Loss) per share			
Basic Earnings/(loss) per share (pence)	30	8.21	(4.34)
Diluted Earnings/(loss) per share (pence)	30	8.21	(4.34)

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

Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	June 2019 £,000	Restated June 2018 £,000
Current assets			
Cash and cash equivalents	22(a)	7,099	2,523
Trade receivables	27(c)	82	180
Finance lease receivables	9	2,640	3,399
Tax receivable	7	540	578
Other current assets	10	2,729	1,325
Assets held for sale	8	–	1,528
Total current assets		13,090	9,533
Non-current assets			
Finance lease receivables	9	805	3,420
Plant and equipment	14	286	373
Intangible assets	15	2,183	3,116
Deferred tax assets	7	–	71
Financial assets at fair value through profit or loss	11	1,795	–
Contract assets	12	2,032	2,739
Other non-current assets	13	2,403	2,861
Total non-current assets		9,504	12,580
Total assets		22,594	22,113
Current liabilities			
Trade and other payables	18	1,265	1,560
Contract liabilities	19	772	1,029
Other interest bearing liabilities	20	1,907	2,510
Provisions	18	252	283
Liabilities held for sale	8	–	141
Total current liabilities		4,196	5,523
Non-current liabilities			
Contract liabilities	19	1,221	1,638
Deferred tax liability	7	–	–
Other interest bearing liabilities	20	603	2,708
Total non-current liabilities		1,824	4,346
Total liabilities		6,020	9,869
Net assets		16,574	12,244
Equity			
Issued capital	21(a)	15,211	17,397
Reserves		(2,977)	(2,843)
Accumulated profits		4,340	(2,310)
Total equity		16,574	12,244

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

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2019

Consolidated	Fully paid ordinary shares £,000	Foreign currency translation reserve £,000	Accumulated Profit £,000	Attributable to equity holders of the parent £,000
Restated Balance at 1 July 2017	17,332	(2,703)	2,209	16,838
Loss for the year	–	–	(4,558)	(4,558)
Exchange differences arising on translation of foreign operations, net of tax	–	(140)	–	(140)
Total comprehensive loss for the year	–	(140)	(4,558)	(4,698)
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	–	–	–	–
Dividends paid in respect of Loan Funded Shares exercised in year	–	–	(12)	(12)
Recognition of share-based payments	–	–	51	51
Share options exercised	65	–	–	65
Restated Balance at 30 June 2018	17,397	(2,843)	(2,310)	12,244
Restated Balance at 1 July 2018	17,397	(2,843)	(2,310)	12,244
Profit for the year	–	–	8,669	8,669
Exchange differences arising on translation of foreign operations, net of tax	–	(134)	–	(134)
Total comprehensive income/(loss) for the year	–	(134)	8,669	8,535
Transactions with owners of the Company, recognised directly in equity				
<i>Contributions by and distributions to owners of the Company</i>				
Capital return paid	(2,186)	–	–	(2,186)
Dividends paid	–	–	(2,214)	(2,214)
Recognition of share-based payments	–	–	195	195
Share options exercised	–	–	–	–
Balance at 30 June 2019	15,211	(2,977)	4,340	16,574

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

Consolidated Statement of Cash Flows

For the Financial Year Ended 30 June 2019

	Notes	12 Months to June 2019 £,000	Restated 12 Months to June 2018 £,000
Cash Flows from Operating Activities			
Receipts from customers		6,228	7,437
Payments to suppliers and employees		(5,561)	(7,041)
Receipts/(payments) in respect of lease receivables		3,916	(3,187)
(Payments)/proceeds from other interest bearing liabilities, inclusive of related costs		(2,708)	3,271
Interest received		131	77
Interest and finance charges paid		(348)	(359)
Receipts from security guarantee		278	649
Income tax received		513	172
Net cash from operating activities	22(b)	2,449	1,019
Cash Flows from Investing Activities			
Payments for plant and equipment		(54)	(76)
Payment for intangible assets – software & contract rights		(328)	(976)
Disposal of discontinued operation net of tax		(1,392)	(1,981)
Receipts from sale of financial instruments		8,453	–
Net cash from/(used in) investing activities		6,679	(3,033)
Cash Flows from Financing Activities			
Proceeds from share issue net of costs		–	65
Dividends paid		(2,214)	(12)
Share buyback/return of capital net of costs		(2,186)	–
Net cash (used in)/from financing activities		(4,400)	53
Net increase/(decrease) in cash and cash equivalents		4,728	(1,961)
Effect of exchange rate fluctuations on cash held		(152)	(130)
Cash and cash equivalents at beginning of the financial year		2,523	4,527
Cash and cash equivalents from discontinued operations	8	–	87
Total cash and cash equivalents at the end of the financial period	22(a)	7,099	2,523
Restricted cash and cash equivalents at the end of the financial period	22(a)	(55)	(56)
Net available cash and cash equivalents at the end of the financial period		7,044	2,467

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

Notes to the Consolidated Financial Statements

1. General Information

ThinkSmart Limited (the “Company” or “ThinkSmart”) is a limited liability company incorporated in Australia. The consolidated financial statements of the Company comprise the Company and its subsidiaries (the “Group”). The Group is a for profit entity and its principal activity during the year was the provision of lease and rental financing services in the UK. The address of the Company’s registered office is Suite 5, 531 Hay Street Subiaco, WA 6008, Australia and further information can be found at www.thinksmartworld.com.

2. Basis of Preparation

(a) *Statement of compliance*

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

The consolidated financial statements are general purpose financial statements which have been prepared and approved by the Directors in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporation Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (AASB) adopted by the International Accounting Standards Board (AASB) as well as International Financial Reporting Standards as adopted by the EU (“Adopted AASBs”). The consolidated financial statements were authorised for issue by the Board of Directors on 26 September 2019.

(b) *Basis of measurement*

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

(c) *Functional and presentation currency*

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

(d) *Going Concern*

The consolidated financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of these consolidated financial statements). In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows and resources and the longer term strategy of the business.

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

AASB 16 is the only new standard for annual periods beginning after 1 January 2019 and has not been applied in preparing this financial report. The Group has not adopted this standard early with the first implementation effective for the next financial year.

2. Basis of Preparation (continued)

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

Ref	Title	Summary	Application date of standard	Application date for Group	Impact on Group financial report
AASB 16	Leases	Replaces AASB17, the standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.	1 January 2019	1 July 2019	The Group currently only leases its office and one company vehicle due for return in September 2019. The office lease is shown in note 21. At the time of preparing this report the Group has assessed that there will be no significant impact due to the adoption of AASB 16 in future periods.

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.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended International Financial Reporting Standards that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 9 Financial Instruments

The Group has adopted AASB 9 in the current year applying the full retrospective transition approach with the date of initial application being 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

3. Significant Accounting Policies (continued)

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 in the current year applying the full retrospective transition approach with the date of initial application being 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The impact on the financial performance and position of the Group from the adoption of these Accounting Standards is detailed in note 32.

(a) ***Basis of consolidation***

(i) *Subsidiaries*

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

(ii) *Transactions eliminated on consolidation*

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

(b) ***Business combinations***

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

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.

3. Significant Accounting Policies (continued)

(c) Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

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

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

Some forms of revenue fall outside the scope of AASB 15 – Revenue from Contracts with Customers, of relevance to ThinkSmart this includes revenue under AASB 117 Leases (AASB 16 for year ended 30 June 2020) and AASB 9 Financial Instruments (previously AASB 139).

The Group has relationships with retail partners to act as a facilitator and arranger of financing arrangements to allow those retailers to provide technological products to consumers under short/medium term finance contracts. The financing is obtained by the Group from third party funding partners.

Depending on the nature of the agreements with those funders, these contracts result in the Group acting as a lessor or as the agent of the funder (who is then the lessor).

Where the Group is acting as the lessor it follows the treatment outlined in AASB 117. In accordance with AASB 117 nearly all the contracts are considered to be finance leases and the only source of revenue is Finance Lease Income. This Finance Lease Income is recognised on the effective interest rate method at the constant rate of return. This method amortises the lease asset over its economic life down to the estimate of any unguaranteed residual value that is expected to be accrued to the Group at the end of the lease.

Where the Group is acting as the agent it receives the following revenue streams:

Commission income

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

Extended rental income

Once the contract between the funder and the end customer expires the asset becomes the property of the Group and any extended rental income is payable to the Group, being recognised when receivable.

Income earned from sale of inertia assets

At the end of the extended rental period any proceeds on disposal of the asset are recognised at the point of disposal.

Services revenue – insurance

Lease customers of hire agreements originated by the Group are required to have suitable insurance in respect of the leased equipment. If these customers do not make independent insurance arrangements the Group arrange insurance and collect the premiums on their behalf, receiving a commission from the insurer for doing so.

3. Significant Accounting Policies (continued)

(d) ***Cash and cash equivalents***

Cash comprises cash on hand and demand deposits with an original maturity of less than 3 months. Cash equivalents are short-term, highly liquid investments that are readily converted to known amounts of cash which are subject to an insignificant risk of change in value. Restricted cash comprises amounts held in trust in relation to dividends paid on employee loan funded shares.

(e) ***Plant and equipment***

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Depreciation

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

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

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

(f) ***Customer acquisition costs***

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

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

(g) ***Trade and other payables***

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

(h) ***Financial instruments***

In the year ended 30 June 2019 the Group has adopted the new accounting standard AASB 9 – Financial Instruments replaces AASB 139. The objective of AASB 9 is to provide users of the financial statements with relevant information on future cash flows generated by financial assets or liabilities. The three areas of focus for AASB 9 are: Classification and Measurement, Credit Losses, and Hedge Accounting. The financial instruments that the group holds are primarily lease contracts which are accounted for under AASB 117 (AASB 16 from 2019) and financial instruments held at fair value through profit or loss. The financial instruments held at FVTPL include the Financial Guarantee Contract with STB, 125,000 shares in Afterpay Touch Group and the 10% holding in ClearPay Finance Limited. It is the assessment of the management that there has been no material impact of the change in standard.

3. Significant Accounting Policies (continued)

(h) *Financial instruments (continued)*

(i) *Non-derivative financial assets*

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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.

Lease receivables

The Group has entered into financing transactions with customers and has classified nearly all of 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 minimum 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 minimum lease term. This asset represents the Group's net investment in the lease.

Unearned finance lease income

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

Initial direct transaction income and costs

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

Allowance for expected credit losses

The collectability of lease receivables is assessed on an ongoing basis. A provision is made for expected credit losses using the simplified approach of measuring expected credit losses on a lifetime expected credit loss basis (refer note 3(g)(iii)).

Insurance prepayment

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

3. Significant Accounting Policies (continued)

(h) *Financial instruments (continued)*

Other financial assets

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

(ii) *Non-derivative financial liabilities*

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

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

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

Financial guarantee contracts

Financial guarantees issued by the Group are recognised as financial liabilities at the date the guarantee is issued. Liabilities arising from financial guarantee contracts, are initially recognised at fair value and subsequently at the higher of the amount of expected credit losses determined under AASB 9 and the amount initially recognised less cumulative amortisation.

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

(iii) *Impairment of assets*

Financial assets, including finance lease receivables and loan receivables

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

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

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance in excess of amounts previously recognised is recognised in profit or loss.

3. Significant Accounting Policies (continued)

(h) ***Financial instruments (continued)***

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Group of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

(i) ***Intangible assets***

Intellectual property

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

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 minimum term or expected period until facility limit is reached. At each reporting date a review for indicators of impairment is conducted.

Software development

Software development costs are capitalised only up to the point when the software has been tested and is ready for use in the manner intended by management. Software development expenditure is capitalised only if the development costs can be measured reliably, the product process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. The intangible asset is amortised on a straight line basis over its estimated useful life, which is between 3 and 5 years. Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(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.

3. Significant Accounting Policies (continued)

(j) ***Goodwill (continued)***

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) or Group's of CGUs, expected to benefit from the synergies of the business combination. CGUs (or Group's 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 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 profit or loss on disposal of the operation.

(k) ***Employee benefits***

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

The Group pays defined contributions for post-employment benefit into a separate entity. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the period during which services are rendered by employees. Termination benefits are recognised as an expense when the Group is committed, it is probable that settlement will be required, and they are capable of being reliably measured.

Share-based payments

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(l) ***Share capital***

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

(m) ***Income tax***

Current tax

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

Deferred tax

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

3. Significant Accounting Policies (continued)

(m) ***Income tax (continued)***

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

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

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

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

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

Current and deferred tax for the year

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

(n) ***Goods and services tax***

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

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

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

(o) ***Foreign currency transactions***

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

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

3. Significant Accounting Policies (continued)

(p) ***Earnings per share***

Basic earnings per share

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

Diluted earnings per share

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

(q) ***Provisions***

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

(r) ***Lease payments***

Payments made under operating leases are recognised in profit or loss on a straight line basis over the minimum term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the minimum 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 minimum lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

(s) ***Measurement of fair values***

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non- financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the highest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 21(b)(i) – share based payment transactions; and

Note 27(b) – financial instruments.

4. Critical accounting estimates and judgements

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

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

Revenue from contracts with customers

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

Principal vs agent

Judgement is exercised in relation to certain services that the group is providing in relation to leases entered in to by an end customer with the lessor (STB) as to whether the group is acting as principal in the arrangement or as agent. Management have determined that having regard to the contractual conditions with STB and the rights attaching to consumer contracts for the leases entered in to by the end customer with STB that the group is acting as agent and records commission income from STB.

Financial guarantee contract

Financial guarantee contracts are initially recognised at fair value and subsequently at the higher of the amount of expected credit losses determined under AASB 9 and the amount initially recognised less cumulative amortisation. The fair value of the financial guarantee is a key estimate and is determined by way of calculating the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation. This has been determined from historic data and forward looking estimates to determine expected default rates. This fair value determines a financial guarantee premium which is recognised as revenue over the term of the lease between the end customer and STB.

Determination of variable consideration

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the expected default rates where the customer (STB) has the right to clawback from the group's commission income any amount of default on lease payments due from the end customer under the financial guarantee contract. Revenue in respect of this amount of commission income will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Contract right income

A contract asset is recognised where the Group act as agent for the lessor (STB) during an end customer's minimum lease term with STB and the Group have a contractual right to an inertia asset at the end of this minimum lease term. Contract assets are recognised as revenue accruing over the minimum lease term up to the fair value of the inertia asset at the end of that minimum lease term. The fair value is determined based on available market data regarding expected returns for a similar risk asset and discounted using a credit risk rate.

Estimation of useful lives of assets

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

4. Critical accounting estimates and judgements (continued)

A. Judgements

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

Note 6 – commission income: whether the Group acts as an agent in the transaction rather than as principal; and

Note 9 – leases: whether an arrangement contains a finance lease.

B. Assumptions and estimation uncertainties

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial period are discussed below:

Note 12 – measurement of contract asset non-cash consideration

Note 19 – measurement of contract liabilities;

Note 17 – measurement of the recoverable amount of cash generating units containing goodwill; and

Note 21(b)(i) – measurement of share-based payments.

Determination of consideration of separate performance obligation

5. Financial Risk Management

Overview

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

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

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

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

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

Credit Risk

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

The trading subsidiaries have an obligation to meet the cost of future bad debts incurred by its funders. The funder deposits discussed below represent security for that credit exposure. Further information is provided in Note 27(c).

5. Financial Risk Management (continued)

Credit Risk (continued)

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

Credit risk exposure to the funder deposit with Secure Trust Bank is more concentrated, however the counterparty is a regulated banking institution and the credit risk exposure is assessed as low. The Group monitors the credit risk associated with the funder deposit counterparty.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The consolidated entity manages liquidity risk by maintaining adequate reserve facilities by continuously reviewing its facilities and cash flows. The Group ensures that it has sufficient cash on demand to meet expected operational expenses and financing subordination requirements. In addition, the Group maintains the operational facilities which are shown in note 20.

Market risk

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

Currency risk

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

Interest rate risk

As at 30 June 2019 the Group has drawn down £0.1m on its Santander loan facility of £10m which is in run off until September 2019. The Group has also drawn down £2.4m on its STB loan facility of £10m. Exposure to interest rate risk on any corporate borrowings will be assessed by the Board and, where appropriate, the exposure to movement in interest rates may be hedged by entering into interest rate swaps, when considered appropriate by management and the Board.

Operational risk

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

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

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;

5. Financial Risk Management (continued)

Operational risk (continued)

- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Concentration risk

The Company's main retail distribution partner in the UK is Dixons Carphone plc and contracts for both business sales and consumer sales are in place until at least 2020, with the consumer "Flexible Leasing" contract being exclusive. Should Dixons cease trading or terminate the contracts, turnover would be reduced until alternative distribution partners were found.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management aims to maintain a capital structure that ensures the lowest cost of capital available to the Group. Management constantly reviews the capital structure to ensure it achieves this objective. The Group's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

	30 June 2019	Restated 30 June 2018
	£,000	£,000
Total liabilities	6,020	9,869
Less cash and cash equivalents	(7,099)	(2,523)
Net (cash)/debt	(1,079)	7,346
Total capital	16,574	12,244
Debt-to-adjusted capital ratio	(0.07)	0.60

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

The Board assesses the Group's ability to pay dividends on a periodic basis. At the AGM on 14 November 2018 shareholders approved a return of capital of up to AUD \$8.0m with the final amount and timing to be determined by the directors of the company. On 5 March 2019 the Group announced that the Company would distribute AUD \$7,999,751.44 to shareholders (the "Distribution") in two parts:

1. a capital reduction, pursuant to which the Company will return 3.772 cents per share (or depositary interest) to shareholders (or depositary interest holders) ("Return of Capital"); and
2. a special dividend of 3.772 cents per ordinary share (or depositary interest) – 0.440 cents of which will be fully franked, with the remaining 3.332 cents declared as attaching conduit foreign income ("Dividend").

The return of capital and dividend have a record date of 15 March 2019 and were paid on 29 March 2019.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

6. Consolidated Statement of Profit and Loss

	12 Months to 30 June 2019 £,000	Restated 12 Months to 30 June 2018 £,000
Profit/(loss) is arrived at after crediting/(charging) the following items:		
(a) Revenue		
Services revenue – insurance commission	586	715
Interest revenue – other entities	131	77
Income earned from sale of inertia equipment	778	818
Extended rental income	2,444	2,728
Fee revenue – customers	101	91
Commission income	3,200	4,463
	<u>7,240</u>	<u>8,892</u>
(b) Other revenue		
Finance lease income	814	653
Other revenue	83	6
	<u>897</u>	<u>659</u>
Total revenue	<u>8,137</u>	<u>9,551</u>
<i>All revenue is generated in the UK from the following products:</i>		
SmartPlan	5,828	6,702
Upgrade Anytime	1,220	2,141
Flexible Leasing	742	413
Other/non-product specific	347	295
	<u>8,137</u>	<u>9,551</u>
(c) Customer acquisition costs		
Customer acquisition costs relate to commissions payable to our retail partners together with sales and marketing expenses incurred during the ongoing promotional activity of the finance contracts to new and existing customers.		
(d) Cost of inertia assets sold		
Cost of inertia assets sold is the write-off of inventory, including that transferred from PPE Operating lease when end customer terminates their lease agreement during secondary period, upon sale of inertia equipment.		
	Notes	Restated 30 June 2018 £,000
(e) Other operating expenses		
Employee benefits expense:		
– Payments to employees		(3,076)
– Employee superannuation costs		(236)
– Share-based payment expense		(51)
		<u>(2,205)</u>
Occupancy costs		(286)
Professional services		(687)
Finance charges		(359)
Credit losses arising from financial guarantee contract		(598)
Other costs		(1,215)
		<u>(4,813)</u>
		<u>(6,508)</u>

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

6. Consolidated Statement of Profit and Loss (continued)

	Notes	30 June 2019 £,000	Restated 30 June 2018 £,000
(f) <i>Depreciation and amortisation</i>			
Depreciation		(1,021)	(1,341)
Amortisation		(1,278)	(1,295)
		(2,299)	(2,636)
(g) <i>Impairment losses</i>			
Impairment losses finance leases and receivables		(272)	(410)
Impairment of goodwill	15	–	(2,332)
		(272)	(2,742)
(h) <i>Gains/(losses) on financial instruments</i>			
Realised gains		1,226	–
Unrealised gains		421	–
		1,647	–

Realised gains arose on the disposal of the full tranche 1 of 750,000 Afterpay Touch Group Ltd (APT) shares on 24 August 2018 at AU\$20.00 (£11) per share and 125,000 tranche 2 APT shares on 27 June 2019 at AU\$27.693 (£15) per share, with the cash being received in July 2019 for the 27 June 2019 share sale. Unrealised gains have arisen on the revaluation of the remaining 125,000 tranche 2 APT shares, still held on 30 June 2019, at AU\$25.07 (£14) per share. These amounts are included in the table above.

7. Income Tax

(a) *Amounts recognised in profit and loss*

	30 June 2019 £,000	Restated 30 June 2018 £,000
The major components of income tax benefit/(expense) are:		
Current income tax expense	(67)	(59)
Adjustment for prior year	540	477
<i>Deferred income tax benefit/(expense)</i>		
Origination and reversal of temporary differences	–	119
Adjustment for prior year	(69)	(7)
Total income tax benefit	404	530

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

7. Income Tax (continued)

(a) *Amounts recognised in profit and loss (continued)*

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

	30 June 2019	Restated 30 June 2018
	£,000	£,000
Accounting profit/(loss) before tax	8,265	(4,842)
At the statutory income tax rate of 30%	(2,480)	1,453
Effect of tax rates in foreign jurisdictions	885	(562)
Non-deductible expenses	(147)	(633)
Non-taxable gain (Substantial Shareholdings Exemption)	1,954	–
Losses carried back	–	–
Losses carried forward	–	(192)
Overseas tax losses (recognised)	(279)	(6)
Adjustments in respect of prior years	471	470
Income tax credit	404	530
Deferred tax asset		
Accrued expenses	–	6
Employee entitlements	–	64
Intangible assets	–	1
Total	–	71
Net deferred tax asset/(liability) for UK	–	–
Net deferred tax asset for Australia	–	71
Tax receivable/(payable)		
Current	540	578

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

8. Profit/(Loss) from discontinued operations

In June 2018, management committed to a plan to sell one of the subsidiary companies, ClearPay Finance Limited. The sale was completed on 23 August 2018.

	30 June 2019	30 June 2018
	£,000	£,000
Revenue	11	11
Total revenue	11	11
Customer acquisition costs	(62)	(293)
Other operating expenses	(52)	(235)
Depreciation and amortisation	(49)	(61)
Impairment losses	(8)	(16)
Loss before tax	(160)	(594)
Income tax expense	–	–
Loss after tax	(160)	(594)
Consideration for sale of discontinued operation	10,510	–
Net assets sold (see below)	(1,727)	–
Costs associated with sale of discontinued operation	(892)	–
Profit on sale of discontinued operation net of tax	7,891	–
Profit/(Loss) after tax from discontinued operations	7,731	(594)

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

8. Profit/(Loss) from discontinued operations (continued)

The sale of ClearPay Finance Limited is not considered to result in a tax charge for the Group by virtue of the Substantial Shareholdings Exemption. Based on professional advice, the directors consider that the Group is exempt from the charge to tax on gains or losses accruing on the disposal by companies of shares as they meet the conditions of this exemption.

At 30 June 2018 the disposal group was stated at Fair Value and comprised the following assets and liabilities.

	30 June 2019	23 August 2018	30 June 2018
	£,000	£,000	£,000
Cash and equivalents	–	–	87
Trade receivables	–	24	12
Finance loan receivable	–	178	72
Intangible assets	–	1,554	1,357
Assets held for sale/sold	–	1,756	1,528
Trade and other payables	–	20	137
Deferred income	–	9	4
Liabilities held for sale/sold	–	29	141
Net assets sold		1,727	

9. Finance lease receivables

	30 June 2019	30 June 2018
	£,000	£,000
Current		
Gross investment in finance lease receivables	2,721	3,468
Unguaranteed residuals	390	434
Unearned future finance lease income	(283)	(355)
Net lease receivable	2,828	3,547
Allowance for expected credit losses	(188)	(148)
	2,640	3,399
Non-current		
Gross investment in finance lease receivables	556	3,607
Unguaranteed residuals	430	478
Unearned future finance lease income	(122)	(506)
Net lease receivable	864	3,579
Allowance for expected credit losses	(59)	(159)
	805	3,420

All finance leases detailed above have a minimum lease term of 2 years, see note 3(h)(i) for further information on the accounting policy for these finance leases. See note 27(c) for detailed analysis of the ageing of lease receivables and expected credit losses recognised.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

10. Other Current Assets

	30 June 2019	Restated 30 June 2018
	£,000	£,000
Prepayments	340	420
Insurance prepayments	137	320
Accrued income – insurance commission (see Note 13(i))	279	451
Other debtors ⁽ⁱ⁾	1,909	–
Sundry debtors	64	134
	<u>2,729</u>	<u>1,325</u>

- (i) In the year ended 30 June 2019 other debtors includes the realised sale of 125,000 Afterpay (APT) shares on the 27 June 2019. The cash of £1.909m for this sale was received on 01 July 2019.

11. Financial assets at fair value through profit or loss

	30 June 2019	Restated 30 June 2018
	£,000	£,000
125,000 APT shares held at fair value ⁽ⁱ⁾	1,735	–
Investment in ClearPay Finance Ltd ⁽ⁱⁱ⁾	60	–
	<u>1,795</u>	<u>–</u>

- (i) The remaining 125,000 Afterpay Touch Group Ltd (APT) shares held at 30 June 2019 are held at fair value. APT are listed on the Australian Stock Exchange (ASX) and are a level 1 financial instrument held at fair value through the profit and loss account under AASB 9. At 30 June 2019, the APT shares closed at AUD 25.07 per share. Subsequent to the reporting period end, the remaining 125,000 shares held were sold on 28 August 2019 at AUD 27.73 per share.
- (ii) On 23 August 2018 the Group sold 90% of ClearPay Finance Ltd to Afterpay Touch Group Ltd. The Group retains a 10% holding in ClearPay which is held as an investment at fair value under AASB 9. The Group has recognised the investment at fair value through profit or loss of £60,000. The investment in ClearPay is a level 3 financial instrument.

12. Contract assets

	30 June 2019	Restated 30 June 2018
	£,000	£,000
Balance at 1 July	2,739	2,975
Recognised as revenue in period ⁽ⁱ⁾	1,208	1,602
Recognised as customer acquisition cost ⁽ⁱⁱ⁾	(135)	(92)
Transferred to Plant & Equipment Operating lease additions	(1,780)	(1,746)
	<u>2,032</u>	<u>2,739</u>

- (i) A contract asset is recognised where the Group act as agent for the lessor (STB) during the minimum lease term and have a contractual right to the inertia asset at the end of the minimum lease term. Contract assets are recognised as revenue accruing over the minimum lease term building up inertia asset (non-cash consideration) over the minimum lease term.
- (ii) Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract between the funder and the end customer, for which the Group receives commission under the funder contract, and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

13. Other Non-Current Assets

	30 June 2019	Restated
	£,000	30 June 2018
		£,000
Insurance prepayments	100	234
Accrued income – insurance commission ⁽ⁱ⁾	276	322
Deposits held by funders ⁽ⁱⁱ⁾	2,027	2,305
	<u>2,403</u>	<u>2,861</u>

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

(ii) Deposits held by funders for the servicing and management of their portfolios in the event of default. The deposits earn interest at market rates of return for similar instruments. See note 27 for further information.

14. Plant and Equipment

	Plant & Equipment	Plant & Equipment	Plant & Equipment	Total
	(Australia)	(UK)	Operating Lease	£,000
	£,000	£,000	£,000	
Gross Carrying Amount				
Cost or deemed cost				
Restated balance at 30 June 2017	83	2,489	1,222	3,794
Effect of movement in exchange rate	(4)	–	–	(4)
Transferred from contract assets	–	–	1,746	1,746
Transferred to inventory/cost of inertia assets sold	–	–	(842)	(842)
Additions	–	67	9	76
Restated balance at 30 June 2018	<u>79</u>	<u>2,556</u>	<u>2,135</u>	<u>4,770</u>
Effect of movement in exchange rate	(2)	–	–	(2)
Transferred from contract assets	–	–	1,780	1,780
Transferred to inventory/cost of inertia assets sold	–	–	(901)	(901)
Additions	–	45	9	54
Balance at 30 June 2019	<u>77</u>	<u>2,601</u>	<u>3,023</u>	<u>5,701</u>
Accumulated Depreciation				
Restated balance at 30 June 2017	(81)	(2,284)	(695)	(3,060)
Effect of movement in exchange rate	4	–	–	4
Depreciation expense	(1)	(140)	(1,200)	(1,341)
Restated balance at 30 June 2018	<u>(78)</u>	<u>(2,424)</u>	<u>(1,895)</u>	<u>(4,397)</u>
Effect of movement in exchange rate	3	–	–	3
Depreciation expense	(1)	(87)	(933)	(1,021)
Balance at 30 June 2019	<u>(76)</u>	<u>(2,511)</u>	<u>(2,828)</u>	<u>(5,415)</u>
Net Book Value				
At 30 June 2018	<u>1</u>	<u>132</u>	<u>240</u>	<u>373</u>
At 30 June 2019	<u>1</u>	<u>90</u>	<u>195</u>	<u>286</u>

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

15. Intangible Assets

	Contract rights £,000	Software £,000	Distribution network £,000	Intellectual Property £,000	Total £,000
Gross carrying amount					
At cost					
Restated balance at 30 June 2017	1,360	4,550	270	380	6,560
Effect of movement in exchange rate	–	–	–	(18)	(18)
Additions	81	2,252	–	–	2,333
Disposals/transfer to inventory	–	–	–	–	–
Transfer to assets held for sale	–	(1,418)	–	–	(1,418)
Restated balance at 30 June 2018	1,441	5,384	270	362	7,457
Effect of movement in exchange rate	–	–	–	(6)	(6)
Additions	15	313	–	–	328
Disposals/transfer to inventory	–	–	–	–	–
Balance at 30 June 2019	1,456	5,697	270	356	7,779
Accumulated amortisation and impairment					
Restated balance at 30 June 2017	(1,081)	(1,255)	(270)	(323)	(2,929)
Effect of movement in exchange rate	–	–	–	15	15
Amortisation expense	(161)	(1,177)	–	(18)	(1,356)
Impairment loss ⁽ⁱ⁾	(132)	–	–	–	(132)
Transfer to assets held for sale	–	61	–	–	61
Restated balance at 30 June 2018	(1,374)	(2,371)	(270)	(326)	(4,341)
Effect of movement in exchange rate	–	–	–	23	23
Amortisation expense	(44)	(1,216)	–	(18)	(1,278)
Impairment loss ⁽ⁱ⁾	–	–	–	–	–
Balance at 30 June 2019	(1,418)	(3,587)	(270)	(321)	(5,596)
Net book value					
At 30 June 2018	67	3,013	–	36	3,116
At 30 June 2019	38	2,110	–	35	2,183

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

16. Interest in Subsidiaries

Interest in Subsidiaries	Country of Incorporation	% of Equity	
		30 June 2019	30 June 2018
RentSmart Limited	UK	100	100
ThinkSmart Insurance Services Administration Ltd	UK	100	100
ThinkSmart Financial Services Ltd	UK	100	100
ThinkSmart Europe Ltd	UK	100	100
ThinkSmart UK Ltd	UK	100	100
ClearPay Finance Ltd	UK	10	100
ThinkSmart Finance Group Ltd	UK	100	100
SmartCheck SL	Spain	100	100
SmartPlan Spain SL (see Note 30)	Spain	100	100
ThinkSmart Inc	USA	100	100
ThinkSmart Employee Share Trust	Australia	100	100
ThinkSmart LTI Pty Limited	Australia	100	100

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

17. Goodwill

	30 June 2019	30 June 2018
	£,000	£,000
Balance at beginning of financial year	–	2,332
Impairment	–	(2,332)
Balance at end of financial year	–	–

Impairment testing for cash-generating (CGU) units containing goodwill

The goodwill of £2.33 million arose on the acquisition of the UK business, RentSmart Limited from Bank of Scotland plc in 2007 (taking ThinkSmart's holding to 100%). Further financial information relating to the UK business is shown within the segment information (note 24).

The recoverable amount of the cash-generating unit, being ThinkSmart's UK leasing business, was based on its value in use using business plan assumptions and a market discount rate and hence includes inherent estimation uncertainty. Having been historically profitable, and in the absence of an active market, value in use was deemed to be the appropriate method for measurement of the value of the CGU. However, in the year to 30 June 2018 ThinkSmart's UK leasing business incurred operating losses of £1.2 million (being UK losses of £4.1m less £0.6m relating to ClearPay and £2.3m goodwill impairment). In addition, the Group received an indicative proposal from a third party in May 2018 which valued the ThinkSmart leasing business below its net assets (including £2.33m goodwill). These indicators implied that the carrying value of the goodwill in the ThinkSmart UK leasing business was impaired and as such a £2.33m impairment of the goodwill was made at 30 June 2018.

18. Trade and Other Payables, and Provisions

	30 June 2019	Restated 30 June 2018
	£,000	£,000
Trade and other payables	219	371
GST/VAT Payable	350	553
Other accrued expenses	696	636
	1,265	1,560
Provisions		
Annual leave	136	123
Long service leave	82	89
Risk Transfer cancellation and claims	34	71
	252	283
Annual and long service leave		
Balance at 1 July	212	200
Effect of exchange rate movement	(3)	(8)
Additional provisions made in the year	9	20
Amounts used during the year	–	–
Balance at 30 June	218	212
Other		
Balance at 1 July		
Additional provisions made in the year	71	114
Amounts used during the year	–	–
Amounts used during the year	(37)	(43)
Balance at 30 June	34	71

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

19. Contract liabilities

	30 June 2019	Restated
	£,000	30 June 2018
		£,000
Balance at 1 July	2,667	3,246
Recognised as revenue in period	(674)	(579)
	1,993	2,667
Contract liabilities due within 12 months	772	1,029
Contract liabilities due greater than 12 months	1,221	1,638
	1,993	2,667

20. Other interest bearing liabilities

	30 June 2019	Restated
	£,000	30 June 2018
		£,000
Current – Loan advances net of deferred costs of raising facility ⁽ⁱ⁾	1,907	2,510
Non-current – Loan advances net of deferred costs of raising facility ⁽ⁱ⁾	603	2,708
Customer financing facilities		
– Amount used	2,510	5,553
– Amount unused	17,490	14,447
Total Facility ⁽ⁱ⁾	20,000	20,000
Other finance facilities (business credit card):		
– amount used	5	8
– amount unused	21	27
	26	35

(i) The loan is made up of a £10 million 5 year revolving credit facility provided by Santander UK plc dated 15 December 2014 and a £10 million (option to extend to £20 million) minimum 3 year credit facility provided by STB dated 2 October 2017.

21. Issued Capital

(a) *Issued and paid up capital*

	30 June 2019	Restated
	£,000	30 June 2018
		£,000
106,509,994 Ordinary Shares fully paid (2018: 104,728,744)	15,211	17,397

Fully Paid Ordinary Shares

	2019	2019	2018	2018
	Number	£,000	Number	£,000
Balance at beginning of the financial year	104,728,744	17,397	105,478,744	17,332
Issue of ordinary shares	1,781,250	–	500,000	–
Repayment of loans in respect of 500,000 loan funded shares*	–	–	–	65
Return of capital to shareholders	–	(2,186)	–	–
Cancellation employee loan-funded shares	–	–	(1,250,000)	–
Balance at end of the financial period	106,509,994	15,211	104,728,744	17,397

* During the prior year 500,000 employee loan-funded shares were exercised with the related loans being repaid.

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.

21. Issued Capital (continued)

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

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

Options and loan-funded shares issued in previous years and not yet vested or exercised as at 30 June 2019:

- 1,757,352 options over ordinary shares were issued 21 December 2016 and exercisable at £0.22, vesting and exercisable on 21 December 2019 until 21 December 2026. The fair value of these options at grant date was £0.0371. Vesting of the options is subject to achievement of the following performance conditions:

Earnings per Share Condition 1 (EPS1) - Vesting of 75% of the share options will be subject to meeting EPS1. The metric for EPS1 is growth in earnings per share over the performance period being the 3 years from 1 July 2016. Share options will vest as follows;

Metric <15%	Nil EPS1 options will vest
Metric = 15% (Lower Target 1)	25% of EPS1 options will vest
15% < Metric < 50%	Straight line vesting between Lower Target 1 and Upper Target 1
Metric = 50% (Upper Target 1)	100% of EPS1 options will vest

Earnings per Share Condition 2 (EPS2) – Vesting of 25% of the share options will be subject to meeting EPS2. The metric for EPS2 is growth in earnings per share over the performance period, being the 3 years from 1 July 2016, adjusted to exclude profit generated from any business transacted with any member of the Dixons Carphone plc Group. Share options will vest as follows;

Metric <15%	Nil EPS2 options will vest
Metric = 15% (Lower Target 2)	25% of EPS2 options will vest
15% < Metric < 50%	Straight line vesting between Lower Target 2 and Upper Target 2
Metric = 50% (Upper Target 2)	100% of EPS2 options will vest

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

Measurement of fair values

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

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

Period ending	Employee options and loan-funded shares	Employee options and loan-funded shares
	30 June 2017	31 December 2013
Grant date	21/12/16	04/07/2013
Fair value at grant date	£0.0371	£0.0576-£0.0694
Grant date share price	£0.22	£0.1587
Exercise price	£0.22	£0.1559
Expected volatility	29.42%	55%
Option/loan share life	10 years	4 years
Dividend yield	2.00%	0%
Risk-free interest rate	0.23%	2.99%

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

21. Issued Capital (continued)

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

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

	Year ended 30 June 2019		Year ended 30 June 2018	
	Number of options/loan funded shares	Weighted average exercise price £	Number of options/loan funded shares	Weighted average exercise price £
Balance at beginning of the financial year	2,445,629	0.2167	5,001,026	0.1995
Granted during the financial year	–	–	–	–
Cancelled during the financial year	(688,277)	0.2083	(2,055,397)	0.1949
Exercised/Repaid Loan during the financial year	–	–	(500,000)	0.1345
Balance at the end of financial year	1,757,352	0.2200	2,445,629	0.2167
Exercisable at end of the financial year	–	–	125,000	0.1559

The options and loan-funded shares outstanding at 30 June 2019 have an exercise price of £0.22 (30 June 2018: £0.1559 to £0.22) and a weighted average contractual life of 10 years (30 June 2018: 8.05 years). The following is the total expense recognised for the year arising from share-based payment transactions:

	12 months to 30 June 2019 £,000	12 months to 30 June 2018 £,000
Share options/loan-funded shares granted in 2014 – equity settled	–	–
Share options/loan-funded shares granted in 2015 – equity settled	–	–
Share options/loan-funded shares granted in 2016 – equity settled	–	14
Share compensation – employee shares (note 21(b)(ii))	195	37
Total expense recognised as employee costs (note 6e)	195	51

(b)(ii) *Share compensation – employee shares*

1,781,250 shares of the Company were granted to Ned Montarello as remuneration.

(c) *Dividends*

The following dividends were declared and paid by the Group for the year:

	as at 30 June 2019 £,000	as at 30 June 2018 £,000
2.08 pence per ordinary share (2018: nil)	2,214	–
	2,214	–

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

22. 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:

	as at 30 June 2019 £,000	as at 30 June 2018 £,000
Reconciliation of cash and cash equivalents		
Cash balance comprises:		
– Available cash and cash equivalents	7,044	2,467
– Restricted cash	55	56
	7,099	2,523

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are provided in Note 27.

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

	12 months to 30 June 2019 £,000	Restated 12 months to 30 June 2018 £,000
Profit/(loss) after tax	8,669	(4,558)
Add back non-cash and non-operating items:		
Depreciation	1,021	1,341
Amortisation	1,278	1,295
Impairment losses on intangible assets	–	2,332
Impairment losses on finance lease receivables	(60)	307
Foreign currency (gain)/loss unrealised	–	–
Equity settled share-based payment	195	51
(Gain)/loss on Financial Instruments	(1,647)	–
(Profit)/Loss on disposal of discontinued operations	(7,731)	594
Cost of inertia assets sold	901	842
Other non-cash items	–	–
(Increase)/decrease in assets:		
Trade receivables, deposits held with funders and other movements in lease assets	1,196	1,446
Finance lease receivable	3,434	(3,737)
Deferred tax asset	71	(2)
Other assets	–	–
Contract asset recognised to revenue	(1,208)	(1,602)
Increase/(decrease) in liabilities:		
Trade and other creditors	(295)	405
Contract liabilities	(674)	(579)
Other interest bearing liabilities	(2,708)	3,271
Provisions	(31)	(31)
Provision for income tax	38	(356)
Net cash (used in)/from operating activities	2,449	1,019

23. Leases and Hire Purchase Obligations

Operating leases – leasing arrangements

Operating leases relate to office facilities with lease terms of up to 5 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. No provisions have been recognised in respect of non-cancellable operating leases.

	June 2019	June 2018
	£,000	£,000
Non-cancellable operating lease payments:		
No later than 1 year	96	96
Later than 1 year and not later than 5 years	263	359
More than 5 years	–	–
	<u>359</u>	<u>455</u>

24. Segment Information

The Group currently has one reportable segment which comprise the Group’s core business unit (UK). Head office and other unallocated corporate functions are shown separately. For the segment, the Board and the CEO review internal management reports on a monthly basis. The composition of the reportable segment is as follows:

UK:

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

Corporate and unallocated:

- ThinkSmart Limited
- SmartCheck Finance Spain SL
- ThinkSmart Italy Srl
- ThinkSmart Inc

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

24. Segment Information (continued)

Operating Segments

Information about reportable segments

	UK		Corporate and unallocated		Total	
	Restated				Restated	
	June 2019	June 2018	June 2019	June 2018	June 2019	June 2018
	£,000	£,000	£,000	£,000	£,000	£,000
For the period ended:						
Revenue	7,183	8,890	57	2	7,240	8,892
Other revenue	897	659	–	–	897	659
Total revenue	8,080	9,549	57	2	8,137	9,551
Customer acquisition cost	(963)	(1,306)	(2)	(11)	(965)	(1,317)
Cost of inertia assets sold	(901)	(842)	–	–	(901)	(842)
Other operating expenses	(4,119)	(5,206)	(694)	(1,302)	(4,813)	(6,508)
Depreciation and amortisation	(2,298)	(2,635)	(1)	(1)	(2,299)	(2,636)
Impairment losses	(272)	(2,742)	–	–	(272)	(2,742)
Gain/(Loss) on Financial Instruments	1,647	–	–	–	1,647	–
Profit/(Loss) from discontinued operations	8,053	(594)	(322)	–	7,731	(594)
Reportable segment profit/(loss) before income tax	9,227	(3,776)	(962)	(1,312)	8,265	(5,088)
Reportable segment current assets	12,932	9,245	158	288	13,090	9,533
Reportable segment non-current assets	9,504	12,509	–	71	9,504	12,580
Reportable segment liabilities	5,675	9,534	345	335	6,020	9,869
Capital expenditure	382	2,409	–	–	382	2,409

25. Remuneration of Auditor

	12 Months to June 2019 £,000	12 Months to June 2018 £,000
Audit and review services:		
<i>Auditor of the Company:</i>		
Provided by KPMG	105	218
Provided by BDO	109	–
Audit and review of financial statements	214	218
Services other than statutory audit (all provided by KPMG):		
Tax compliance and advisory services	82	74
	296	292

The Group's auditors are BDO.

26. Commitments and Contingent Liabilities

	June 2019 £,000	June 2018 £,000
Leases where Group acts as agent (not included in the statement of financial position)	9,588	13,129
Deposits held by funder	2,027	2,305

Under the terms of the UK current funding agreement with Secure Trust Bank (STB) where STB is the lessor, the Group is obliged to purchase delinquent leases (contracts in arrears for 91 days) from the funder at the funded amount. The Group has entered into a financial guarantee contract with STB for which the Group has provided a deposit to support future delinquent leases.

The deposit held by funders is recognised as an asset on the Group's statement of financial position within other non-current assets (see note 13).

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

27. Financial Instruments

(a) *Interest rate risk*

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

	Carrying amount	
	June 2019 £,000	June 2018 £,000
Variable rate instruments		
Cash and cash equivalents (note 22a)	7,099	2,523
Deposits held by funder (note 13)	2,027	2,305
Other interest bearing liabilities (note 20)	(2,510)	(5,553)
Net financial assets	6,616	(725)

Sensitivity analysis

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

	June 2019 £,000	June 2018 £,000
Effect of 1% increase in rates	66	(7)
Effect of 1% decrease in rates	(66)	7

(b) *Fair value of financial instruments*

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

Fair value hierarchy

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

The different levels have been defined as follows:

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

Key assumptions in the valuation of the instruments were limited to interpolating interest rates for certain future periods where there was no observable market data. The majority of financial assets and liabilities are measured at amortised cost. At 30 June 2019 the Group held the following financial instruments measured at fair value through profit or loss:

- 125,000 shares in Afterpay Touch Group Limited with a fair value of £1,734,531 (2018: nil). The Afterpay shares are a Level 1 financial instrument, traded on the Australian Stock Exchange (ASX) under the ticker APT.
- 10% holding in ClearPay Finance Limited with a fair value of £60,000 (2018: nil). The holding in ClearPay is a Level 3 financial instrument.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

27. Financial Instruments (continued)

(c) *Credit risk management*

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

	Note	June 2019 £,000	Restated June 2018 £,000
Cash and cash equivalents	22(a)	7,099	2,523
Trade receivables		82	180
Loan and lease receivable (current)	9	2,828	3,547
Loan and lease receivable (non-current)	9	864	3,579
Insurance prepayment and accrued income (current)	10	416	771
Insurance prepayment and accrued income (non-current)	13	376	556
Sundry debtors	10	64	134
Deposits held by funders	13	2,027	2,305
		13,756	13,595

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

	June 2019 £,000	Restated June 2018 £,000
Australia	116	242
UK	13,640	13,353
	13,756	13,595

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

	June 2019 £,000	Restated June 2018 £,000
Banks ⁽ⁱ⁾	7,099	2,523
Funders ⁽ⁱⁱ⁾	2,027	2,305
Insurance partners ⁽ⁱⁱⁱ⁾	792	1,327
Retail customers ^(iv)	3,692	7,126
Others	146	314
	13,756	13,595

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

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

(iii) In the current financial reporting period, 100% (prior year: 100%) of the prepayment relates to RentSmart Limited's (UK) upfront insurance premium payments to Allianz on behalf of the rental customer. The premiums are recovered from the customer on a monthly basis. In the event the customer defaults, the policy is cancelled and Allianz refunds the unexpired premium. Allianz holds an AA rating with S&P Insurer Financial Strength and Counterparty Credit Rating.

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

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

27. Financial Instruments (continued)

(c) *Credit risk management (continued)*

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

	Gross June 2019 £,000	Impairment June 2019 £,000	Gross June 2018 £,000	Impairment June 2018 £,000
Not past due	3,544	42	6,920	76
Past due 0-30 days	115	25	185	40
Past due 31-120 days	75	65	161	142
Past due 121-365 days	150	121	59	56
	<u>3,884</u>	<u>253</u>	<u>7,325</u>	<u>314</u>

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

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

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

	June 2019 £,000	June 2018 £,000
Balance at 1 July	314	61
Impairment loss recognised	272	410
Bad debt written off	(333)	(157)
Balance at 30 June	<u>253</u>	<u>314</u>

Trade and lease receivables are reviewed and considered for impairment on a periodic basis, based on the number of days outstanding and number of payments in arrears, adjusted (where appropriate) for forwards looking factors.

(d) *Currency risk management*

Exposure to currency risk

The Group's exposure to foreign currency risk is limited to the cash balances held by the Australian parent ThinkSmart Limited denominated in Australian Dollars:

	June 2019 £,000	June 2018 £,000
Cash and cash equivalents	116	242
10% strengthening of AUD	(12)	(24)
10% weakening of AUD	12	24
	<u>June 2019</u>	<u>June 2018</u>
AUD/GBP year end exchange rate	0.5535	0.5634

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

27. Financial Instruments (continued)

(e) *Liquidity risk management*

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

	June 2019	Restated
	£,000	June 2018
		£,000
Trade and other payables	1,138	1,573
Other interest bearing liabilities	2,678	5,553
	<u>3,816</u>	<u>7,126</u>
Less than 1 year	3,472	5,080
1-2 years	344	2,046
	<u>3,816</u>	<u>7,126</u>

28. Related Party Disclosures

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

Executive Chairman

N Montarello

Executive Directors

G Halton (Chief Financial Officer)

Non-Executive Directors

P Gammell

K Jones (resigned 27 June 2019)

D Adams

R McDowell

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

	12 months to	12 months to
	June 2019	June 2018
	£,000	£,000
Short-term employee benefits	592	669
Post-employment benefits	21	22
Other long-term benefits	3	3
Share-based payments	75	49
	<u>691</u>	<u>743</u>
Business expenses incurred by KMP's and reimbursed by the Company	165	202

29. Subsequent Events

Subsequent to the reporting period end, the Group sold its remaining holding of 125,000 Afterpay (APT) shares on 28 August 2019 at AUD 27.73 per share (see Note .10(i)).

In addition, on 13 September 2019 the Group's dormant Spanish subsidiary, SmartPlan Spain SL, was dissolved.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

30. Earnings per Share

	12 months to June 2019 £,000	Restated 12 months to June 2018 £,000
Profit/(loss) after tax attributable to ordinary shareholders	8,669	(4,558)
	30 June 2019 Number	30 June 2018 Number
Weighted average number of ordinary shares (basic)	105,606,491	104,981,491
Weighted average number of ordinary shares (diluted)	105,606,491	104,981,491
	30 June 2019	30 June 2018
Earnings per share		
Basic (loss)/earnings per share (pence)	8.21	(4.34)
Basic (loss)/earnings per share (pence) – continuing operations	0.89	(3.78)
Basic (loss)/earnings per share (pence) – discontinued operations	7.32	(0.57)
Diluted (loss)/earnings per share (pence) – continuing operations	0.89	(3.78)

31. Parent entity information

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

Statement of profit or loss and other comprehensive income

	June 2019 £,000	June 2018 £,000
Profit after tax	4,294	381
Total comprehensive income	4,294	381

Statement of financial position

	June 2019 £,000	June 2018 £,000
Total current assets	158	288
Total assets	16,907	17,142
Total current liabilities	345	335
Total liabilities	345	335
Equity		
Issued share capital	15,211	17,397
Accumulated profits	1,351	(590)
Total equity	16,562	16,807

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

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

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

31. Parent entity information (continued)

Significant accounting policies

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

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

32. Effects of changes in accounting policies

The Group has adopted AASB 15 in the current year applying the full retrospective transition approach with the date of initial adoption being 1 July 2018. The main changes have arisen in respect of the accounting for the revenue, and related assets and liabilities, under the operating agreement and related financial guarantee contract with STB Leasing Ltd (STBL) where the Group act as agent for STBL in the brokering and servicing of lease agreements where STBL is the lessor. In return, the Group receives an upfront cash transaction fee from STBL together with the non-cash consideration between STB and the end customer (for the contract or inertia asset) which is allocated under AASB 15 between the inception/brokerage of the lease arrangement, a financial guarantee contract premium over the lease term, a contract liability reflecting the reversal constraint for the potential refund of the transaction fee, and the non-cash consideration contract asset accruing over the lease term. This has the following impact:

1. The recognition of the contract asset non-cash consideration means that it is no longer appropriate to recognise an inertia intangible asset and related deferred service income together with inventory of inertia stock.
2. The recognition of the financial guarantee contract premium eliminates the need for an additional loss pool provision.
3. A contract liability is recognised reflecting the reversal constraint for the potential refund of the transaction fee in the event that an end customer lessee defaults on their lease.
4. The cost of acquiring new end customer lease contracts is capitalised and spread over the term of the end customer lease.
5. At the end of the minimum term of the end customer lease, the Group becomes the lessor of an operating lease and at which point the contract asset is transferred to plant & machinery and depreciated over the expected secondary term. Once the lessee terminates the lease the equipment is transferred to inventory at book value and expensed as a cost of inertia asset sold against the income earned from the sale of the inertia equipment.

This has resulted in the following restatement of comparatives for the statement of profit or loss and other comprehensive income for the year ended 30 June 2018, and the statement of financial position as at 30 June 2018:

- Restatement of the 30 June 2017 financial position, which is the restated opening position for the year to 30 June 2018, results in a reduction to net assets and accumulated profit at 30 June 2017 of £1,470,000.
- The restatement of the profit or loss for the year ended 30 June 2018 results in a £348,000 lower loss for that year resulting in a cumulative reduction to net assets and accumulated profit at 30 June 2018 of £1,122,000 as follows:
 - Inertia intangible assets of £3,219,000, inventories of inertia stock of £321,000, deferred service income liabilities of £1,484,000 and accrued inertia rental income of £104,000 were derecognised resulting in a reduced FY18 loss of £238,000 (after allowing for the 30 June 2017 restatement of financial position impact of £2,398,000 reduction).
 - Loss pool bad debt provisions of £726,000 were derecognised resulting in an increased FY18 loss of £45,000 (after allowing for the 30 June 2017 restatement of financial position impact of £771,000 increase).

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

32. Effects of changes in accounting policies (continued)

- Contract assets (non-cash consideration) of £2,739,000 were recognised resulting in an increased FY18 loss £237,000 (after allowing for the 30 June 2017 restatement of financial position impact of £2,976,000 increase).
- Contract liabilities in respect of the financial guarantee and refundable transaction fee reversal constraint of £2,667,000 were recognised resulting in a reduced FY18 loss of £579,000 (after allowing for the 30 June 2017 restatement of financial position impact of £3,246,000 reduction).
- Plant and equipment in respect of operating leased equipment has been recognised with an NBV of £240,000 resulting in an increased FY18 loss of £187,000 (after allowing for the 30 June 2017 restatement of financial position impact of £427,000 increase).

The following tables show the adjustments recognised for each line item of the financial statements affected.

	30 June 2018 as originally presented £,000	AASB 15 £,000	Restated 12 Months to 30 June 2018 £,000
Continuing operations			
Revenue	7,417	1,475	8,892
Other revenue	721	(62)	659
Total revenue	8,138	1,413	9,551
Customer acquisition cost	(1,225)	(92)	(1,317)
Cost of inertia assets sold	(1,264)	422	(842)
Other operating expenses	(5,910)	(598)	(6,508)
Depreciation and amortisation	(1,436)	(1,200)	(2,636)
Impairment losses	(3,145)	403	(2,742)
Profit/(Loss) before tax	(4,842)	348	(4,494)
Income tax benefit	530	–	530
Net Loss after tax from continuing operations	(4,312)	348	(3,964)
Gain/(Loss) from discontinued operations net of tax	(594)	–	(594)
Net Loss after tax – attributable to owners of the Company	(4,906)	348	(4,558)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation differences for foreign operations	(140)	–	(140)
<i>Total items that may be reclassified subsequently to profit or loss net of income tax</i>	(140)	–	(140)
Other comprehensive loss for the year, net of income tax	(140)	–	(140)
Total comprehensive loss for the year attributable to owners of the Company	(5,046)	348	(4,698)
Earnings/(Loss) per share			
Basic Earnings/(loss) per share (pence)	(4.67)	0.35	(4.34)
Diluted Earnings/(loss) per share (pence)	(4.67)	0.35	(4.34)

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

32. Effects of changes in accounting policies (continued)

	30 June 2018 as originally presented £,000	AASB 15 £,000	Restated 30 June 2018 £,000
Current assets			
Cash and cash equivalents	2,523	–	2,523
Trade receivables	180	–	180
Finance lease receivables	3,399	–	3,399
Tax receivable	578	–	578
Other current assets	1,807	(482)	1,325
Assets held for sale	1,528	–	1,528
Total current assets	10,015	(482)	9,533
Non-current assets			
Finance lease receivables	3,420	–	3,420
Plant and equipment	133	240	373
Intangible assets	6,335	(3,219)	3,116
Deferred tax assets	71	–	71
Contract assets	–	2,739	2,739
Other non-current assets	2,135	726	2,861
Total non-current assets	12,094	486	12,580
Total assets	22,109	4	22,113
Current liabilities			
Trade and other payables	1,617	(57)	1,560
Deferred service income	863	(863)	–
Contract liabilities	–	1,029	1,029
Other interest bearing liabilities	2,510	–	2,510
Provisions	283	–	283
Liabilities held for sale	141	–	141
Total current liabilities	5,414	109	5,523
Non-current liabilities			
Deferred service income	621	(621)	–
Contract liabilities	–	1,638	1,638
Other interest bearing liabilities	2,708	–	2,708
Total non-current liabilities	3,329	1,017	4,346
Total liabilities	8,743	1,126	9,869
Net assets	13,366	(1,122)	12,244
Equity			
Issued capital	17,397	–	17,397
Reserves	(2,843)	–	(2,843)
Accumulated profits	(1,188)	(1,122)	(2,310)
Total equity	13,366	(1,122)	12,244

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

32. Effects of changes in accounting policies (continued)

	30 June 2017 as originally presented £,000	AASB 15 £,000	Restated 30 June 2017 £,000
Current assets			
Cash and cash equivalents	4,527	–	4,527
Trade receivables	290	–	290
Finance lease receivables	2,107	–	2,107
Other current assets	2,177	(375)	1,802
Total current assets	9,101	(375)	8,726
Non-current assets			
Finance lease receivables	1,282	–	1,282
Plant and equipment	207	427	634
Intangible assets	7,459	(3,828)	3,631
Goodwill	2,332	–	2,332
Deferred tax assets	96	–	96
Tax receivable	222	–	222
Contract assets	–	2,976	2,976
Other non-current assets	2,857	771	3,628
Total non-current assets	14,455	346	14,801
Total assets	23,556	(29)	23,527
Current liabilities			
Trade and other payables	1,155	–	1,155
Deferred service income	1,059	(1,059)	–
Contract liabilities	–	1,246	1,246
Other interest bearing liabilities	1,158	–	1,158
Provisions	314	–	314
Total current liabilities	3,686	187	3,873
Non-current liabilities			
Deferred service income	746	(746)	–
Contract liabilities	–	2,000	2,000
Deferred tax liability	27	–	27
Other interest bearing liabilities	789	–	789
Total non-current liabilities	1,562	1,254	2,816
Total liabilities	5,248	1,441	6,689
Net assets	18,308	(1,470)	16,838
Equity			
Issued capital	17,332	–	17,332
Reserves	(2,703)	–	(2,703)
Accumulated profits	3,679	(1,470)	2,209
Total equity	18,308	(1,470)	16,838

Independent Auditor's Report

To the members of ThinkSmart Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of ThinkSmart Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key Audit Matters

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

Revenue Recognition	
The key audit matter	How the matter was addressed in our audit
<p>As disclosed in Notes 3(c) and 6 of the financial report, the Group has several significant revenue streams, including commission income, insurance commission and inertia service income.</p> <p>Following the first time adoption of the new revenue recognition standard, AASB 15 <i>Revenue from Contracts with Customers</i> (“AASB 15”), the Group adopted its accounting policies and applied the retrospective method with restatement of the comparative period.</p> <p>Under AASB 15 revenue, based on the determined transaction price, is recognised when a performance obligation is satisfied by transferring control over a promised good or service.</p> <p>Each stream of the Group has different revenue recognition timings and is recognised to the extent that it is not highly probable that a significant reversal will subsequently occur.</p> <p>As disclosed in Note 4 of the financial report, the application of AASB 15 involves significant management estimates and judgments, particularly in relation to determining the transaction price, and accordingly revenue recognition is a key audit matter.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Evaluating the key controls and processes management have in place to determine the transaction price of each revenue transaction; • Assessing the appropriateness of management’s revenue recognition policies in accordance with the requirements of AASB 15; • Reviewing a sample of contracts and agreeing the underlying terms to ensure that relevant performance obligations have been appropriately assessed and that the transaction price for each contract has been appropriately allocated to the various performance obligations; • Assessing whether commission income, insurance commission and inertia service income has been recognised only to the extent that it is highly probable that a significant reversal will not occur. This assessment includes assessing the impact of: <ul style="list-style-type: none"> – The Group’s historical experience with similar products. • Assessing the appropriateness of management’s transitional impact on the application of AASB 15, including reviewing the transition adjustment recognised; and • Assessing the adequacy of the related disclosures in Notes 3(c), 4, 6 and 32 of the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 30 June 2019, but does not include the financial report and the auditor’s report thereon.

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

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

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

Other matter

The financial report of ThinkSmart Limited, for the year ended 30 June 2018 was audited by another auditor who expressed an unmodified opinion on that report on 18 September 2018.

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

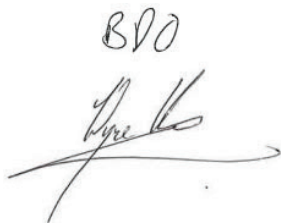
We have audited the Remuneration Report included in paragraphs pages 15 to 24 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of ThinkSmart Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

Handwritten signature of Wayne Basford, consisting of the letters 'BDO' above a stylized signature.

Wayne Basford
Director

Perth

26 September 2019

ThinkSmart Limited Corporate Information

ABN 24 092 319 698

Directors

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

Company Secretary

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

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

Company Registrars

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

Depository

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

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

Solicitors

Herbert Smith Freehills
250 St Georges Terrace
Perth WA 6000
Australia

Auditors

BDO
38 Station Street
Subiaco
Perth WA 6008
Australia

Bankers

Westpac Banking Corporation
109 St Georges Terrace
Perth WA 6000
Australia

Santander UK plc
298 Deansgate
Manchester
M3 4HH