ThinkSmart Limited
Annual Report 2020

ABN 24 092 319 698

Contents

Highlights for the year ended 30 June 2020

Highlights

Holding in Clearpay drives significant, ongoing value accretion and capital returns

- Profit after tax up 513% to £53.0 million (FY19 restated(1): £8.7 million) driven by £53.7 million(2) non-cash fair value gain on independent valuation of the Group's retained 10% shareholding in Clearpay Finance Ltd ("Clearpay")
- Net assets are £66.5 million at 30 June 2020, equivalent to 62.42 pence per share (30 June 2019 restated(1): £16.5 million/15.47 pence per share)
- Outstanding trading momentum at Clearpay, one of the UK's leading providers of "Buy Now Pay Later" payment services, with over one million customers signed up in its first 12 months of trading to 30 June 2020
- Put/call option agreement with Afterpay Ltd ("Afterpay"), exercisable in 2023/24, provides a clear and agreed runway to enable Clearpay stake realisation
- Proven delivery of shareholder return with special dividend and capital return of A$5.96 million (5.6 cents per share) equivalent to £3.2 million paid in December 2019
- Cash and cash equivalents of £8.8 million at 30 June 2020 (30 June 2019 £7.1 million)
- Investment of 10%(3) holding in Clearpay Finance Limited revalued to £53.7 million(2) at 30 June 2020 (30 June 2019: £0.1 million)
- Sale of Clearpay subsidiary has now generated cumulative accounting profit of £63.8 million (including £53.7 million(2) non-cash fair value gain), with the 10%(3) stake offering further upside potential

Cashflow positive operating business with IP

- Operating business built on investment in proprietary digital payments platform and credit decision-making engine, SmartCheck
- Continuation of managed wind down of business yielded revenue of £6.3 million, down 22% versus same period last year, which includes £0.5 million (FY19 restated(1): £0.1 million) from the provision of the outsourced call centre customer support service for Clearpay
- Optimised cash management with £0.96 million net cash generated from operating activities (FY19: £2.56 million)
- Operating costs further reduced to £4.3 million (FY19 restated(1): £4.8 million) and remain controlled, aligned to current volume performance
- Since the year end, as announced on 10 August 2020, ThinkSmart has reached a settlement agreement of £1.45 million in relation to the legal proceedings issued by the Group against Carphone Warehouse

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

"Our 10%(3) stake in Clearpay, a leader in the UK in one of the fastest growing, most dynamic payments markets globally, has driven a 513% uplift in profit to £53m. Our NAV at 30 June stood at to £66.5 million, or 62p per share.

"The value of our holding in Clearpay is underpinned by the rapid consumer acceptance and subsequent compelling growth of the Buy Now Pay Later payment market coupled with the proven trading performance of Clearpay. In only its first year of trading to 30 June 2020 Clearpay welcomed over one million customers, signing up retailers including M&S, ASOS and Boohoo.

"Our investment in Clearpay has now generated over £63 million of profit for shareholders, with further upside potential thanks to our retained stake. Our agreement with Afterpay gives shareholders a clear, agreed runway to a realisation of our Clearpay holding in 2023/24.

"We continue to manage the wind down of our legacy business, focusing on rightsizing the operations to the lower volumes, generating positive cash flow and exploring options to realise value in our proprietary payments technology. This leaves our balance sheet robust and our strategic efforts focused on realising further value for shareholders via our holding in Clearpay."

(1) Restated for the adoption of AASB 16 in the current year applying the full retrospective transition approach with the date of initial application being 1 July 2019.
(2) The Group engaged a third party global professional services firm to independently value its retained shareholding in Clearpay at 30 June 2020 for accounting purposes under AASB 9 in accordance with AASB 13 (Fair Value Measurement). This valuation has been undertaken based on publicly available information, reflecting the Afterpay call option (exercisable from 23 August 2023) and ThinkSmart put option (exercisable from 23 February 2024) and including a discount for the lack of marketability of Clearpay as a privately owned company, and has produced a range of values for the Group's 10%(3) shareholding in Clearpay from which the Group has taken at two thirds of the range. Under either the call or put option, the sale of the Clearpay shares to Afterpay will be at a price calculated on agreed valuation principles at the time. Further detail is provided in Note 11(ii) to the 30 June 2020 Group full year financial report below.
(3) 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.

Chairman's Statement

Clearpay Drives Significant Value for Shareholders

Our year to 30 June 2020 has proven to be transformational for our shareholders. Our business was founded on and has evolved thanks to a deeply entrepreneurial mindset and culture, always ready to move quickly, in particular in relation to how digital transformation has and continues to reshape consumer behaviour in our core retail markets and the way in which retailers needed to adapt their offerings to stay relevant. Accordingly, in 2017/18 we developed and launched Clearpay in the UK, taking first mover advantage in the nascent "buy now, pay later" market. Our decision in 2018 to sell 90% of Clearpay to Australian listed Afterpay Ltd, a highly capitalised, well funded global financial technology business, has delivered – and I'm confident will continue to deliver – material value for shareholders.

Our results for the year reflect record profitability, with profit after tax of £53.0 million, driven by the revaluation gains attributable to our holding in Clearpay and the exceptional underlying performance of that business. Our Net Asset Value stood at £66.5 million at year end, or 62.42 pence per share. On a per share basis this is an uplift of 47 pence per share in the last 12 months, in addition to the 3 pence per share capital return and special dividend paid to holders in December 2019. All in all, the sale of 90% of the Clearpay business has now generated cumulative profit of £63.8 million (including £53.7 million(2) non-cash fair value gain), with the 10%(3) stake offering further upside potential.

As part of the agreement with Afterpay, made at the time of the Clearpay sale, there is a put/call option mechanism which gives an agreed, clear pathway to a realisation of the stake in 2023/24. The price will be calculated on agreed principles based on market valuations at that time. These principles are reflected in the carrying valuation of the asset in our balance sheet.

The Board has consistently sought to return capital to shareholders where appropriate and is mindful of maintaining a prudent level of cash reserves in the business. As such we were able to pay a special dividend and capital return of A$5.96 million (5.6 cents per share), equivalent to £3.2 million (3 pence per share), in December 2019.

Turning to our legacy retail consumer and business finance offerings, shareholders will be aware that this has been in managed wind-down, reflecting our strategic focus on delivering value to holders via the Clearpay asset, together with providing the outsourced call centre customer support service for Clearpay. As announced on 10 August 2020 we reached a settlement with Carphone Warehouse for £1.45 million and as a result will now cease writing any new business. We are managing the wind-down via adjusting the cost base accordingly and in order to continue to deliver net positive cash flows. We expect our cash reserves to continue to build over the next few years.

We do see tangible value, however, in the investment made in our proprietary, highly robust credit origination and decision engine, SmartCheck, which powers point-of-sale lease finance payments solutions. The Board will continue to consider how best to optimise value for this asset.

The Group has a robust financing position, with net cash of £8.8m million at 30 June 2020 (after payment of £3.2 million special dividend/capital return in December 2019 and before receipt of the £1.45 million settlement amount in August 2020).

I'm very pleased to have delivered this level of value accretion to our shareholders and I would like to take this opportunity to thank Non-Executive Director, Roger McDowell, who will retire at this year's AGM, for his many years of service to the business.

Performance

As expected, leasing volumes fell 56% to £1.9 million (FY19: £4.3 million) in the year, and we expect this volume reduction to continue as we continue to manage the wind down of this division. Revenues were consequently 22% lower for the period at £6.3 million (FY19 restated: £8.1 million) 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.

Since the year end, as announced on 10 August 2020, ThinkSmart has reached a settlement agreement of £1.45 million in relation to the legal proceedings issued by the Group against Carphone Warehouse. As part of the settlement, the Group has agreed with Dixons Carphone ("DC"), to the orderly winding up of all of its agreements with DC including Flexible Leasing, SmartPlan and Upgrade Anytime. In the year to 30 June 2020, all of ThinkSmart's new business volumes were generated from its agreements with DC. The Group will continue to service its existing customer base ensuring the fair treatment of customers, along with any new volumes generated during the orderly winding up of the three products and will continue to benefit from cash generation in the meantime.

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.

Operating costs decreased further to £4.3 million (FY19 restated: £4.8 million) over the period and remain controlled, aligned to the current volume performance.

Profit after tax increased to £53.0 million (FY19 restated £8.7 million), driven by the £53.7 million fair value gain on revaluation of the retained shareholding in Clearpay Finance Ltd.

Statutory earnings per share of 49.8 pence (FY19 restated 8.20 pence) is largely due to the fair value gain on the revaluation of the retained shareholding in Clearpay.

Position

As at 30 June 2020, lease receivables under management were £6.5 million, with approximately 15,400 active customer contracts.

The Group's investment of 10%[(3)] holding in Clearpay Finance Limited was revalued to £53.7 million[(2)] at 30 June 2020 (30 June 2019: £0.1 million). The asset valuation was performed by an independent third-party valuer, a leading global professional services firm. The Group's holding is subject to a put/call arrangement with Afterpay in 2023/24, based on agreed valuation principles using the same valuation metrics, multiples and methodologies, including those used by market participants and with regard to sell-side analysts, to value the Clearpay business within the Afterpay listed group.

The Group held cash and cash equivalents of £8.8 million at 30 June 2020, after the £3.2 million payment of the special dividend/capital return in December 2019 and before receipt of the £1.45 million settlement amount in August 2020. This is up from £7.1 million at 30 June 2019.

The Group has sufficient headroom available to support its current business volumes.

Current Trading Update

Post the period end, the business reached a settlement with DC which includes the orderly wind up of all of its agreements with DC. This will result in new business volumes ceasing over the next six months.

The Group will continue to service its existing customer base ensuring the fair treatment of customers, along with any new volumes generated during the orderly winding up of the agreements and will continue to benefit from the cash generated from this division. ThinkSmart anticipates its cash reserves will continue to build over the next few years.

ThinkSmart also retains a 10% share of the Afterpay's UK subsidiary, which continues to trade as Clearpay, inclusive of 3.5% being made available to the Afterpay UK employee share ownership scheme. In addition, ThinkSmart provides an outsourced call centre customer support service for Clearpay.

Looking ahead, the business is well positioned to further benefit from future growth in the value of its shareholding in Clearpay, and to create value for shareholders.

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 2020, 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 & CEO*

Ned was appointed Executive Chairman on 22 May 2010 and is also CEO (since 3 January 2018). He founded ThinkSmart in 1996 and through this vehicle has been credited with elevating the Nano-Ticket rental market sector (the lease of high - volume low-value, i.e. A$500-A$10,000 equipment) in Australia, receiving the EY and Telstra Australian Government's Entrepreneur of the Year Award in 1998. In 2007 Ned successfully listed, via $204m IPO, the business in Australia and subsequently migrated the listing to the UK AIM in 2016. 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. He led the development of the Group's Australian distribution network, led the business expansion into Europe and in 2017 launched Clearpay Finance Limited (Clearpay) in the UK. In 2018, he successfully negotiated the sale of 90% of Clearpay to the emerging, global, industry leading Afterpay Ltd. Ned retains a board seat on Clearpay (i.e. the Afterpay UK subsidiary).

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

Peter is a Non-Executive Director of One Ventures Pty Ltd, a Venture Capital fund manager based in Sydney. Previously Peter was Managing Director and CEO of Seven Group Holdings (2010-2013) and Managing Director of Australian Capital Equity Pty Ltd (1989-2010). Peter is also Chairman of Octet Group Holdings Pty Ltd and former Chairman of Scottish Pacific Business Finance Pty Ltd. 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 Debenhams plc, Jessops plc, Moss Bros plc, Fevertree Drinks plc, Conviviality plc and Hornby plc. David's current appointments include serving as the Senior Independent Non-Executive Director and Chair of the Audit Committee of Halfords 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 over twenty years 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, Chairman of Flowtech Fluid Power 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 Sciences plc. 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. As announced on 11 May 2020, Roger will retire from the Board of the Company at the next Annual General Meeting, expected to be in November 2020.

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 2020 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.

Key financial data

	12 Months to June 2020 £,000	Restated 12 Months to June 2019 £,000	Variance £,000	Variance %
Revenue	**6,079**	**7,240**	(1,269)	–18%
Other revenue	**253**	**897**	(536)	–60%
Total revenue	**6,332**	**8,137**	(1,805)	–22%
Customer acquisition costs	**(627)**	**(965)**	338	+35%
Cost of inertia assets sold	**(700)**	**(902)**	202	+22%
Other operating expenses	**(4,270)**	**(4,753)**	483	+10%
Depreciation and amortisation	**(2,047)**	**(2,368)**	321	+14%
Impairment losses	**(2)**	**(272)**	270	+99%
Gains on Financial Instruments	**54,418**	**1,647**	52,771	+3204%
Profit before tax from continuing operations	**53,104**	**524**	52,580	+10,034%
Income tax (expense)/benefit	**(62)**	**404**	(466)	–115%
Profit after tax from continuing operations	**53,042**	**928**	52,114	+5,616%
Profit from discontinued operations net of tax(1)	**–**	**7,731**	(7,731)	–100%
Profit after tax	**53,042**	**8,659**	44,383	+513%

(1) In June 2018, management committed to a plan to sell 90% of one of the subsidiary companies, Clearpay Finance Limited. The sale was completed on the 23 August 2018.

The comparative information for the prior period has been restated (note 32).

Summary of results

- Net profit after tax of £53.04 million in the year up 513% on the restated prior financial year.
- Fair value of retained holding in Clearpay Finance Limited, calculated on agreed valuation principles, generated a gain on financial instruments of £53.67 million in the year.
- The 125,000 Afterpay shares held at 30 June 2019 were sold on 28 August 2019 at AU$27.73 per share. Along with 205,000 Afterpay shares purchased on 23 March 2020 and sold 25 March 2020, these trades generated a realised gain on financial instruments of £0.75 million in the year.
- Basic Earnings Per Share of 49.80 pence at 30 June 2020 up 507% from restated Earnings Per Share of 8.20 pence at 30 June 2019.
- Net assets are £66.5 million at 30 June 2020, equivalent to 62.42 pence per share.
- Available cash assets of £8.8 million at 30 June 2020, up 24% on prior financial year end position.
- The Group returned £3.2 million (A$5.96 million) to shareholders in December 2019.
- After the reporting date, the Group announced that it has agreed a settlement in relation to the legal proceedings issued against Carphone Warehouse in respect of the Flexible Leasing contract and its predecessor Upgrade Everytime contract, as announced on 29 November 2019.

Review of operations

Continuing operations – UK

The UK business incurred a loss (before intercompany recharge of corporate costs) of £0.6m (2019 restated: £0.5m loss) which was driven by lower than expected business volumes achieved through longstanding partner Dixons Carphone (DC). 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 £1.9m for the year were down 59% on prior year of £4.6m driven by reduced volumes of established products due to business change within DC. SmartPlan volumes decreased from £2.7m to £1.6m, Upgrade Anytime volumes decreased from £0.8m to £0.2m and Flexible Leasing volumes decreased from £0.8m to £0.1m for the year. Prior to being sold in August 2018, Clearpay generated £0.3m of new business in the first two months of the comparative period, FY19.

As announced on 29 November 2019, the Group issued a claim against Carphone Warehouse in respect of the Flexible Leasing contract and its predecessor Upgrade Everytime contract. After the reporting date the Group announced that it has agreed a settlement in relation to these contracts of £1.45m inclusive of costs. Legal proceedings were not issued in relation to other contracts with DC (SmartPlan and Upgrade Anytime). As part of this settlement, RentSmart has agreed with DC to the orderly winding up of all its agreements with DC including Flexible Leasing, SmartPlan and Upgrade Anytime.

In the year to 30 June 2020, all of ThinkSmart's new business volumes were generated from its agreements with DC. The Group will continue to service its existing customer base ensuring the fair treatment of customers, along with any new volumes generated during the orderly winding up of the three contracts and will continue to benefit from the cash generated from this business. ThinkSmart anticipates its cash reserves will continue to build over the next few years.

UK Operating costs reduced by 12% to £3.6m (2019 restated: £4.1m) and remained controlled, aligned to current business volumes.

The comparative information for the prior period has been restated (note 32).

Continuing operations – Corporate

Corporate costs (before intercompany recharge of corporate costs), excluding non-operating strategic review and advisory expenses, were £0.7m for the 12 months to 30 June 2020 (in line with the prior year).

Summary Financial Position

	30 June 2020 £,000	Restated 30 June 2019 £,000	Variance £,000	Variance %
Cash and cash equivalents	**8,805**	**7,099**	1,706	+24%
Other assets	**59,269**	**13,557**	45,712	+337%
Goodwill and intangibles	**1,433**	**2,183**	(750)	–34%
Total assets	**69,507**	**22,839**	46,668	+204%
Other liabilities	**(3,019)**	**(6,364)**	3,345	+53%
Total liabilities	**(3,019)**	**(6,364)**	3,345	+53%
Equity	**66,488**	**16,475**	50,013	+304%

The comparative information for the prior period has been restated (note 32).

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The sale of 90% of Clearpay Finance Ltd ("Clearpay") to Afterpay Touch Group Ltd ("Afterpay") in August 2018 has been a significant pivot point for the Group. The initial sale delivered £7.73 million profit after tax which significantly strengthened the Group's balance sheet while also supporting a return to shareholders of £3.18 million in the year ending 30 June 2020 and £4.40 million in the prior year.

ThinkSmart's remaining 10%* holding in Clearpay is subject to a 5 year call option by Afterpay and ThinkSmart holds a 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. ThinkSmart's holding in Clearpay is held as a financial instrument at fair value through profit or loss. As at 30 June 2020 the fair value of this asset, net of the 3.5% ESOP commitment, was determined to be £53.7 million.

Continuing to trade as Clearpay post acquisition by Afterpay, the Clearpay UK business exceeded 1 million active customers in its first full year of operation, representing in excess of 10% of Afterpay's group active customers at 30 June 2020. Growth in active customers was mirrored by growth in merchants, with 1,000 new merchants added to the Clearpay UK platform in the year and a further 450 since year end. Underlying sales for Clearpay were $0.6 billion which represented 5% of Afterpay's group underlying sales. The ongoing growth in Clearpay is beneficial to ThinkSmart.

ThinkSmart has agreed with DC to the orderly winding up of all its agreements with DC including Flexible Leasing, SmartPlan and Upgrade Anytime. As part of the orderly winding up the Group will continue to write new business under these products until a termination date is agreed. Any lease contracts written now can have a minimum term of up to four years during which time the Group will continue to service its customers, collect out the lease receivable and realise commission, inertia and insurance revenue.

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.

The comparative information for the prior period has been restated (note 32).

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 particularly in respect of a new UK-EU trade deal being agreed by 31 December 2020 following the UK leaving the EU on 31 January 2020. 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.

COVID-19

Thanks to operating in a less affected sector of the economy, robust business continuity processes, proactive management and timely access to government support, the Group has so far been only minimally impacted by COVID-19. While the UK government enforced the closure of DC retail outlets the Group has continued to originate new and repeat business through the DC call centre. Having assessed the critical areas of cash flows, going concern, impairment of assets, accounting estimates and judgements and expected credit losses, the Group has more than adequate resources to meet its liabilities as they fall due even when stressed to reasonable worst case scenarios.

Prior to the outbreak of COVID-19 the Group already had in place a robust risk management structure which has been augmented by the adoption of a specific COVID-19 risk assessment and associated updates to operating procedures. In line with UK government guidance, the Group has facilitated remote working for all staff and supporting a safe working environment with a focus on staff health and wellbeing. The Group has in place adequate measures to ensure that its going concern status and ongoing performance will not be materially compromised by the impact of COVID-19.

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 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 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 STB and also, the cost for STB to finance the leases which it funds.

In March 2020, the Bank of England base rate was reduced from 0.75% to 0.25% and then to 0.1%. 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 ret urn 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 for new business volumes

The vast majority of the Group's new business volumes are from its retail partners, Dixons Retail and Carphone Warehouse (together DC), one of Europe's leading specialist electrical and telecommunications retailers. The Group has agreed with DC to the orderly winding up of all its agreements with DC including Flexible Leasing, SmartPlan and Upgrade Anytime. As part of the orderly winding up the Group will continue to write new business under these products until a termination date is agreed. Any lease contracts written now can have a minimum term of up to four years during which time the Group will continue to service its customers, collect out the lease receivable and realise commission, inertia and insurance revenue.

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 29 November 2019 shareholders approved a return of capital of up to AUD $5,964,560 to shareholders (the "Distribution") in two parts:

1. a capital reduction, pursuant to which the Company will return 3.6 cents per share (or depositary interest) to shareholders (or depositary interest holders) ("Return of Capital"); and
2. a special unfranked dividend of 2.0 cents per ordinary share (or depositary interest) - declared as attaching conduit foreign income ("Dividend").

The return of capital and dividend had a record date of 6 December 2019 and were paid on 20 December 2019.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD END DATE

In November 2019, one the of the Group companies, RentSmart Ltd (RentSmart), issued a claim against The Carphone Warehouse Ltd (part of the Dixons Carphone plc group (DC)) in respect of the Flexible Leasing contract and its predecessor Upgrade Everytime contract. The Group announced on 10 August 2020 that it had agreed a settlement in relation to these contracts of £1.45m inclusive of costs. Legal proceedings were not issued in relation to other contracts with the Dixons Carphone plc group (SmartPlan and Upgrade Anytime). As part of this settlement, RentSmart has agreed with DC to the orderly winding up of all its agreements with DC including Flexible Leasing, SmartPlan and Upgrade Anytime.

The claim has been accounted for as a contingent asset at 30 June 2020 (see Note 29) as the likelihood of settlement was uncertain at that time. The £1.45m settlement amount agreed on 7 August 2020 was received on 18 August 2020 and will be recognised as income in the year to 30 June 2021.

In the year to 30 June 2020, all of ThinkSmart's new business volumes were generated from its agreements with DC. The Group will continue to service its existing customer base ensuring the fair treatment of customers, along with any new volumes generated during the orderly winding up of the three contracts and will continue to benefit from the cash generated from this business. ThinkSmart anticipates its cash reserves will continue to build over the next few years.

ThinkSmart also retains a 10% share of the UK Afterpay business, which continues to trade as Clearpay, inclusive of 3.5% being made available to the Afterpay UK employee share ownership scheme. In addition, ThinkSmart provides an outsourced call centre customer support service for Clearpay.

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 Chairman, I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level. 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 continue to acknowledge the importance of the principles of the QCA Corporate Governance Code (the "QCA Code"). Our Directors' report sets out how we apply the QCA Code principles and explains how our Board and Committees operate. As a Board we believe that, with the exception of principle 7, we apply the principles of the 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 and the business model can be found in the Operating and Financial Review 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. The Board regularly considers and reviews the risks and opportunities for the business and ensures that the mitigation strategies in place are the most effective and appropriate to the Group's operations. Further details on our risks can be found in the Risks section of the Directors' report.

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, 16 September 2020

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. As announced on 11 May 2020, Roger will retire from the Board of the Company at the next Annual General Meeting, expected to be in November 2020. The Board continues to consider that its composition 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 ('List of Reserved Matters') which includes responsibility for the overall management of the Group and long-term objectives and strategy, 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. 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.

Board Committees

The Board has delegated specific responsibilities to the Audit Committee and the Remuneration and Nominations Committee. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. These terms of reference are reviewed annually to ensure they remain relevant and appropriate and reflect changes to legislation and best practice.

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 as well as the Annual General Meeting.

External Advisers

The Board seeks advice on various matters from its Nominated Adviser (Canaccord Genuity) and lawyers (Shoosmiths in the UK and Herbert Smith Freehills LLP in Australia). 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. 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
G Halton	4/4	–	–
D Adams	4/4	3/3	2/2
R McDowell	4/4	3/3	2/2

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 qualified 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 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; and
- 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; and
- 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, 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.

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; and

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.

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	12,582,572	–
G Halton	–	470,659
D Adams	100,000	–
R McDowell	–	–

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), David Adams and Roger McDowell. 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 20.

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
- 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; and

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 2020, comprise:

Executive Directors

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

Non-Executive Directors

P Gammell
D Adams
R McDowell

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

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

The remuneration structures take into account:

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

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

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

Non-Executive Directors

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

Non-Executive Directors' Fees

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool of $600,000 per annum and were approved by shareholders at a previous general meeting. The total fees paid in the financial year were £74,872. 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.

		At risk	
	Fixed remuneration	**Short-term incentive**	**Long-term incentive**
CEO	98%	0%	2%
Other executives	95%	4%	1%

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.

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 2020	Restated 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)	£53,042	£8,659	(£4,558)	(£1,842)	£301
Basic EPS (pence per share)	49.80 pence	8.20 pence	(4.34) pence	(1.77) pence	0.31 pence
Dividends paid (£,000)	£1,135	£2,214	–	£536	£2,094
Dividend paid per share (pence)	1.09 pence	2.08 pence	–	5.36 pence	2.23 pence
Capital return paid (£,000)	£2,047	£2,186	–	–	–
Capital returned per share (pence)	1.92 pence	2.05 pence	–	–	–
Share price at year end	£0.205	£0.078	£0.093	£0.145	£0.211
Change in share price	£0.127	(£0.015)	(£0.052)	(£0.066)	£0.06

The comparative information for the prior period has been restated (note 32).

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 Long Term	Share-Based payments		
		Salary & Fees £	STI Cash Bonus £	Other £	Non-monetary Benefits £	Total £	Superannuation Benefits £	Termination Benefits £	Long Service Entitlement £	Options & Rights £	Shares £	Total £
Directors												
Non-Executive Directors												
K Jones	YE Jun20	–	–	–	–	–	–	–	–	–	–	–
(resigned 27 June 2019)	YE Jun19	48,500	–	–	–	48,500	–	–	–	–	–	48,500
P Gammell	YE Jun20	24,872	–	–	–	24,872	2,363	–	–	–	–	27,235
	YE Jun19	37,335	–	–	–	37,335	4,069	–	–	–	–	41,404
D Adams	YE Jun20	30,000	–	–	–	30,000	–	–	–	–	–	30,000
	YE Jun19	46,000	–	–	–	46,000	–	–	–	–	–	46,000
R McDowell	YE Jun20	20,000	–	–	–	20,000	–	–	–	–	–	20,000
	YE Jun19	36,000	–	–	–	36,000	–	–	–	–	–	36,000
Executive Directors												
N Montarello	YE Jun20	228,818	–	–	–	228,818	11,608	–	2,575	4,050	–	247,051
	YE Jun19	162,701	–	–	–	162,701	16,581	–	2,662	–	195,000	371,620
G Halton	YE Jun20	148,500	10,000	–	1,219	159,719	–	–	–	1,775	–	161,494
	YE Jun19	148,000	111,500	–	1,257	260,757	–	–	–	–	–	260,757
Total	**YE Jun20**	**452,190**	**10,000**	**–**	**1,219**	**463,409**	**13,971**	**–**	**2,575**	**5,825**	**–**	**485,780**
Total	YE Jun19	478,536	111,500	–	1,257	591,293	20,650	–	2,662	–	195,000	804,281

The comparative information for the prior period has been restated (note 32).

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 17 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

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 D ate 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").

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; and
- 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; and

- 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 75%	Performance conditions for vesting 25%	Exercise price	Vesting date
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	100%	–%	2020
G Halton	Share options	470,659	22/12/2016	100%	–%	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.

Employee Options and Loan-Funded Shares

	Held at 30 June 2019	Held at date of new appointment	Granted as compensation	Exercised	Cancelled, forfeited or expired	Held at 30 June 2020	Vested during the year	Vested and exercisable at 30 June 2020
Directors								
N Montarello	1,073,863	–	–	–	–	1,073,863	1,073,863	1,073,863
G Halton	470,659	–	–	–	–	470,659	470,659	470,659

	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 2019
Directors								
N Montarello	1,323,863	–	–	–	(250,000)	1,073,863	–	–
G Halton	533,159	–	–	–	(62,500)	470,659	–	–

All of the amounts held at 30 June 2020 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 2019	Purchases	Rights issue	Held at date of appointment	Sales	Received on exercise of options	Loan-funded share issue	Loan-funded share issue cancelled, forfeited or expired	Granted as compensation	Held at 30 June 2020
Directors										
N Montarello	31,339,886	–	–	–	–	–	–	–	–	31,339,886
P Gammell	10,082,572	2,500,000	–	–	–	–	–	–	–	12,582,572
D Adams	–	100,000	–	–	–	–	–	–	–	100,000
R McDowell	1,600,000	–	–	–	(1,600,000)	–	–	–	–	–

	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 share issue 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
R McDowell	1,600,000	–	–	–	–	–	–	–	–	1,600,000

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	10,000	10,000	100%	–%

(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 2020. 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 2020 (30 June 2019: nil).

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 Limited issued to Key Management Personnel during the financial year are detailed in Note 21(b)(i) and pages 21 to 23 of the Remuneration Report.

End of audited Remuneration Report.

INDEMNIFICATION AND INSURANCE

During the year ended 30 June 2020, 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.

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

BDO have conducted the audit of the Company's consolidated financial statements for the financial year ended 30 June 2020. 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 2020, this includes any non-audit services.

Details of the amounts paid or payable and expensed to 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 2020 £
Audit and review of consolidated financial statements	140,966
Total paid or payable to Company auditors	140,966

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.

AUDITOR'S INDEPENDENCE DECLARATION

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

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

N Montarello
Chairman
Perth, Western Australia, 16 September 2020

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www.bdo.com.au

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Subiaco, WA 6008
PO Box 700 West Perth
WA 6872 Australia

Declaration of Independence by Ashleigh Woodley to the Directors of Thinksmart Limited

As lead auditor of ThinkSmart Limited for the year ended 30 June 2020, 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.

BDO

Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd
Perth, 16 September 2020

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 2020 and of its performance for the financial year ended on that date; and

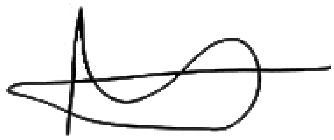
      ii. Complying with the Australian Accounting Standards and the Corporations Regulations 2001.

   (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 2020.

3. The Directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with Australian Accounting Standards.

Signed in accordance with a resolution of the Directors:



N Montarello
Chairman
Perth, Western Australia, 16 September 2020

Consolidated Statement of Profit & Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2020

	Notes	12 Months to June 2020 £,000	Restated 12 Months to June 2019 £,000
Continuing operations			
Revenue	6(a)	6,079	7,240
Other revenue	6(b)	253	897
Total revenue		6,332	8,137
Customer acquisition cost	6(c)	(627)	(965)
Cost of inertia assets sold	6(d)	(700)	(902)
Other operating expenses	6(e)	(4,270)	(4,753)
Depreciation and amortisation	6(f)	(2,047)	(2,368)
Impairment losses	6(g)	(2)	(272)
Gains on Financial Instruments	6(h)	54,418	1,647
Profit before tax		53,104	524
Income tax (charge)/benefit	7	(62)	404
Net Profit after tax from continuing operations		53,042	928
Gain from discontinued operations net of tax	8	–	7,731
Net Profit after tax – attributable to owners of the Company		53,042	8,659
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation differences for foreign operations		146	(134)
Total items that may be reclassified subsequently to profit or loss net of income tax		146	(134)
Other comprehensive income/(loss) for the year, net of income tax		**146**	**(134)**
Total comprehensive income for the year attributable to owners of the Company		**53,188**	**8,525**
Earnings per share			
Basic Earnings per share (pence)	30	49.80	8.20
Diluted Earnings per share (pence)	30	48.99	8.20

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

The comparative information for the prior period has been restated (note 32).

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	June 2020 £,000	Restated June 2019 £,000
Current assets			
Cash and cash equivalents	22(a)	8,805	7,099
Trade receivables	26(c)	129	82
Finance lease receivables	9	431	2,640
Tax receivable	7	–	540
Other current assets	10	924	2,721
Total current assets		10,289	13,082
Non-current assets			
Finance lease receivables	9	15	805
Plant and equipment	14	460	539
Intangible assets	15	1,433	2,183
Financial assets at fair value through profit or loss	11	53,733	1,795
Contract assets	12	1,430	2,032
Other non-current assets	13	2,147	2,403
Total non-current assets		59,218	9,757
Total assets		69,507	22,839
Current liabilities			
Trade and other payables	17	(1,195)	(1,279)
Lease liabilities	18	(94)	(86)
Contract liabilities	19	(648)	(772)
Other interest bearing liabilities	20	–	(1,907)
Provisions	17	(255)	(252)
Total current liabilities		(2,192)	(4,296)
Non-current liabilities			
Lease liabilities	18	(148)	(244)
Contract liabilities	19	(679)	(1,221)
Other interest bearing liabilities	20	–	(603)
Total non-current liabilities		(827)	(2,068)
Total liabilities		(3,019)	(6,364)
Net assets		**66,488**	**16,475**
Equity			
Issued capital	21(a)	13,164	15,211
Reserves		(2,832)	(2,978)
Accumulated profits		56,156	4,242
Total equity		**66,488**	**16,475**

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

The comparative information for the prior period has been restated (note 32).

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2020

	Fully paid ordinary shares £,000	Foreign currency translation reserve £,000	Accumulated Profit £,000	Attributable to equity holders of the parent £,000
Consolidated				
Balance at 1 July 2018	17,397	(2,844)	(2,310)	12,243
Effects of adoption of IFRS 16	–	–	(91)	(91)
Restated balance at 1 July 2018	17,397	(2,844)	(2,401)	12,152
Profit for the year	–	–	8,659	8,659
Exchange differences arising on translation of foreign operations, net of tax	–	(134)	–	(134)
Total comprehensive income/(loss) for the year	–	(134)	8,659	8,525
Transactions with owners of the Company, recognised directly in equity				
Contributions by and distributions to owners of the Company				
Capital return paid	(2,186)	–	–	(2,186)
Dividends paid	–	–	(2,214)	(2,214)
Recognition of share-based payments	–	–	198	198
Restated Balance at 30 June 2019	15,211	(2,978)	4,242	16,475
Balance at 1 July 2019	15,211	(2,977)	4,340	16,574
Effects of adoption of IFRS 16	–	(1)	(98)	(99)
Restated Balance at 1 July 2019	15,211	(2,978)	4,242	16,475
Profit for the year	–	–	53,042	53,042
Exchange differences arising on translation of foreign operations, net of tax	–	146	–	146
Total comprehensive income for the year	–	146	53,042	53,188
Transactions with owners of the Company, recognised directly in equity				
Contributions by and distributions to owners of the Company				
Capital return paid	(2,047)	–	–	(2,047)
Dividends paid	–	–	(1,135)	(1,135)
Recognition of share-based payments	–	–	7	7
Share options exercised	–	–	–	–
Balance at 30 June 2020	13,164	(2,832)	56,156	66,488

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

The comparative information for the prior period has been restated (note 32).

Consolidated Statement of Cash Flows

For the Financial Year Ended 30 June 2020

	Notes	12 Months to June 2020 £,000	Restated 12 Months to June 2019 £,000
Cash Flows from Operating Activities			
Receipts from customers		4,741	6,228
Payments to suppliers and employees		(4,670)	(5,449)
Receipts in respect of lease receivables		3,244	3,916
Payments from other interest-bearing liabilities, inclusive of related costs		(2,533)	(2,708)
Interest received		108	131
Interest and finance charges paid		(380)	(348)
(Payments)/receipts from security guarantee		(29)	278
Income tax received		478	513
Net cash from operating activities	22(b)	959	2,561
Cash Flows from Investing Activities			
Payments for plant and equipment		(398)	(54)
Payment for intangible assets – software & contract rights		(111)	(328)
Disposal of discontinued operation net of tax		–	(1,392)
Payments for purchase of financial instruments		(987)	–
Receipts from sale of financial instruments		5,376	8,453
Net cash from investing activities		3,880	6,679
Cash Flows from Financing Activities			
Payment of lease liabilities		(114)	(112)
Dividends paid		(1,135)	(2,214)
Share buyback/return of capital net of costs		(2,047)	(2,186)
Net cash (used in) financing activities		(3,296)	(4,512)
Net increase in cash and cash equivalents		1,543	4,728
Effect of exchange rate fluctuations on cash held		163	(152)
Cash and cash equivalents at beginning of the financial year		7,099	2,523
Cash and cash equivalents from discontinued operations	8	–	–
Total cash and cash equivalents at the end of the financial period	22(a)	8,805	7,099
Restricted cash and cash equivalents at the end of the financial period	22(a)	(61)	(55)
Net available cash and cash equivalents at the end of the financial period		8,744	7,044

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

The comparative information for the prior period has been restated (note 32).

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 Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The consolidated financial statements were authorised for issue by the Board of Directors on 16 September 2020.

(b) ***Basis of measurement***

The financial report has been prepared on the basis of historical cost, except for 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 2016/191 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. The Directors have assessed the impact of COVID-19 on the current and forecast position of the Group. As the Group has only been minimally impacted the Directors are satisfied that the Group has more than adequate resources to meet its liabilities as they fall due even when stressed to reasonable worst case scenarios.

3. Significant Accounting Policies

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

(a) *Basis of consolidation*

(i) *Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries acquired or disposed of during the 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 change d 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.

(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 16 Leases (previously AASB 117) and AASB 9 Financial Instruments.

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).

3. Significant Accounting Policies (continued)

(c) ***Revenue recognition (continued)***

Where the Group is acting as the lessor it follows the treatment outlined in AASB 16. In accordance with AASB 16 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.

(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 th e 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.

3. Significant Accounting Policies (continued)

(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***

The financial instruments held by the Group are the financial assets and financial liabilities reflected in the statement of financial position. As at 30 June 2020 the financial instruments held by the Group comprised the 10% holding in Clearpay Finance Limited and the Financial Guarantee Contract with STB. Other assets and liabilities held by the Group excluded from financial instruments include lease contracts which are accounted for under AASB 16, property, plant and equipment, intangible assets, accruals, prepayments, provisions, tax liabilities and investments in subsidiaries.

(i) *Non-derivative financial assets*

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- The Group's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

The Group measures a financial asset at fair value through profit or loss unless it is measured at amortised cost or fair value through other comprehensive income having met the criteria specified in AASB 9 – Financial Instruments in respect of business model and cash flows that are solely payments of principal and interest.

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.

3. Significant Accounting Policies (continued)

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

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.

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.

3. Significant Accounting Policies (continued)

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

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 li fe 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, gains or losses are recognised in other comprehensive income, except for impairment gains of losses and foreign exchange gains or losses, until the asset is derecognised or reclassified. In all other cases, the loss allowance in excess of amounts previously recognised is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than 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 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.

3. Significant Accounting Policies (continued)

(i) ***Intangible assets (continued)***

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) ***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.

(k) ***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.

(l) ***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.

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 the initial recognition of goodwill.

3. Significant Accounting Policies (continued)

(l) ***Income tax (continued)***

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.

(m) ***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.

(n) ***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 payment s 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)

(o) ***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.

(p) ***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.

(q) ***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); and

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 11 (ii) – financial assets at fair value through profit or loss;

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

Note 26(b) – financial instruments.

(r) ***Government Grants***

In the current year the Group has applied for and received government support through the UK government Coronavirus Job Retention Scheme (CJRS). The Group recognises government grants only where it is reasonably certain that the Group will comply with the conditions attached to the grant and it is reasonably likely that the grant will be received. The CJRS is designed to compensate for staff costs so the Group recognises grant funding in the period necessary to match it with the corresponding staff costs. A grant receivable as compensation for expenses already incurred is recognised when it becomes receivable. The Group presents the relevant expenses net of any grant income received (note 6(e)).

3. Significant Accounting Policies (continued)

(s) ***New or amended Accounting Standards and Interpretations adopted***

The Group has adopted all of the new or amended Australian Accounting 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 16 Leases

The Group has adopted AASB 16 in the current year applying the full retrospective transition approach with the date of initial application being 1 July 2019. 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. The only operating lease held by the Group which is relevant to AASB 16 is for its office space at Oakland House, Manchester.

Under the full retrospective transition approach the Group has restated the prior year statement of financial position to recognise a right of use asset equal to the value of the lease liability at the inception of the lease, plus the initial direct costs incurred and the estimated costs for restoring the property to its original condition. The Group has simultaneously recognised accumulated depreciation on the right of use asset from the inception of the lease through to the reporting date. Depreciation on the right of use asset is charged on a straight-line basis over the ten year period of the lease.

In addition to the right of use asset AASB 16 also requires the Group to recognise a lease liability in respect of the lease payments due to the lessor. Again, the prior year financial statements have been restated to reflect the position as if AASB 16 had always been in effect. The lease liability has been recognised at the present value of all future lease payments due. As the interest rate implicit in the lease is not readily determinable the discount rate of 9.14% used is the Group's incremental borrowing rate being the STB cost of funds using an estimated 10 year interest rate swap at February 2013.

As at 30 June 2020 the effect of the adoption of AASB 16 is that the Group now holds a right of use lease asset with a value of £184,011 and a corresponding lease liability with a value of £241,859. Including the elimination of accruals and prepayments held under AASB 117 the overall impact as at the date of adoption is a reduction to Net Assets of £96,262. Right of use assets are detailed in note 14 and lease liabilities are detailed in note 18 below. The interest and depreciation charged on the lease are included in the Consolidated Statement of Profit or Loss with the interest charged disclosed in note 6 and the depreciation charge disclosed in note 14 below.

Reconciliation of operating lease commitments:	**£,000**
Operating lease commitments disclosed as at 30 June 2019	359
Add: release of initial rent free period benefit deferred under AASB 117	29
Less: discount using Group's incremental borrowing rate of 9.14% at lease inception	(58)
Lease liabilities recognised at 1 July 2019 (Note 18)	330

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

Lease receivables

The adoption of AASB 16 has no effect on the accounting treatment for lessor accounting and therefore the Group's accounting policy remains the same as under AASB 117. The Group has entered into financing transactions with customers and has classified 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 t he 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.

3. Significant Accounting Policies (continued)

(s) ***New or amended Accounting Standards and Interpretations adopted (continued)***

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(h)(iii)).

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC 23 (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019) provides a framework and specific guidance to consider, recognise and measure the accounting impact of tax uncertainties that was not included in AASB 112. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. Under IFRIC 23, an entity shall assume that a taxation authority will examine amounts which it has a right to examine and have full knowledge of all related information when making those examinations.

The Group determined that it is probable that the tax treatments adopted by the Group will be accepted by the tax authorities. This interpretation did not have an impact on the Group's consolidated financial statements.

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

A number of new and revised standards issued by the AASB have not yet come into effect. Below are those which are relevant to the Group.

Amendment to AASB 3: Definition of a Business

In October 2018, the AASB issued amendments to the definition of a business in AASB 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to AASB 101 and AASB 108: Definition of Material

In October 2018, the AASB issued amendments to AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

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)

Revenue from contracts with customers (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 3(c) – Determination of consideration of separate performance obligation

Note 12 – measurement of contract asset non-cash consideration;

Note 19 – measurement of contract liabilities; and

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

Fair Value of Investments

The valuation of the Group's retained holding in Clearpay Finance Limited ("Clearpay"), following the sale of 90% of Clearpay to ASX listed Afterpay Ltd (formerly Afterpay Touch Group Ltd) ("Afterpay") on 23 August 2018, is based on the agreed valuation principles for the purpose of the Afterpay call option to purchase and the Group's put option to sell the Group's holding in Clearpay to Afterpay at any time after 23 August 2023 and 23 February 2024 respectively. The key judgements that are critical to the valuation are the interpretation of the agreed valuation principles, market valuation of Afterpay Ltd in GBP equivalent, and the relevant proportion of this that relates to Clearpay, and the discount to be applied for minority holding and lack of marketability of Clearpay as a standalone entity. In order to support these judgements, management have appointed independent valuation experts to advise on this matter. The independent valuation process, in accordance with the agreed valuation principles, uses the same valuation metrics, multiples and methodologies, including those used by market participants and with regard to sell-side analysts, to value the Clearpay business within the Afterpay listed group. The Directors note that, as at 30 June 2020, Afterpay have included the Group's put option as a separate financial liability in their accounts at AU$3m.

Right of use lease asset and lease liability – AASB 16

The Group has adopted AASB 16 – Leases in the current accounting period with the date of adoption being 1 July 2019. The Group has implemented the full retrospective transition approach. The adoption of AASB 16 has introduced related estimates and judgements in respect of the term of the lease and the discount rate used where it is not possible to determine the interest rate implicit in the lease. At the reporting date it is reasonably certain that the Group will not terminate the lease before the minimum term while there is also no indication that it is reasonably certain that the lease will be extended beyond that date. As it is not possible to determine the interest rate implicit in the lease management have estimated the discount rate equivalent to the borrowing rate available to the business over the same period as the lease term.

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; and
- 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 26(c).

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.

5. Financial Risk Management (continued)

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 2020 the Group has drawn down £5k on its STB loan facility of £10m due to account charges applied on the last day of the month and paid off as the rental payments are received on the first day of the month. 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;
- 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.

5. Financial Risk Management (continued)

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 2020 £,000	Restated 30 June 2019 £,000
Total liabilities	3,019	6,364
Less cash and cash equivalents	(8,805)	(7,099)
Net (cash)	(5,786)	(735)
Total capital	66,488	16,475
Debt-to-adjusted capital ratio	(0.09)	(0.04)

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 29 November 2019 shareholders approved a return of capital of up to AUD $3,834,360 along with an unfranked dividend of up to AUD $2,130,200. On 29 November 2019 the Group announced that the Company would distribute AUD $5,964,560 to shareholders (the "Distribution") in two parts:

1. a capital reduction, pursuant to which the Company will return 3.6 cents per share (or depositary interest) to shareholders (or depositary interest holders) ("Return of Capital"); and
2. a special unfranked dividend of 2.0 cents per ordinary share (or depositary interest) – declared as attaching conduit foreign income ("Dividend").

The return of capital and dividend have a record date of 6 December 2019 and were paid on 20 December 2019.

6. Consolidated Statement of Profit and Loss

	12 Months to 30 June 2020 £,000	Restated 12 Months to 30 June 2019 £,000
Profit is arrived at after crediting/(charging) the following items:		
(a) ***Revenue***		
Commission income	2,409	3,200
Extended rental income	1,869	2,444
Income earned from sale of inertia equipment	727	778
Outsourced services	496	–
Services revenue – insurance commission	398	586
Interest revenue – other entities	108	131
Fee revenue – customers	72	101
	6,079	7,240

6. Consolidated Statement of Profit and Loss (continued)

(b) ***Other revenue***

Finance lease income	247	814
Other revenue	6	83
	253	897
Total revenue	6,332	8,137
All revenue is generated in the UK from the following products:		
SmartPlan	5,088	5,828
Upgrade Anytime	450	1,220
Flexible Leasing	185	742
Other/non-product specific	609	347
	6,332	8,137

(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 inertia assets, including that transferred from PPE Operating Lease assets when the end customer terminates their lease agreement during secondary period, upon sale of inertia equipment.

	30 June 2020 £,000	**Restated 30 June 2019 £,000**
(e) ***Other operating expenses***		
Employee benefits expense:		
– Payments to employees[(i)]	(1,749)	(1,871)
– Employee superannuation costs	(90)	(139)
– Share-based payment expense	(7)	(195)
	(1,846)	(2,205)
Occupancy costs	(169)	(174)
Lease interest charge	(26)	(37)
Professional services	(805)	(720)
Finance charges	(380)	(348)
Losses arising from financial guarantee contract	(367)	(344)
Other costs	(677)	(925)
	(4,270)	(4,753)

(i) Payments to employees are presented net of government grants received through the UK government Coronavirus Job Retention Scheme. In the year the Group received payments of £19,372 (FY19: £nil).

	30 June 2020 £,000	**Restated 30 June 2019 £,000**
(f) ***Depreciation and amortisation***		
Depreciation	(820)	(1,090)
Amortisation	(1,227)	(1,278)
	(2,047)	(2,368)

6. Consolidated Statement of Profit and Loss (continued)

(g) ***Impairment losses***

Impairment losses finance leases and receivables	(182)	(333)
Movement in provision for expected credit losses	180	61
	(2)	(272)

(h) ***Gains on financial instruments***

Realised gain	745	1,226
Unrealised gain	53,673	421
	54,418	1,647

In the period to 30 June 2020 realised gains arose on the disposal of the remaining 125,000 Afterpay Limited (APT) shares on 28 August 2019 at AU$27.73 (£15) per share. An additional realised gain arose on the trading of 205,000 APT shares, purchased on 23 March 2020 at AU$9.71 and disposed on 25 March 2020 at AU$15.08. Unrealised gains arose from the revaluation of the Group's investment in 10% of Clearpay Finance Limited (see note 11(ii)). These amounts are shown above.

In the period to 30 June 2019 realised gains arose on disposal of the full tranche 1 of 750,000 APT shares on 24 August 2018 and the further disposal of the first 125,000 tranche 2 shares on 27 June 2019. In the period to 30 June 2019 unrealised gains arose on revaluation of the remaining 125,000 shares in APT to a share price of AUD $25.07 per share. These amounts are shown above.

7. Income Tax

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

	30 June 2020 £,000	**Restated 30 June 2019 £,000**
The major components of income tax (expense)/benefit are:		
Current income tax expense	(62)	(67)
Adjustment for prior year	–	540
Deferred income tax (expense)/benefit		
Origination and reversal of temporary differences	–	–
Adjustment for prior year	–	(69)
Total income tax (expense)/benefit	(62)	404

7. Income Tax (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 2020 £,000	Restated 30 June 2019 £,000
Accounting profit before tax	53,104	8,265
At the statutory income tax rate of 30%	(15,931)	(2,480)
Effect of tax rates in foreign jurisdictions	5,824	885
Non-deductible expenses	(1)	(147)
Non-taxable gain (Substantial Shareholdings Exemption)	10,198	1,954
Losses carried back	–	–
Losses carried forward	(136)	–
Irrecoverable withholding tax	(16)	–
Overseas tax losses (recognised)	–	(279)
Adjustments in respect of prior years	–	471
Income tax credit/(charge)	(62)	404
Deferred tax asset		
Accrued expenses	–	–
Employee entitlements	–	–
Intangible assets	–	–
Total	–	–
Net deferred tax asset/(liability) for UK	–	–
Net deferred tax asset for Australia	–	–
Tax receivable/(payable)		
Current	–	540

The current tax asset/(liability) is recognised for income tax receivable/(payable) in respect of all periods to date. The Group has an unrecognised deferred tax asset of £1.0m at 30 June 2020 (30 June 2019 restated: £0.8m) being mainly in respect of the estimated £6.1m (30 June 2019 restated: £5.3m) of UK tax losses carried forward.

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 2020 £,000	30 June 2019 £,000
Revenue	–	11
Total revenue	–	11
Customer acquisition costs	–	(62)
Other operating expenses	–	(52)
Depreciation and amortisation	–	(49)
Impairment losses	–	(8)
Loss before tax	–	(160)
Income tax expense	–	–
Loss after tax	–	(160)
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 after tax from discontinued operations	–	7,731

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 23 August 2018 the disposal group was stated at Fair Value and comprised the following assets and liabilities.

	30 June 2020 £,000	30 June 2019 £,000	23 August 2018 £,000
Cash and equivalents	–	–	–
Trade receivables	–	–	24
Finance loan receivable	–	–	178
Intangible assets	–	–	1,554
Assets held for sale/sold	–	–	1,756
Trade and other payables	–	–	20
Deferred income	–	–	9
Liabilities held for sale/sold	–	–	29
Net assets sold	–	–	1,727

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

Cash flows in relation to discontinued operations were as follows.

	30 June 2020 £,000	30 June 2019 £,000
Cash Flows from Operating Activities		
Receipts from customers	–	11
Payments to suppliers and employees	–	(352)
	–	(341)
Cash Flows from Investing Activities		
Payment for intangible assets – software	–	(246)
Payment of costs associated with sale of discontinued operation	–	(892)
	–	(1,138)
Net increase/(decrease) in cash and cash equivalents	–	(1,479)
Cash and cash equivalents at beginning of the financial year	–	87
Cash and cash equivalents at the end of the financial period	–	–
Cash flows from discontinued operations	–	(1,392)

9. Finance lease receivables

	30 June 2020 £,000	30 June 2019 £,000
Current		
Gross investment in finance lease receivables	207	2,721
Unguaranteed residuals	331	390
Unearned future finance lease income	(43)	(283)
Net lease receivable	495	2,828
Allowance for expected credit losses	(64)	(188)
	431	2,640
Non-current		
Gross investment in finance lease receivables	7	556
Unguaranteed residuals	11	430
Unearned future finance lease income	(1)	(122)
Net lease receivable	17	864
Allowance for expected credit losses	(2)	(59)
	15	805
Balance at 1 July	3,445	6,819
Receipts in respect of lease receivable	(3,244)	(3,916)
Finance lease income	247	814
Impairment loss	(2)	(272)
	446	3,445

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 and note 5 for further information on financial risk management. See note 26(c) for detailed analysis of the ageing of lease receivables and expected credit losses recognised.

10. Other Current Assets

	30 June 2020 £,000	Restated 30 June 2019 £,000
Prepayments	233	290
Insurance prepayments	55	137
Accrued income – insurance commission (see Note 13(i))	290	321
Other debtors(i)	–	1,909
Sundry debtors	346	64
	924	2,721

(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 2020 £,000	Restated 30 June 2019 £,000
125,000 APT shares held at fair value(i)	–	1,735
Investment in Clearpay Finance Limited(ii)	53,733	60
	53,733	1,795

(i) At 30 June 2019 the Group held 125,000 Afterpay Ltd (APT) shares at fair value. APT are listed on the Australian Stock Exchange (ASX) and the shares 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. The holding of 125,000 APT shares were sold on 28 August 2019 at AUD 27.73 per share.

(ii) On 23 August 2018 the Group sold 90% of Clearpay Finance Limited to Afterpay Ltd (formerly Afterpay Touch Group Ltd) (ASX:APT). The Group retains a 10% shareholding in Clearpay which is held as an investment at fair value through profit or loss under AASB 9. A proportion of the 10% shareholding (up to 35%) will be made available by the Group to employees of Clearpay under an employee share ownership plan ("ESOP"). Afterpay has a call option to purchase the remaining shares held by the Group, exercisable at any time after 23 August 2023. The Group has a reciprocal put option to sell the remaining shares held by the Group to Afterpay, exercisable after 23 February 2024. Under either the call or put option, the sale of the Clearpay shares to Afterpay will be at a price calculated on agreed valuation principles. The Group engaged a third party global professional services firm to value its retained shareholding in Clearpay at 30 June 2020 for accounting purposes under AASB 9 in accordance with AASB 13 (Fair Value Measurement). The independent valuation process, in accordance with the agreed valuation principles, uses the same valuation metrics, multiples and methodologies, including those used by market participants and with regard to sell-side analysts, to value the Clearpay business within the Afterpay listed group. This valuation has been undertaken based on publicly available information, reflecting the above and including a discount of 20% to be applied for minority holding and the lack of marketability of Clearpay as a privately owned company, and has produced a range of values for the Group's 10% shareholding in Clearpay. Reducing the discount for lack of marketability to 10% would increase the fair value by £6.7m; increasing the discount for lack of marketability to 30% would reduce the fair value by £6.7m. Since March 2020 the Afterpay share price has been on an upward trajectory which has continued since the year end indicating continued growth in the value of the Group's 10% shareholding. Further, the Afterpay FY20 accounts reflect that initial growth in active customers is followed by increases in the transaction value and underlying sales metrics as the customer base matures and repeat spend increases. In FY20 Afterpay's Australia and New Zealand business, which is their most mature market, represented 59.5% of underlying sales but only 33.3% of active customers. For the same period, the US market represented 36% of underlying sales but 57% of active customers, and the UK market represented 5.4% of underlying sales but 10% of active customers. To reflect the relationship between maturity of customer base and underlying sales the Directors believe that greater weighting should be assigned to active customers. In line with this the Group has taken the valuation of the 10% shareholding at two thirds of the range produced by the independent valuation. As the Group has limited control over the setting of the price that it will receive for the transfer of the ESOP shares to the Clearpay employees, the Group has further discounted the valuation by 35% to determine the accounting fair value of its retained shareholding in Clearpay to be £53.733m at 30 June 2020. The investment in Clearpay is a level 3 financial instrument.

12. Contract assets

	30 June 2020 £,000	Restated 30 June 2019 £,000
Balance at 1 July	2,032	2,739
Recognised as revenue in period(i)	858	1,208
Recognised as customer acquisition cost(ii)	(145)	(135)
Transferred to Plant & Equipment Operating lease additions	(1,315)	(1,780)
	1,430	2,032
Contract asset revenue to be recognised less than 1 year	479	741
Contract asset revenue to be recognised between 1 and 2 years	180	347
Contract asset revenue to be recognised between 2 and 3 years	42	83
Contract asset revenue to be recognised between 3 and 4 years	2	5
	703	1,176

(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.

13. Other Non-Current Assets

	30 June 2020 £,000	Restated 30 June 2019 £,000
Insurance prepayments	5	100
Accrued income – insurance commission(i)	86	276
Deposits held by funders(ii)	2,056	2,027
	2,147	2,403

(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 26 for further information.

14. Plant and Equipment

	Plant & Equipment (Australia) £,000	Plant & Equipment (UK) £,000	Office Lease Right of Use Asset £,000	Plant & Equipment Operating Lease £,000	Total £,000
Gross Carrying Amount					
Cost or deemed cost					
Restated balance at 30 June 2018	79	2,556	690	2,135	5,460
Effect of movement in exchange rate	(2)	–	–	–	(2)
Transferred from contract assets	–	–	–	1,780	1,780
Transferred to cost of inertia assets sold	–	–	–	(901)	(901)
Additions	–	45	–	9	54
Restated balance at 30 June 2019	77	2,601	690	3,023	6,391
Effect of movement in exchange rate	–	–	–	–	–
Transferred from contract assets	–	–	–	1,315	1,315
Transferred to cost of inertia assets sold	–	–	–	(587)	(587)
Additions	–	14	–	–	14
Disposals	(77)	(2,463)	–	(3,391)	(5,931)
Balance at 30 June 2020	–	152	690	360	1,202
Accumulated Depreciation					
Restated balance at 30 June 2018	(78)	(2,424)	(368)	(1,895)	(4,765)
Effect of movement in exchange rate	2	–	–	–	2
Depreciation expense	–	(87)	(69)	(933)	(1,089)
Restated balance at 30 June 2019	(76)	(2,511)	(437)	(2,828)	(5,852)
Effect of movement in exchange rate	–	–	–	–	–
Depreciation expense	–	(54)	(69)	(697)	(820)
Disposals	76	2,463	–	3,391	5,930
Balance at 30 June 2020	–	(102)	(506)	(134)	(742)
Net Book Value					
At 30 June 2019	1	90	253	195	539
At 30 June 2020	–	50	184	226	460

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 2018	1,441	5,384	270	362	7,457
Effect of movement in exchange rate	–	–	–	(6)	(6)
Additions	15	313	–	–	328
Disposals	–	–	–	–	–
Restated balance at 30 June 2019	1,456	5,697	270	356	7,779
Effect of movement in exchange rate	–	–	–	3	3
Additions	385	109	–	–	494
Disposals	(1,400)	(1,437)	(270)	–	(3,107)
Balance at 30 June 2020	441	4,369	–	359	5,169

	Contract rights £,000	Software £,000	Distribution network £,000	Intellectual Property £,000	Total £,000
Accumulated amortisation and impairment					
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)
Restated balance at 30 June 2019	(1,418)	(3,587)	(270)	(321)	(5,596)
Effect of movement in exchange rate	–	–	–	(20)	(20)
Amortisation expense	(57)	(1,153)	–	(17)	(1,227)
Disposals	1,400	1,437	270	–	3,107
Balance at 30 June 2020	(75)	(3,303)	–	(358)	(3,736)
Net book value					
At 30 June 2019	38	2,110	–	35	2,183
At 30 June 2020	366	1,066	–	1	1,433

16. Interest in Subsidiaries

Interest in Subsidiaries	Country of Incorporation	% of Equity 30 June 2020	% of Equity 30 June 2019
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
ThinkSmart Finance Group Ltd	UK	100	100
SmartCheck SL	Spain	100	100
ThinkSmart Inc	USA	100	100
ThinkSmart Employee Share Trust	Australia	100	100
ThinkSmart LTI Pty Limited	Australia	100	100

17. Trade and Other Payables, and Provisions

	30 June 2020 £,000	Restated 30 June 2019 £,000
Trade and other payables	220	219
GST/VAT Payable	92	350
Other accrued expenses	883	710
	1,195	1,279
Provisions		
Annual leave	159	136
Long service leave	86	82
Risk Transfer cancellation and claims	10	34
	255	252
Annual and long service leave		
Balance at 1 July	218	212
Effect of exchange rate movement	3	(3)
Additional provisions made in the year	24	9
Amounts used during the year	–	–
Balance at 30 June	245	218
Other		
Balance at 1 July	34	71
Additional provisions made in the year	–	–
Amounts used during the year	(24)	(37)
Balance at 30 June	10	34

18. Lease liabilities

	30 June 2020 £,000	Restated 30 June 2019 £,000
Balance brought forward	330	408
Rental paid in period	(114)	(112)
Interest charged	26	34
	242	330
Lease liabilities due within 12 months	94	86
Lease liabilities due greater than 12 months	148	244
	242	330
Undiscounted maturity analysis		
Lease liabilities due up to 1 year	113	113
Lease liabilities due between 1 and 2 years	113	113
Lease liabilities due between 3 and 5 years	47	113
Lease liabilities due over 5 years	–	47
	273	386

19. Contract liabilities

	30 June 2020 £,000	Restated 30 June 2019 £,000
Balance brought forward	1,993	2,667
Recognised as revenue in period	(666)	(674)
	1,327	1,993
Contract liabilities to be recognised as revenue within 12 months	648	772
Contract liabilities to be recognised as revenue greater than 12 months	679	1,221
	1,327	1,993

20. Other interest bearing liabilities

	30 June 2020 £,000	Restated 30 June 2019 £,000
Current – Loan advances net of deferred costs of raising facility(i)	–	1,907
Non-current – Loan advances net of deferred costs of raising facility(i)	–	603
Customer financing facilities		
– Amount used	–	2,510
– Amount unused	10,000	17,490
Total Facility(i)	10,000	20,000
Other finance facilities (business credit card):		
– amount used	4	5
– amount unused	11	21
	15	26

(i) The loan is made up of 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 2020 £,000	Restated 30 June 2019 £,000
106,509,994 Ordinary Shares fully paid (2019: 106,509,994)	13,164	15,211

Fully Paid Ordinary Shares

	2020 Number	2020 £000	2019 Number	2019 £000
Balance at beginning of the financial year	106,509,994	15,211	104,728,744	17,397
Issue of ordinary shares	–	–	1,781,250	–
Return of capital to shareholders	–	(2,047)	–	(2,186)
Balance at end of the financial period	106,509,994	13,164	106,509,994	15,211

Ordinary Shares entitle the holder to participate in dividends and the proceeds on winding up the Company in proportion to the number of and amount paid on the Shares held. On a show of hands, every holder of Ordinary Shares present in the meeting in person or by proxy is entitled to one vote, and upon a poll each Share is entitled to one vote. The Company does not have authorised capital or par value in respect to its issued shares.

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

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

Options and loan-funded shares issued in previous years and vested but not yet exercised as at 30 June 2020:

- 1,757,352 options over ordinary shares were issued 21 December 2016 and exercisable at £0.22, vested 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 was subject to achievement of the following performance conditions:

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

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

  Earnings per Share Condition 2 (EPS2) – Vesting of 25% of the share options was 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 would have vested
Metric = 15% (Lower Target 2)	25% of EPS2 options vested
15% < Metric < 50%	Straight line vesting between Lower Target 2 and Upper Target 2
Metric = 50% (Upper Target 2)	100% of EPS2 options vested

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

21. Issued Capital *(continued)*

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

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 30 June 2017**
Grant date	21/12/16
Fair value at grant date	£0.0371
Grant date share price	£0.22
Exercise price	£0.22
Expected volatility	29.42%
Option/loan share life	10 years
Dividend yield	2.00%
Risk-free interest rate	0.23%

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 2020		**Year ended 30 June 2019**	
	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	1,757,352	0.2200	2,445,629	0.2167
Cancelled during the financial year	–	–	(688,277)	0.2083
Balance at the end of financial year	1,757,352	0.2200	1,757,352	0.2200
Exercisable at end of the financial year	1,757,352	0.2200	–	–

The options and loan-funded shares outstanding at 30 June 2020 have an exercise price of £0.22 (30 June 2019: £0.22) and a weighted average contractual life of 6 years (30 June 2019: 7 years). The following is the total expense recognised for the year arising from share-based payment transactions:

	12 months to 30 June 2020 £	**12 months to 30 June 2019 £**
Share compensation – employee shares (note 21(b)(ii))	6,502	195,682
Total expense recognised as employee costs (note 6e)	6,502	195,682

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

In the prior year 1,781,250 shares of the Company, with a fair value of £195k, were granted to Ned Montarello as remuneration.

21. Issued Capital *(continued)*

(c) ***Dividends***

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

	12 months to 30 June 2020 £,000	12 months to 30 June 2019 £,000
1.09 pence per ordinary share (2019: 2.08)	1,135	2,214
	1,135	2,214

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 2020 £,000	as at 30 June 2019 £,000
Reconciliation of cash and cash equivalents		
Cash balance comprises:		
– Available cash and cash equivalents	8,744	7,044
– Restricted cash	61	55
	8,805	7,099

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are provided in Note 26.

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

	12 months to 30 June 2020 £,000	Restated 12 months to 30 June 2019 £,000
Profit after tax	**53,042**	**8,659**
Add back non-cash and non-operating items:		
Depreciation	820	1,089
Amortisation	1,227	1,278
Impairment losses on finance lease receivables	(181)	(60)
Equity settled share-based payment	7	195
Lease interest	26	24
Gain on Financial Instruments	(54,418)	(1,647)
Profit on disposal of discontinued operations	–	(7,731)
Cost of inertia assets sold	594	901
(Increase)/decrease in assets:		
Trade receivables, deposits held with funders and other movements in lease assets	121	1,196
Finance lease receivable	3,180	3,434
Deferred tax asset	–	71
Contract asset recognised to revenue	(719)	(1,208)
Increase/(decrease) in liabilities:		
Trade and other creditors	(84)	(265)
Contract liabilities	(666)	(674)
Other interest bearing liabilities	(2,533)	(2,708)
Provisions	3	(31)
Provision for income tax	540	38
Net cash from operating activities	**959**	**2,561**

23. 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; and
- ThinkSmart UK Ltd.

Corporate and unallocated:

- ThinkSmart Limited;
- SmartCheck Finance Spain SL; and
- ThinkSmart Inc.

Operating Segments

Information about reportable segments

	UK		**Corporate and unallocated**		**Total**	
For the year ended:	**June 2020 £,000**	**Restated June 2019 £,000**	**June 2020 £,000**	**June 2019 £,000**	**June 2020 £,000**	**Restated June 2019 £,000**
Revenue	6,079	7,183	–	57	**6,079**	**7,240**
Other revenue	233	897	20	–	**253**	**897**
Total revenue	**6,312**	**8,080**	**20**	**57**	**6,332**	**8,137**
Customer acquisition cost	(627)	(963)	–	(2)	**(627)**	**(965)**
Cost of inertia assets sold	(700)	(902)	–	–	**(700)**	**(902)**
Other operating expenses	(3,555)	(4,059)	(715)	(694)	**(4,270)**	**(4,753)**
Depreciation and amortisation	(2,047)	(2,367)	–	(1)	**(2,047)**	**(2,368)**
Impairment gains/(losses)	(2)	(272)	–	–	**(2)**	**(272)**
Gain on Financial Instruments	54,418	1,647	–	–	**54,418**	**1,647**
Profit from discontinued operations	–	8,053	–	(322)	**–**	**7,731**
Reportable segment profit/(loss) before income tax	**53,799**	**9,217**	**(695)**	**(962)**	**53,104**	**8,255**
Reportable segment current assets	6,162	12,924	4,127	158	10,289	13,082
Reportable segment non-current assets	59,218	9,757	–	–	59,218	9,757
Reportable segment liabilities	2,695	6,019	324	345	3,019	6,364
Capital expenditure	509	382	–	–	509	382

24. Remuneration of Auditor

	12 Months to June 2020 £,000	12 Months to June 2019 £,000
Audit and review services:		
Auditor of the Company:		
Provided by KPMG	–	104,783
Provided by BDO	140,966	109,000
Audit and review of financial statements	140,966	213,783
Services other than statutory audit (all provided by KPMG):		
Tax compliance and advisory services	40,675	82,340
	181,641	296,123

The Group's auditors are BDO.

25. Commitments and Contingent Liabilities

	June 2020 £,000	June 2019 £,000
Leases where Group acts as agent (not included in the statement of financial position)	6,029	9,588
Deposits held by funder	2,056	2,027

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).

26. 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 2020 £,000	June 2019 £,000
Variable rate instruments		
Cash and cash equivalents (note 22a)	8,805	7,099
Deposits held by funder (note 13)	2,056	2,027
Other interest bearing liabilities (note 20)	–	(2,510)
Net financial assets	10,861	6,616

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 2020 £,000	June 2019 £,000
Effect of 1% increase in rates	109	66
Effect of 1% decrease in rates	(109)	(66)

26. Financial Instruments (continued)

(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); and

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 w here there was no observable market data. The majority of financial assets and liabilities are measured at amortised cost. At 30 June 2020 the Group held the following financial instruments measured at fair value through profit or loss:

- 10% holding in Clearpay Finance Limited with a fair value of £53,733,333 (2019: £60,000). The holding in Clearpay is a Level 3 financial instrument.

(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 2020 £,000	Restated June 2019 £,000
Cash and cash equivalents	22(a)	8,805	7,099
Trade receivables		129	82
Loan and lease receivable (current)	9	495	2,828
Loan and lease receivable (non-current)	9	17	864
Insurance prepayment and accrued income (current)	10	345	458
Insurance prepayment and accrued income (non-current)	13	91	376
Sundry debtors	10	346	64
Deposits held by funders	13	2,056	2,027
		12,284	13,798

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

	June 2020 £,000	Restated June 2019 £,000
Australia	4,075	116
UK	8,209	13,682
	12,284	13,798

26. Financial Instruments (continued)

(c) *Credit risk management (continued)*

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 2020 £,000	Restated June 2019 £,000
Banks[(i)]	8,805	7,099
Funders[(ii)]	2,056	2,027
Insurance partners[(iii)]	436	834
Retail customers[(iv)]	512	3,692
Others	475	146
	12,284	13,798

(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.

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

	Gross June 2020 £,000	Impairment June 2020 £,000	Gross June 2019 £,000	Impairment June 2019 £,000
Not past due	492	2	3,544	42
Past due 0-30 days	29	4	115	25
Past due 31-120 days	43	30	75	65
Past due 121-365 days	90	43	150	121
	654	79	3,884	253

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 2020 £,000	June 2019 £,000
Balance at 1 July	253	314
Impairment loss recognised	(2)	272
Bad debt written off	(172)	(333)
Balance at 30 June	79	253

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.

26. Financial Instruments (continued)

(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 2020 £,000	June 2019 £,000
Cash and cash equivalents	4,074	116
10% strengthening of AUD	(407)	(12)
10% weakening of AUD	407	12

	June 2020	June 2019
AUD/GBP year end exchange rate	0.5586	0.5535

(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 2020 £,000	Restated June 2019 £,000
Trade and other payables	1,195	1,138
Lease liabilities	242	330
Other interest bearing liabilities	–	2,678
	1,437	4,146
Less than 1 year	1,289	3,558
1-2 years	148	588
	1,437	4,146

27. 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
D Adams
R McDowell

27. Related Party Disclosures (continued)

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

	12 months to June 2020 £,000	12 months to June 2019 £,000
Short-term employee benefits	463,409	591,293
Post-employment benefits	13,971	20,650
Other long-term benefits	2,575	2,662
Share-based payments	5,825	75,000
	485,780	689,605
Business expenses incurred by KMP’s and reimbursed by the Company	55,922	164,638

28. Subsequent Events

In November 2019, one the of the Group companies, RentSmart Ltd (RentSmart), issued a claim against The Carphone Warehouse Ltd (part of the Dixons Carphone plc group (DC)) in respect of the Flexible Leasing contract and its predecessor Upgrade Everytime contract. The Group announced on 10 August 2020 that it had agreed a settlement in relation to these contracts of £1.45m inclusive of costs. Legal proceedings were not issued in relation to other contracts with the Dixons Carphone plc group (SmartPlan and Upgrade Anytime). As part of this settlement, RentSmart has agreed with DC to the orderly winding up of all its agreements with DC including Flexible Leasing, SmartPlan and Upgrade Anytime.

There has not arisen, in the interval between the end of the financial period and the date of this report, any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

29. Contingent Assets

AASB 137 (IAS 37) defines a contingent asset as a possible asset that arises from past events and whose existence will be con firmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

On 29 November 2019, RentSmart Ltd (RentSmart), issued formal legal proceedings against The Carphone Warehouse Ltd (CPW) for damages for losses estimated at £20m. At 30 June 2020 the outcome of the litigation against CPW was uncertain both from a litigation and settlement perspective with the expectation that it was unlikely that there was a realistic possibility of a resolution being achieved. As such, the settlement of the claim on 7 August 2020 is indicative of conditions that arose after the balance sheet date and is therefore a non-adjusting event.

From an accounting perspective, the Group has not recognised any benefit for this contingent asset in the financial statements for the current year, and this remains the case notwithstanding the post reporting date settlement. The contingent asset only became certain when settlement was reached as announced on 10 August 2020. As such, the Group will recognise the asset and income in August 2020 (ie year to 30 June 2021).

30. Earnings per Share

	12 months to June 2020 £,000	Restated 12 months to June 2019 £,000
Profit after tax attributable to ordinary shareholders	53,042	8,659

	30 June 2020 Number	30 June 2019 Number
Weighted average number of ordinary shares (basic)	106,509,994	105,606,491
Weighted average number of ordinary shares (diluted)	108,267,346	105,606,491

	30 June 2020	Restated 30 June 2019
Earnings per share		
Basic earnings per share (pence)	49.80	8.20
Basic earnings per share (pence) – continuing operations	49.80	0.88
Basic earnings per share (pence) – discontinued operations	–	7.32
Diluted earnings per share (pence) – continuing operations	48.99	0.88

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 2020 £,000	June 2019 £,000
Profit after tax	476	4,294
Total comprehensive income	476	4,294

Statement of financial position

	June 2020 £,000	June 2019 £,000
Total current assets	4,127	158
Total assets	14,186	16,907
Total current liabilities	324	345
Total liabilities	324	345
Equity		
Issued share capital	13,164	15,211
Accumulated profits	698	1,351
Total equity	13,862	16,562

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 2020 and 30 June 2019.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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; and
- 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 adopted AASB 16 in the current year applying full retrospective transition approach with the date of initial adoption being 1 July 2019 (see Note 3 above for an explanation of the main changes resulting from this). 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 2019, and the statement of financial position as at 30 June 2018 and as at 30 June 2019.

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

	Original 30 June 2019 £,000	**AASB 16 £,000**	**Restated 30 June 2019 £,000**
Revenue	7,240	–	7,240
Other revenue	897	–	897
Total revenue	8,137	–	8,137
Customer acquisition costs	(965)	–	(965)
Cost of inertia asset sold	(901)	(1)	(902)
Other operating expenses	(4,813)	60	(4,753)
Depreciation and amortisation	(2,299)	(69)	(2,368)
Impairment losses	(272)	–	(272)
Gains on financial instruments	1,647	–	1,647
Profit before tax	534	(10)	524
Income tax benefit	404	–	404
Net Profit after tax from continuing operations	938	(10)	928
Profit after tax from discontinued operations	7,731	–	7,731
Net Profit after tax – attributable to owners of the Company	8,669	(10)	8,659
Other comprehensive (loss)			
Items that may be reclassified subsequently to profit or loss (net of income tax):			
Foreign currency translation differences for foreign operations	(134)	–	(134)
Total items that may be reclassified subsequently to loss, net of income tax	(134)	–	(134)
Other comprehensive (loss) for the period, net of income tax	(134)	–	(134)
Total comprehensive profit for the period, net of income tax	**8,535**	**(10)**	**8,525**

32. Effects of changes in accounting policies (continued)

	Original 30 June 2018 £,000	AASB 16 £,000	Restated 30 June 2018 £,000
Current Assets			
Cash and cash equivalents	2,523	–	2,523
Trade receivables	180	(103)	77
Finance lease receivables	3,399	–	3,399
Tax receivable	578	–	578
Other current assets	1,325	98	1,423
Assets held for sale	1,528	–	1,528
Total Current Assets	9,533	(5)	9,528
Non-Current Assets			
Finance lease receivables	3,420	–	3,420
Plant and equipment	373	322	695
Intangible assets	3,116	–	3,116
Deferred tax assets	71	–	71
Contract Assets	2,739	–	2,739
Other non-current assets	2,861	–	2,861
Total Non-Current Assets	12,580	322	12,902
Total Assets	22,113	317	22,430
Current Liabilities			
Trade and other payables	1,560	2	1,562
Lease liabilities	–	78	78
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	5,523	80	5,603
Non-Current Liabilities			
Lease liabilities	–	328	328
Contract liabilities	1,638	–	1,638
Other interest bearing liabilities	2,708	–	2,708
Total Non-Current Liabilities	4,346	328	4,674
Total Liabilities	9,869	408	10,277
Net Assets	**12,244**	**(91)**	**12,153**
Equity			
Issued Capital	17,397	–	17,397
Reserves	(2,843)	–	(2,843)
Accumulated losses	(2,310)	(91)	(2,401)
	12,244	**(91)**	**12,153**

32. Effects of changes in accounting policies (continued)

	Original 30 June 2019 £,000	AASB 16 £,000	Restated 30 June 2019 £,000
Current Assets			
Cash and cash equivalents	7,099	–	7,099
Trade receivables	82	–	82
Finance lease receivables	2,640	–	2,640
Tax receivable	540	–	540
Other current assets	2,729	(8)	2,721
Total Current Assets	13,090	(8)	13,082
Non-Current Assets			
Finance lease receivables	805	–	805
Plant and equipment	286	253	539
Intangible assets	2,183	–	2,183
Financial assets at fair value through profit and loss	1,795	–	1,795
Contract assets	2,032	–	2,032
Other non-current assets	2,403	–	2,403
Total Non-Current Assets	9,504	253	9,757
Total Assets	22,594	245	22,839
Current Liabilities			
Trade and other payables	1,265	14	1,279
Lease liabilities	–	86	86
Contract liabilities	772	–	772
Other interest bearing liabilities	1,907	–	1,907
Provisions	252	–	252
Total Current Liabilities	4,196	100	4,296
Non-Current Liabilities			
Lease liabilities	–	244	244
Contract liabilities	1,221	–	1,221
Other interest bearing liabilities	603	–	603
Total Non-Current Liabilities	1,824	244	2,068
Total Liabilities	6,020	344	6,364
Net Assets	**16,574**	**(99)**	**16,475**
Equity			
Issued Capital	15,211	–	15,211
Reserves	(2,977)	(1)	(2,978)
Accumulated profits	4,340	(98)	4,242
	16,574	**(99)**	**16,475**

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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 2020, 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 2020 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 (including Independence Standards)* (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.

BDO

Revenue Recognition	
Key audit matter	**How the matter was addressed in our audit**
As disclosed in Note 3(c), the Group has several material revenue streams in the form of finance lease income, commission income, insurance commission, extended rental income and inertia income. All of which have different revenue recognition timings and contractual frameworks and are impacted differently by the "reversal constraint" as applied to the claw back of brokerage commission and determination of the value of non-cash consideration. Refer to Note 3(c) and 4 in the financial report for disclosures relating to the Group's revenue accounting policy and significant judgements applied in revenue recognition.	Our procedures included, but were not limited to the following: • Assessing the appropriateness of Management's revenue recognition policy ensuring that the policy is in accordance with the five step model adopted by the relevant Australian Accounting Standard, 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; • Considering the application of the reversal constraint to the claw back of commission income; • Considering the application of the reversal constraint to the valuation of non-cash consideration; • Agreeing a sample of finance lease contracts to ensure that revenue has been appropriately recognised in accordance with the relevant Australian Accounting Standard, AASB 16; and • Assessing the adequacy of the related disclosures in Note 3(c) and 4 of the financial report.

Financial assets at fair value through profit or loss	
Key audit matter	**How the matter was addressed in our audit**
As disclosed in Note 11 of the financial report, the Group holds a significant asset in Clearpay Finance Limited. In accordance with AASB 9 *Financial Instruments*, the asset is required to be carried at fair value at reporting date and any associated fair value movements reflected in profit or loss. Refer to Note 4 of the financial report for disclosures relating to the significant estimates and judgements applied in the fair value determination of this asset.	Our procedures included, but were not limited to the following: • Examining the independent valuation report obtained by the Group to determine if the valuation supported the asset's carrying value; • Assessing the competence, capability and objectivity of the external valuation expert which included considering their experience and qualifications; • Challenging the valuation process, including assessing the significant judgements and assumptions applied in the valuation model; and • Assessing the adequacy of the related disclosures in Note 11 and 4 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 2020, but does not include the financial report and the auditor's report thereon, which we obtained prior to the date of this auditor's report, and the mineral resources and ore reserves information, which is expected to be made available to us after that date.

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.

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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 pages 16 to 23 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of ThinkSmart Limited, for the year ended 30 June 2020, 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

BDO

Ashleigh Woodley
Director

Perth

16 September 2020

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
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Perth WA 6000
Australia

Depositary
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)

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Australia

Auditors
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Australia

Bankers
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THINKSMART