

THINKSMART

ThinkSmart Limited
Annual Report 2021

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Highlights for the year ended 30 June 2021

Clearpay shareholding revaluation continues to drive material value

- Profit after tax up 35% to £71.7 million (FY20: £53.0 million) driven by a £71.3 million non-cash fair value gain on the independent valuation⁽²⁾ of the Group's retained 10%⁽¹⁾ shareholding in Clearpay.
- 10%⁽¹⁾ shareholding in Clearpay independently revalued to £125 million⁽²⁾ at year end (up from £106.6 million at 31 December 2020 and £53.7 million at 30 June 2020). Afterpay Ltd ("Afterpay") retains the remaining 90% of Clearpay.
- The revaluation is as at 30 June 2021 and therefore prior to the announcement of the proposed takeover of Afterpay by Square Inc. Since then the Afterpay share price has risen from AU\$118.17 on 30 June 2021 to AU\$133.30 as at 1 September 2021.
- Net assets at period end of £134.5 million are equivalent to 126.20 pence per share (FY20: £66.5 million/62.42 pence per share).
- Put/call option agreement with Afterpay Ltd ("Afterpay"), exercisable in 2023/24, for the remaining 10%⁽¹⁾ shareholding in Clearpay provides a clear and agreed legal mechanism to enable Clearpay shareholding realisation.
- A change of control of Afterpay from the announced Square takeover would give Afterpay the right to exercise its call option anytime following the change of control occurring. As announced by Square and Afterpay, this takeover is expected to complete Q1 calendar 2022. Following a change of control, ThinkSmart will continue to retain its reciprocal put option, exercisable in February 2024. The exercise price for the call option will be determined by the same pre-agreed valuation principles whether or not the option is exercised early. In addition, if the shares of Afterpay are no longer quoted on a recognised stock exchange at the time of the exercise then Afterpay can only elect to pay the exercise price in cash.
- Shareholder return with special dividend and capital return of A\$6.5 million (6.1 cents per share), equivalent to £3.7 million, paid in December 2020.
- Sale of 90% shareholding in Clearpay to Afterpay and retained 10%⁽¹⁾ shareholding has now generated cumulative accounting profit of £135.1 million (including £124.9 million⁽²⁾ of non-cash fair value gains), with the 10%⁽¹⁾ stake offering further upside potential subject to the ongoing performance of Clearpay.
- Cash and cash equivalents of £7.1 million at 30 June 2021 (FY20: £8.8 million).

Clearpay trading performance for the year ended 30 June 2021

Figures are as announced to the Australian Stock Exchange by Afterpay Ltd on 25 August 2021 in its full year results to 30 June 2021 and have been extracted from that announcement. All currency figures are in Australian dollars unless otherwise stated. Clearpay is 90% owned by Afterpay. The performance of Clearpay has an impact on the valuation of the Group's retained 10%⁽¹⁾ shareholding in Clearpay.

- AU\$1.8b⁽³⁾ underlying sales reflects an increase of 227% on FY20 and equates to c8.5% of Afterpay's global total. The proportion of Clearpay's underlying sales to Afterpay's global sales total has continued to increase, having stood at c5.4% at FY20.
- 2.1 million⁽³⁾ active customers equates to c13% of Afterpay's global total and an increase of 104% from FY20. The proportion of Clearpay's active customers to Afterpay's global active customer total has continued to increase, having stood at c10.1% at FY20.
- AU\$13.6m⁽³⁾ EBITDA represents c35% of Afterpay's EBITDA.
- Top 10% of Clearpay UK customers use Clearpay 32x per year, up 60% of FY20.
- The number of active merchants increased by 501%⁽³⁾. Merchant acceptance in Clearpay UK continued strongly with more than 5,000 new merchants added during FY21 including Wayfair, Lazy Oaf, Cox and Cox, Lick, Serenata Flowers, Bottle Club, Lucy and Yak, T.M Lewin, Steve Madden, Rat & Boa, and Feel Unique.
- During FY21, Afterpay launched in-store cards across ANZ and the US, with the UK to follow in Q2 FY22.
- Clearpay continues to engage with HM Treasury and the UK Government regarding a proportionate regulatory framework for currently exempted Buy Now Pay Later (BNPL) products.

ThinkSmart Limited
Highlights for the year ended 30 June 2021 (continued)

Managed wind down of legacy operations continues to generate positive cash flow

- ThinkSmart’s operating business, powered by SmartCheck, a proprietary digital payments platform and credit decision-making engine, continues to generate positive cashflow through its managed wind down.
- £1.45 million cash receipt and realised gain in the period, as announced on 10 August 2020, from the settlement agreement in relation to the legal proceedings issued by the Group against Carphone Warehouse.
- Total revenue of £4.3 million (FY20: £6.3 million) includes £0.9 million (FY20: £0.5 million) from the provision of the outsourced call centre customer support service for Clearpay.
- Optimised cash management with £2.2 million net cash generated from operating activities (FY20: £1.0 million) including £1.45 million from settlement agreement in relation to legal proceedings.
- Operating costs further reduced to £3.4 million (FY20: £4.3 million) and remain controlled, aligned to current volume performance.

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

“Our 10% shareholding in Clearpay gives us significant and material exposure to a rapidly expanding segment of consumer finance and allows us to benefit from the continued shift away from credit card use and into BNPL. Our expectation is for that shift to sustain, given BNPL remains in its early stages of growth penetrating 2% of a US\$10 trillion global market. Millennials and Gen Z are key drivers of this shift and their share of spend is set to continue to grow over the next decade.

We are particularly pleased that Clearpay’s trading performance continues to represent an increasing proportion of the Afterpay group, highlighting both its strategic and financial importance. We believe that the expansion of Clearpay to omni-channel with the roll-out of the UK instore-card in Q1 FY22 together with the announced takeover of Afterpay by Square Inc - which, as announced by Square and Afterpay, is expected to complete in Q1 calendar 2022 - will serve to further accelerate the growth of Clearpay, which has been outstanding to date.

For shareholders, our investment in Clearpay has now generated over £135 million of profit, and we believe there remains further upside potential. While our focus is on value creation via our holding in Clearpay, the managed wind down of our legacy operations continues to generate positive cash flow as we control costs while rightsizing the operations to lower volumes. This leaves our balance sheet robust with £7.1 million of cash and no debt.

Ultimately, we believe ThinkSmart is well placed to continue accruing material value for shareholders, subject to Clearpay’s ongoing progress, and we thank shareholders for their ongoing support of the strategy.”

- (1) A proportion of the 10% retained shareholding (up to 3.5% of the total share capital of Clearpay) will be made available to employees of Clearpay under an employee share ownership plan.
- (2) The Group engaged a third party global professional services firm to independently value its retained shareholding in Clearpay at 30 June 2021 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%⁽¹⁾ 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 10%⁽¹⁾ shareholding in Clearpay to Afterpay will be at a price calculated on agreed valuation principles at the time. Further detail is provided in Note 10 to the 30 June 2021 Group audited financial statements below.
- (3) Afterpay segment reporting for Clearpay now includes UK and Europe. Clearpay Europe only launched in March 2021 and as such only made a minor contribution to Afterpay’s Group results to 30 June 2021.

Chairman's Statement

Clearpay drives significant value for shareholders

Our year to 30 June 2021 has been beneficial for our shareholders. Our business was founded on 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 the core retail markets and the way in which retailers have 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, together with the put/call options to sell the remaining 10%, to Australian listed Afterpay, 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 £71.7m, driven by the revaluation gains attributable to our remaining 10%⁽¹⁾ holding in Clearpay as a result of the exceptional underlying performance of that business. Regarding Clearpay's trading, we are particularly pleased to see that it continues to represent an increasing proportion of the Afterpay group. Clearpay's increased scale and sustained trading success has positive connotations for our 10%⁽¹⁾ holding and highlights both Clearpay's strategic and financial importance as a business within Afterpay. In addition, we view the expansion of Clearpay to omni-channel with the roll-out of the UK instore-card in Q1 FY22 as a logical next step. That, together with the announced takeover of Afterpay by Square Inc, is something we believe will accelerate the growth of Clearpay, which has been outstanding to date.

Our Net Asset Value stood at £134.5 million at the year end, or 126.20 pence per share. On a per share basis this is an uplift of 63.78 pence per share in the last 12 months, in addition to the 3.4 pence per share capital return and special dividend paid to shareholders in December 2020. All in all, the sale of 90% of the Clearpay business and our retained 10%⁽¹⁾ shareholding has now generated cumulative profit of £135.1 million (including £124.9⁽²⁾ million of non-cash fair value gains), with the 10%⁽¹⁾ stake offering further upside potential subject to the performance of Clearpay.

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 legal mechanism to a realisation of the 10%⁽¹⁾ stake in Clearpay in 2023/24. The price will be calculated on pre-agreed principles based on market valuations at that time. These principles are reflected in the carrying valuation of the asset on our balance sheet.

On 2 August 2021, Square Inc announced its plans to acquire Afterpay. A change of control of Afterpay would bring forward the Afterpay call option to anytime following the change of control occurring, expected in Q1 calendar 2022. The exercise price for the call option will be determined by the same pre-agreed valuation principles whether or not the option is exercised early. In addition, if the shares of Afterpay are no longer quoted on a recognised stock exchange at the time of the exercise then Afterpay can only elect to pay the exercise price in cash. The announcement of the planned takeover has had a significantly positive impact on both Square and Afterpay's share prices, with Afterpay's increasing from AU\$118.17 at 30 June 2021 to AU\$133.30 at 1 September 2021. We believe the takeover will have a positive and material impact on Clearpay UK.

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. In line with this, the business paid a special dividend and capital return of A\$6.5 million (6.1 cents per share), equivalent to £3.7 million (3.4 pence per share), in December 2020.

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 have now ceased writing any new business. We are managing the wind-down by adjusting the cost base accordingly and are continuing to deliver net positive cash flows. Therefore, we expect our cash reserves to continue to build over the next few years.

The Group has a robust financial position, with net cash of £7.1 million at 30 June 2021 (after the payment of £3.7 million special dividend/capital return in December 2020 and including receipt of the £1.45 million settlement amount in August 2020).

I'm very pleased to be reporting this level of value accretion to our shareholders.

Operating Business Performance

As expected, leasing volumes fell 74% to £0.5 million (FY20: £1.9 million) in the year, and we expect this volume reduction to continue as we manage the division's wind down. Revenues were consequently 31% lower for the year at £4.3 million (FY20: £6.3 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.

As announced on 10 August 2020, ThinkSmart 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 2021, all of ThinkSmart's new business volumes were generated from its existing agreements with DC. The Group will continue to service its existing customer base, ensuring the fair treatment of customers, 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 positions. As at 30 June 2021, lease receivables under management were £2.6 million, with approximately 6,900 active customer contracts.

Operating costs decreased further to £3.4 million (FY20: £4.3 million) over the period and remain controlled, aligned to the volume performance of the division.

Group Financial Position

The Group's 10%⁽¹⁾ holding in Clearpay Finance Limited was revalued to £125 million⁽²⁾ at 30 June 2021 (FY20: £53.7 million). An asset valuation exercise was performed by an independent third-party valuer, a leading global professional services firm. The sale of 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. These valuation principles are the same principles that the independent third-party valuer used to determine the £125 million⁽²⁾ valuation of the Group's 10%⁽¹⁾ stake in Clearpay as at 30 June 2021. In addition, these principles will apply should the call option be exercised early following a change of control of Afterpay.

The Group held cash and cash equivalents of £7.1 million at 30 June 2021, after the £3.7 million payment of the special dividend/capital return in December 2019 and including receipt of the £1.45 million settlement amount in August 2020. This is down from £8.8m at 30 June 2020.

Current Trading Update

ThinkSmart anticipates its cash reserves will continue to build over the next few years, as the Group's operating division continues to service its existing customer base during the orderly winding up of its existing agreements. ThinkSmart also provides an outsourced call centre customer support service for Clearpay. As announced in August 2020, following the settlement agreement with DC, the Group has now ceased writing any new business.

Looking ahead, the business is well positioned to further benefit from future growth in the value of its shareholding in Clearpay, subject to the ongoing performance of Clearpay, and therefore to continue creating material 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 2021, 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, Hornby plc and Halfords plc. David’s current appointments include serving as a Non-Executive Director of Pizza Express, Non-Executive Director and Chair of the Audit and Remuneration Committees of DP Eurasia Plc, Trustee of Walk the Walk (a breast cancer charity), and Trustee of The Hackney Empire. David is Chairman of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee, and was appointed Senior Independent Non-Executive Director on 10 June 2021.

Roger McDowell Non-Executive Director (resigned 11 November 2020)

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 was a member of the Audit and Risk and Remuneration and Nomination Committees. Roger retired from the Board of the Company at the Annual General Meeting on 11 November 2020.

ThinkSmart Limited
Directors' Report (continued)

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") and the holding of a financial asset.

OPERATING AND FINANCIAL REVIEW

The Board presents its Operating and Financial Review for the year ended 30 June 2021 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 finance for both consumers and businesses.

ThinkSmart's core capability is to provide customer life cycle contract management through its market leading proprietary technology platform 'SmartCheck'.

ThinkSmart ceased writing new business in February 2021 and as such its leasing business is in managed wind-down.

ThinkSmart retains a 10% holding in Clearpay Finance Limited, creating value through exposure to the UK Buy Now Pay Later digital payments market, and provides an outsourced call centre customer support service for Clearpay.

Key financial data

	12 Months to June 2021 £,000	12 Months to June 2020 £,000	Variance £,000	Variance %
Revenue	4,286	6,079	(1,793)	-29%
Other revenue	62	253	(191)	-75%
Total revenue	4,348	6,332	(1,984)	-31%
Customer acquisition costs	(258)	(627)	369	+59%
Cost of inertia assets sold	(335)	(700)	365	+52%
Other operating expenses	(3,431)	(4,270)	839	+20%
Depreciation and amortisation	(1,401)	(2,047)	646	+32%
Impairment gains/(losses)	41	(2)	43	+2150%
Gains on Financial Instruments	71,267	54,418	16,849	+31%
Other gains	1,450	-	1,450	+100%
Profit before tax from continuing operations	71,681	53,104	18,577	+35%
Income tax expense	(17)	(62)	45	+73%
Profit after tax	71,664	53,042	18,622	+35%

Summary of results

- Net profit after tax of £71.7 million in the year up 35% on the prior financial year.
- Fair value of retained holding in Clearpay Finance Limited, calculated on agreed valuation principles, generated a gain on financial instruments of £71.3 million in the year.
- As announced on 10 August 2020, the Group agreed a settlement with Dixons Carphone plc (Dixons) of £1.5m inclusive of costs. As part of this settlement, the Group agreed with Dixons to the orderly winding up of all its agreements with Dixons including Flexible Leasing, SmartPlan and Upgrade Anytime. The Group ceased writing new business in February 2021 and its leasing business is now in managed wind-down.
- Basic Earnings Per Share of 67.28 pence at 30 June 2021 up 35% from Earnings Per Share of 49.80 pence at 30 June 2020.
- The Group returned £3.7 million (A\$6.5 million) to shareholders in December 2020.

ThinkSmart Limited
Directors' Report (continued)

- Available cash assets of £7.1 million at 30 June 2021, down £1.7 million on prior financial year end position after the £3.7m payment to shareholders and £1.5 million settlement receipt.
- Net assets are £134.5 million at 30 June 2021, equivalent to 126.20 pence per share.

Review of operations

UK

The UK business incurred a loss (before intercompany recharge of corporate costs) of £0.4m (2020: £0.6m loss) which was driven by the further decline in business volumes from its sole retail partner, Dixons, and the cessation of new business from February 2021. Inertia income performed well throughout the year as did insurance commission income which, combined with the managed cost reduction, mitigated the impact of the reduced volumes of new business. In addition, the UK business continued to provide an outsourced call centre customer support service for Clearpay which generated revenue of £0.9m (2020: £0.5m).

Overall UK volumes at £0.5m for the year were down 74% on prior year of £1.9m driven by reduced volumes of established products due to business change within Dixons. SmartPlan volumes decreased from £1.6m to £0.5m, Upgrade Anytime volumes decreased from £0.2m to £35k and Flexible Leasing volumes decreased from £0.1m to £3k for the year.

As announced on 29 November 2019, the Group issued a claim against Dixons in respect of the Flexible Leasing contract and its predecessor Upgrade Everytime contract and, as announced on 10 August 2020, the Group agreed a settlement with Dixons of £1.5m inclusive of costs. As part of this settlement, the Group agreed with Dixons to the orderly winding up of all its agreements with Dixons including Flexible Leasing, SmartPlan and Upgrade Anytime. The Group ceased writing new business in February 2021 and its leasing business is now in managed wind-down.

In the year to 30 June 2021, all of ThinkSmart's new business volumes were generated from its agreements with Dixons. 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.

UK Operating costs reduced by 28% to £2.6m (2020: £3.6m) and remained controlled, aligned to current business volumes.

Corporate

Corporate costs (before intercompany recharge of corporate costs) were £0.6m for the 12 months to 30 June 2021 (2020: £0.7m).

Summary Financial Position

	30 June 2021	30 June 2020	Variance	Variance
	£,000	£,000	£,000	%
Cash and cash equivalents	7,067	8,805	(1,738)	-20%
Other assets	128,621	59,269	69,352	+117%
Goodwill and intangibles	590	1,433	(843)	-59%
Total assets	136,278	69,507	66,771	+96%
Other liabilities	(1,821)	(3,019)	1,198	+40%
Total liabilities	(1,821)	(3,019)	1,198	+40%
Equity	134,457	66,488	84,888	+128%

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The sale of 90% of Clearpay Finance Ltd (“Clearpay”) to Afterpay Ltd (formerly 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.

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 2021 the fair value of this asset, net of the 3.5% ESOP commitment, was determined to be £125.0 million.

In August 2021 Square Inc (“Square”) and Afterpay announced the intention for Square to acquire Afterpay in a deal which valued Afterpay at US\$29 billion (AU\$39 billion). The transaction is expected to complete in the first quarter of the calendar year 2022. Under the terms of the agreement that ThinkSmart has with Afterpay, relating to the sale of the Group’s remaining holding in Clearpay, a change of control of Afterpay gives Afterpay the right to exercise its call option to purchase the remaining shares in Clearpay from ThinkSmart at any time following said change of control. The exercise price for the call option will be determined by the same pre-agreed valuation principles whether or not the option is exercised early.

As of February 2021, ThinkSmart has ceased writing any new business volumes following the termination of all its agreements with its sole retail partner, Dixons, including Flexible Leasing, SmartPlan and Upgrade Anytime. All remaining active lease contracts have a minimum term (of up to four years) during which time the Group will continue to service its existing customers, collect out the lease receivables and realise the commission, inertia and insurance revenue on the leases written to February 2021. In addition, the UK business continues to provide an outsourced call centre customer support service for Clearpay.

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

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

RISKS

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

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

The credit quality of accepted customers and the Group's policies and procedures to mitigate payment defaults has an impact on the Group's financial performance through impairment. 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 valuation of financial instruments held by the Group are subject to estimates and judgements

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. In order to manage the risk associated with this valuation the Group has engaged a global professional services firm to produce an independent valuation report for the purposes of compliance with AASB 9 – Financial Instruments.

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 as businesses adjust to operating under new UK-EU trade terms following the UK leaving the EU on 31 January 2020. The changes to consumer behavior and pent up consumer demand driven by COVID-19 add to the uncertainty in the UK economic outlook. Adverse economic conditions in the UK, such as unemployment, or dramatic increases in inflation 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 Dixons retail outlets for part of the financial year the Group continued to originate new and repeat business through the Dixons 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 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.

ThinkSmart Limited
Directors' Report (continued)

In February 2021 the FCA published the Woolard Review on how regulation can support the market for unsecured lending including the developing buy-now-pay-later (BNPL) sector in which Clearpay is a market leader. The report recognises that BNPL offers consumers a significant alternative to more expensive traditional credit. The report also recognises that the current lack of regulation creates potential for consumer harm. Clearpay is committed to promoting good consumer outcomes and continues to work with HM Treasury and the UK Government regarding a proportionate regulatory framework for currently exempt BNPL products.

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 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 11 November 2020 shareholders approved a return of capital of up to AUD \$6,497,111 to shareholders (the "Distribution") in two parts:

1. a capital reduction, pursuant to which the Company will return 4.575 cents per share (or depositary interest) to shareholders (or depositary interest holders) ("Return of Capital"); and
2. a special unfranked dividend of 1.525 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 13 November 2020 and were paid on 9 December 2020.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD END DATE

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.

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 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. We are however a small and cohesive Board that openly discusses its performance and effectiveness against strategy on a regular basis.

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 behaviors 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, 13 September 2021

BOARD STRUCTURE AND OPERATION

The Board comprises two Executive Directors being Ned Montarello (Chairman) and Gary Halton (CFO), and two Non-Executive Directors, being David Adams and Peter Gammell, whom the Board believe are independent. Roger McDowell was a non-executive director for part of the year and retired from the Board of the Company at the Annual General Meeting on 11 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 5 and 6. 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, Trakehner Cossec Limited.

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 keeps this under review and regularly discusses performance and effectiveness on an informal basis.

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.

ThinkSmart Limited
Directors' Report (continued)

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	2/2	2/2
G Halton	4/4	–	–
D Adams	4/4	2/2	2/2
R McDowell*	0/1	–	–

* retired from the Board 11 November 2020

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. The other Member is Peter Gammell. The Audit Committee meets as often as it deems necessary but in any case at least twice 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;

ThinkSmart Limited
Directors' Report (continued)

- 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.

The Audit Committee has reviewed the following matters in relation to these financial statements and is of the opinion that the Group has adopted appropriate accounting policies along with the associated estimates and judgements:

Area of review	Points considered
Revenue recognition	<p>The Group has multiple revenue streams which are generated through the provision of finance and leasing services and the holding of a financial asset. The Group recognises revenue under AASB 15 – Revenue from Contracts with Customers, AASB 16 – Leases and AASB 9 – Financial Instruments. For each of these the Audit committee has reviewed the technical accounting documents prepared by the Group's management which detail the rationale for the application of each standard along with support for key estimates and judgements. The Audit Committee has considered whether the key estimates and judgements remain valid as the operating environment evolves including the likely impact of COVID-19.</p> <p>In addition to their own review the Audit Committee has also considered any matters raised by the external auditors in respect of revenue recognition. The Audit Committee is therefore comfortable that appropriate accounting policies have been applied and that the key estimates and judgements used are fair and reasonable.</p>
Valuation of financial asset	<p>The Group has appointed an independent valuation expert to provide a valuation report on the Group's holding in Clearpay which is classified as a financial asset under AASB 9 – Financial Instruments. The Audit Committee has reviewed the valuation report and is satisfied that the approach taken, methodology applied, inputs selected and assumptions made are reasonable and appropriate. The Audit Committee has also considered all matters raised by the external auditors in relation to the valuation.</p>
Management override of controls	<p>The Audit Committee monitors the effectiveness of the Group's operating and risk management framework. The Board of Directors have appointed the Operating and Risk Committee to oversee the implementation of the Group's operating and risk framework including the management of associated corporate governance, training, processes and controls. The Audit Committee has reviewed the reports of the Operating and Risk Committee as presented to the Board. The Audit Committee has considered how the Group's processes and controls are implemented within the overall control environment and is satisfied that these are adequate and proportionate to the associated risks.</p>

ThinkSmart Limited Directors' Report (continued)

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 external auditor did not provide any non-audit services in the year ending 30 June 2021 (2020: £nil). During the year the Audit Committee assessed the auditor's performance by review against the external audit terms of engagement with consideration to the scope of the external audit, timetable, materiality, audit strategy and fees. The Audit Committee reviewed the written reports produced by the external auditors, considered the capabilities demonstrated by the external audit team, their independence, challenge of management and quality of communications. The assessment also took into account the views of the Group's finance team.

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 reviews 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	–

Unissued Shares under Options

At the date of this report there were 1,724,532 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
1,724,532	£0.1745	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) and David Adams. The Committee is responsible for making recommendations to the Board on the Group's framework of Executive remuneration and its cost, and recommendations on Board recruitment and succession planning. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors. The Board itself determines the remuneration of the Non-Executive Directors. The report on Directors' remuneration is set out on page 19.

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

- Have responsibility for setting the remuneration policy for the Executive Directors and the Company's Chairman;
- Recommend and monitor the level and structure of remuneration for senior management;
- The authority to appoint remuneration consultants and commission any reports or surveys required to fulfil its remit;
- Approve the design of and determine the targets for any schemes of performance-related remuneration;
- Oversee any major changes in employee benefit structures throughout the Company or Group;
- Agree the policy for authorising claims for expenses from the Executive Directors and Chairman;
- Ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company and that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- Review the structure, size and composition (including the skills, knowledge, experience and diversity);
- Consider succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and
- 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: Bonus remuneration; and
- F: 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 2021, comprise:

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Directors' Report (continued)

Executive Directors

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

Non-Executive Directors

P Gammell
D Adams
R McDowell (resigned 11 November 2020)

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 AU\$600,000 per annum and were approved by shareholders at a previous general meeting. The total fees paid in the financial year were £62,239. 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.

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Directors' Report (continued)

	Fixed remuneration	At risk	
		Short-term incentive	Long-term incentive
CEO	100%	0%	0%
Other executives	86%	14%	0%

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 2021	12 Months to June 2020	Restated 12 Months to June 2019	Restated 12 Months to June 2018
Profit/(loss) attributable to owners of the company (£,000)	£71,664	£53,042	£8,659	(£4,558)
Basic EPS (pence per share)	67.28 pence	49.80 pence	8.20 pence	(4.34) pence
Dividends paid (£,000)	£901	£1,135	£2,214	–
Dividend paid per share (pence)	0.85 pence	1.09 pence	2.08 pence	–
Capital return paid (£,000)	£2,757	£2,047	£2,186	–
Capital returned per share (pence)	2.59 pence	1.92 pence	2.05 pence	–
Share price at year end	£0.725	£0.205	£0.078	£0.093
Change in share price	£0.520	£0.127	(£0.015)	(£0.052)

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			Total	
		Salary & Fees £	Cash Bonus	STI £	Non-monetary Benefits £	Total £	Superannuation Benefits £	Termination Benefits £	Long Service Entitlement £	Options & Rights £		Shares £
Directors												
Non-Executive Directors												
P Gammell	YE Jun21	24,957	-	-	-	24,957	2,371	-	-	-	-	27,328
	YE Jun20	24,872	-	-	-	24,872	2,363	-	-	-	-	27,235
D Adams	YE Jun21	30,000	-	-	-	30,000	-	-	-	-	-	30,000
	YE Jun20	30,000	-	-	-	30,000	-	-	-	-	-	30,000
R McDowell	YE Jun21	7,282	-	-	-	7,282	-	-	-	-	-	7,282
(resigned 11 Nov 2020)	YE Jun20	20,000	-	-	-	20,000	-	-	-	-	-	20,000
Executive Directors												
N Montarello	YE Jun21	177,694	-	-	-	177,694	12,032	-	2,958	-	-	192,684
	YE Jun20	228,818	-	-	-	228,818	11,608	-	2,575	4,050	-	247,051
G Halton	YE Jun21	148,500	25,000	-	1,257	174,757	-	-	-	-	-	174,757
	YE Jun20	148,500	10,000	-	1,219	159,719	-	-	-	1,775	-	161,494
Total	YE Jun21	388,433	25,000	-	1,257	414,690	14,403	-	2,958	-	-	432,051
Total	YE Jun20	452,190	10,000	-	1,219	463,409	13,971	-	2,575	5,825	-	485,780

ThinkSmart Limited
Directors' Report (continued)

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 performance conditions of all active Plan Options issued were met during the performance period and consequently these options vested in December 2019, and can be exercised as instructed by the Participants. 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.

There are currently 1,724,532 of the above Plan Options currently on issue, as set out in the table below.

Number of plan options	Performance period	Exercise price	Vesting date	Expiry date
1,724,532	01/07/16-30/06/19	£0.1745	21/12/19	22/12/2026

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 and vested	Grant Date	Financial year in which grant vested	Expiry date
Directors					
N Montarello	Share options	1,073,863	22/12/2016	2020	22/12/2026
G Halton	Share options	470,659	22/12/2016	2020	22/12/2026

Employee Options and Loan-Funded Shares

	Held at 30 June 2020	Held at date of new appointment	Granted as compensation	Exercised	Cancelled, forfeited or expired	Held at 30 June 2021	Vested during the year	Vested and exercisable at 30 June 2021
Directors								
N Montarello	1,073,863	–	–	–	–	1,073,863	–	1,073,863
G Halton	470,659	–	–	–	–	470,659	–	470,659

All of the amounts held at 30 June 2021 are Employee Share Options.

ThinkSmart Limited
Directors' Report (continued)

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 2020	Purchases	Rights issue	Held at date of appointment	Received on exercise of options	Loan- funded share issue	Loan-funded share issue cancelled, forfeited or expired	Granted as compensation	Held at 30 June 2021
Directors									
N Montarello	31,339,886	–	–	–	–	–	–	–	31,339,886
P Gammell	12,582,572	–	–	–	–	–	–	–	12,582,572
D Adams	100,000	–	–	–	–	–	–	–	100,000

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

E. 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	25,000	25,000	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 2021. 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.

F. 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 2021 (30 June 2020: 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 19(b) and pages 20 to 21 of the Remuneration Report.

End of audited Remuneration Report.

INDEMNIFICATION AND INSURANCE

During the year ended 30 June 2021, 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 2021. 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 2021, 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 2021	12 Months to 30 June 2020
	£	£
Audit and review of consolidated financial statements	124,791	139,948
Total paid or payable to Company auditors	124,791	139,948

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 23 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, 13 September 2021

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

As lead auditor of ThinkSmart Limited for the year ended 30 June 2021, 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.

Handwritten signature of Ashleigh Woodley and the BDO logo.

Ashleigh Woodley
Director

BDO Audit (WA) Pty Ltd
Perth, 13 September 2021

ThinkSmart Limited
Directors' Declaration

Directors' Declaration

1. In the opinion of the Directors of ThinkSmart Limited ('the Company'):
 - (a) The consolidated financial statements, notes and disclosures are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the Group's financial position as at 30 June 2021 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 2021.
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, 13 September 2021

Consolidated Statement of Profit & Loss and Other Comprehensive Income

For the Financial Year Ended 30 June 2021

	Notes	12 Months to June 2021 £,000	12 Months to June 2020 £,000
Continuing operations			
Revenue	6(a)	4,286	6,079
Other revenue	6(b)	62	253
Total revenue		4,348	6,332
Customer acquisition cost	6(c)	(258)	(627)
Cost of inertia assets sold	6(d)	(335)	(700)
Other operating expenses	6(e)	(3,431)	(4,270)
Depreciation and amortisation	6(f)	(1,401)	(2,047)
Impairment gains/(losses)	6(g)	41	(2)
Gains on Financial Instruments	6(h)	71,267	54,418
Other gains	6(i)	1,450	–
Profit before tax		71,681	53,104
Income tax charge	7	(17)	(62)
Net Profit after tax – attributable to owners of the Company		71,664	53,042
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		(43)	146
<i>Total items that may be reclassified subsequently to profit or loss net of income tax</i>		(43)	146
Other comprehensive income/(loss) for the year, net of income tax		(43)	146
Total comprehensive income for the year attributable to owners of the Company		71,621	53,188
Earnings per share			
Basic Earnings per share (pence)	27	67.28	49.80
Diluted Earnings per share (pence)	27	66.21	48.99

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

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	June 2021 £,000	June 2020 £,000
Current assets			
Cash and cash equivalents	20(a)	7,067	8,805
Trade receivables	24(c)	55	129
Finance lease receivables	8	38	431
Other current assets	9	380	924
Total current assets		7,540	10,289
Non-current assets			
Finance lease receivables	8	–	15
Plant and equipment	13	302	460
Intangible assets	14	590	1,433
Financial assets at fair value through profit or loss	10	125,000	53,733
Contract assets	11	777	1,430
Other non-current assets	12	2,069	2,147
Total non-current assets		128,738	59,218
Total assets		136,278	69,507
Current liabilities			
Trade and other payables	16	(728)	(1,195)
Lease liabilities	17	(103)	(94)
Contract liabilities	18	(410)	(648)
Provisions	16	(202)	(255)
Total current liabilities		(1,443)	(2,192)
Non-current liabilities			
Lease liabilities	17	(46)	(148)
Contract liabilities	18	(332)	(679)
Total non-current liabilities		(378)	(827)
Total liabilities		(1,821)	(3,019)
Net assets		134,457	66,488
Equity			
Issued capital	19(a)	10,413	13,164
Reserves		(2,875)	(2,832)
Accumulated profits		126,919	56,156
Total equity		134,457	66,488

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

Consolidated Statement of Changes in Equity

For the Financial Year Ended 30 June 2021

	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 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				
<i>Contributions by and distributions to owners of the Company</i>				
Capital return paid	(2,047)	–	–	(2,047)
Dividends paid	–	–	(1,135)	(1,135)
Recognition of share-based payments	–	–	7	7
Balance at 30 June 2020	13,164	(2,832)	56,156	66,488
Balance at 1 July 2020	13,164	(2,832)	56,156	66,488
Profit for the year	–	–	71,664	71,664
Exchange differences arising on translation of foreign operations, net of tax	–	(43)	–	(43)
Total comprehensive income for the year	–	(43)	71,664	71,621
Transactions with owners of the Company, recognised directly in equity				
<i>Contributions by and distributions to owners of the Company</i>				
Capital return paid	(2,757)	–	–	(2,757)
Dividends paid	–	–	(901)	(901)
Share options exercised	6	–	–	6
Balance at 30 June 2021	10,413	(2,875)	126,919	134,457

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

Consolidated Statement of Cash Flows

For the Financial Year Ended 30 June 2021

	Notes	12 Months to June 2021 £,000	12 Months to June 2020 £,000
Cash Flows from Operating Activities			
Receipts from customers		4,033	4,741
Payments to suppliers and employees		(3,796)	(4,670)
Receipts in respect of lease receivables		511	3,244
Payments from other interest-bearing liabilities, inclusive of related costs		–	(2,533)
Interest received		65	108
Interest and finance charges paid		(92)	(380)
Receipts/(Payments) from security guarantee		35	(29)
Income tax (paid)/received		(17)	478
Other gains receipts		1,450	–
Net cash from operating activities	20(b)	2,189	959
Cash Flows from Investing Activities			
Payments for plant and equipment		(17)	(398)
Payment for intangible assets – software & contract rights		(122)	(111)
Payments for purchase of financial instruments		–	(987)
Receipts from sale of financial instruments		–	5,376
Net cash from investing activities		(139)	3,880
Cash Flows from Financing Activities			
Payment of lease liabilities		(93)	(114)
Dividends paid		(901)	(1,135)
Proceeds from share issue net of costs		6	–
Share buyback/return of capital net of costs		(2,757)	(2,047)
Net cash used in financing activities		(3,745)	(3,296)
Net (decrease)/increase in cash and cash equivalents		(1,695)	1,543
Effect of exchange rate fluctuations on cash held		(43)	163
Cash and cash equivalents at beginning of the financial year		8,805	7,099
Total cash and cash equivalents at the end of the financial period	20(a)	7,067	8,805
Restricted cash and cash equivalents at the end of the financial period	20(a)	(60)	(61)
Net available cash and cash equivalents at the end of the financial period		7,007	8,744

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

Notes to the Consolidated Financial Statements

1. General Information

ThinkSmart Limited (the “Company” or “ThinkSmart”) is a limited liability company incorporated in Australia. The consolidated financial statements of the Company comprise the Company and its subsidiaries (the “Group”). The Group is a for profit entity and its principal activity during the year was the provision of lease and rental financing services in the UK and the holding of a financial asset. 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 UK (“Adopted IFRSs”). The consolidated financial statements were authorised for issue by the Board of Directors on 13 September 2021.

(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 changed when necessary to align them with the policies adopted by the Group.

(ii) ***Transactions eliminated on consolidation***

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

(b) ***Business combinations***

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

(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.

The Group has a further revenue stream for the provision of outsourced services. The Group is a B2B provider of call centre customer services. The services provided by the Group are simultaneously created, transferred and consumed at a point in time with the corresponding revenue being recognised at the same point in time. The provision of call centre services comprise the whole and single contractual obligation and all revenue is recognised at the same time as this is fulfilled. There is no variable income attached to the services provided and all costs are expensed as incurred.

(d) **Cash and cash equivalents**

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

(e) **Plant and equipment**

Recognition and measurement

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

3. Significant Accounting Policies (continued)

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

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. If on review the remaining useful life of any asset is found to be shorter than its useful life at recognition then the depreciation schedule is accelerated to reflect the shorter remaining useful life with any adjustment charged to depreciation cost.

(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 2021 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, 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.

3. Significant Accounting Policies (continued)

(h) *Financial instruments (continued)*

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.

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.

3. Significant Accounting Policies (continued)

(h) *Financial instruments (continued)*

(iii) *Impairment of assets*

Financial assets, including finance lease receivables and loan receivables

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

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

For financial assets measured at fair value through other comprehensive income, gains or losses are recognised in other comprehensive income, except for impairment gains or 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.

3. Significant Accounting Policies (continued)

(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.

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.

3. Significant Accounting Policies (continued)

(l) Income tax (continued)

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.

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.

3. Significant Accounting Policies (continued)

(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 payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

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

(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.

3. Significant Accounting Policies (continued)

(q) Measurement of fair values (continued)

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

Note 10 – financial assets at fair value through profit or loss;

Note 19(b) – share based payment transactions; and

Note 24(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)).

(s) Leases where the Group acts as lessee

The Group recognises assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. On entering a lease contract the Group recognises 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 right of use asset is measured as being 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. Depreciation on the right of use asset is charged on a straight-line basis over the ten year period of the lease. The lease liability in respect of the lease payments due to the lessor is measured at each reporting date as 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. The only lease held by the Group which is relevant to AASB 16 is for its office space at Oakland House, Manchester.

(t) 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 have been adopted in the annual financial statements for the year ended 30 June 2021, but have not had a material effect on the Group:

Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to AASB 9, AASB 139, AASB 7, AASB 4 and AASB 16)

These amendments to various AASB standards are mandatorily effective for reporting periods beginning on or after 1 January 2021. As the Group has no loans whose contractual terms are affected by interest benchmark reform there was no impact on the Group from the adoption of these amendments.

(u) 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 effective in future accounting periods that the group has decided not to adopt early.

The following amendments are effective for accounting periods beginning on or after 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to AASB 137);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to AASB 116);
- Insurance Contracts – In June 2020, the AASB issued amendments to AASB 17, including a deferral of its effective date to 1 January 2023;

3. Significant Accounting Policies (continued)

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

- Annual Improvements to IFRS Standards 2018-2020 (Amendments to AASB 1, AASB 9, AASB 16 and AASB 141); and
- References to Conceptual Framework (Amendments to AASB 3).

In January 2020, the AASB issued amendments to AASB 101, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

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.

4. Critical accounting estimates and judgements (continued)

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.

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 8 – 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 11 – measurement of contract asset non-cash consideration;

Note 18 – measurement of contract liabilities; and

Note 19(b) – 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 2021, Afterpay have included the Group's put option as a separate financial liability in their accounts at AU\$99.9m.

4. Critical accounting estimates and judgements (continued)

Right of use lease asset and lease liability – AASB 16

AASB 16 - Leases requires management to make 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 24(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.

5. Financial Risk Management (continued)

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.

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

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.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

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 2021	30 June 2020
	£,000	£,000
Total liabilities	1,821	3,019
Less cash and cash equivalents	(7,067)	(8,805)
Net (cash)	(5,246)	(5,786)
Total capital	134,457	66,488
Debt-to-adjusted capital ratio	(0.04)	(0.09)

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 11 November 2020 shareholders approved a return of capital of up to AUD \$6,497,111 to shareholders (the "Distribution") in two parts:

1. a capital reduction, pursuant to which the Company will return 4.575 cents per share (or depository interest) to shareholders (or depository interest holders) ("Return of Capital"); and
2. a special unfranked dividend of 1.525 cents per ordinary share (or depository interest) – declared as attaching conduit foreign income ("Dividend").

The return of capital and dividend had a record date of 13 November 2020 and were paid on 9 December 2020.

6. Consolidated Statement of Profit and Loss

	12 Months to	12 Months to
	30 June 2021	30 June 2020
	£,000	£,000
Profit is arrived at after crediting/(charging) the following items:		
(a) Revenue		
Commission income	851	2,409
Extended rental income	1,566	1,869
Income earned from sale of inertia equipment	698	727
Outsourced services	863	496
Services revenue – insurance commission	226	398
Interest revenue – other entities	65	108
Fee revenue – customers	17	72
	4,286	6,079

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

6. Consolidated Statement of Profit and Loss (continued)

(b) *Other revenue*

	12 Months to 30 June 2021 £,000	12 Months to 30 June 2020 £,000
Finance lease income	62	247
Other revenue	–	6
	62	253
Total revenue	4,348	6,332
All revenue is generated in the UK from the following products:		
SmartPlan	3,205	5,088
Upgrade Anytime	147	450
Flexible Leasing	68	185
Other/non-product specific	928	609
	4,348	6,332

(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 2021 £,000	30 June 2020 £,000
(e) <i>Other operating expenses</i>		
Employee benefits expense:		
– Payments to employees ⁽ⁱ⁾	(1,725)	(1,749)
– Employee superannuation costs	(109)	(90)
– Share-based payment expense	–	(7)
	(1,834)	(1,846)
Occupancy costs	(171)	(169)
Lease interest charge	(19)	(26)
Professional services	(758)	(805)
Finance charges	(92)	(380)
Losses arising from financial guarantee contract	(104)	(367)
Other costs	(453)	(677)
	(3,431)	(4,270)

(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 £30,629 (FY20: £19,372).

	30 June 2021 £,000	30 June 2020 £,000
(f) <i>Depreciation and amortisation</i>		
Depreciation	(437)	(820)
Amortisation	(964)	(1,227)
	(1,401)	(2,047)
(g) <i>Impairment gains/(losses)</i>		
Impairment losses finance leases and receivables	(16)	(182)
Movement in provision for expected credit losses	57	180
	41	(2)

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

6. Consolidated Statement of Profit and Loss (continued)

(h) *Gains on financial instruments*

	30 June 2021	30 June 2020
	£,000	£,000
Realised gain	–	745
Unrealised gain	71,267	53,673
	<u>71,267</u>	<u>54,418</u>

In the period to 30 June 2021 unrealised gains arose from the revaluation of the Group's investment in 10% of Clearpay Finance Limited (see note 11(ii)).

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.

(i) *Other gains*

Fair value gain on financial asset through profit and loss	1,450	–
	<u>1,450</u>	<u>–</u>

In the period to 30 June 2021 other gains arose on the settlement of legal claims against Dixons as announced on 10 August 2020.

7. Income Tax

Amounts recognised in profit and loss

	30 June 2021	30 June 2020
	£,000	£,000
The major components of income tax (expense)/benefit are:		
Current income tax expense	(17)	(62)
Total income tax (expense)/benefit	<u>(17)</u>	<u>(62)</u>

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

	30 June 2021	30 June 2020
	£,000	£,000
Accounting profit before tax	71,681	53,104
At the statutory income tax rate of 30%	(21,504)	(15,931)
Effect of tax rates in foreign jurisdictions	7,885	5,824
Non-deductible expenses	(3)	(1)
Non-taxable gain (Substantial Shareholdings Exemption)	13,541	10,198
Reversal of unrecognised deferred tax asset	81	–
Losses carried forward	–	(136)
Irrecoverable withholding tax	(17)	(16)
Income tax credit/(charge)	<u>(17)</u>	<u>(62)</u>

Tax receivable/(payable)

Current	–	–
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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 £1.1m at 30 June 2021 (30 June 2020: £1.0m) being mainly in respect of the estimated £4.4m (30 June 2020: £5.3m) of UK tax losses carried forward at the substantively enacted UK corporation tax rate of 25% (30 June 2020: 19%).

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

8. Finance lease receivables

	30 June 2021	30 June 2020
	£,000	£,000
Current		
Gross investment in finance lease receivables	29	207
Unguaranteed residuals	24	331
Unearned future finance lease income	(6)	(43)
Net lease receivable	47	495
Allowance for expected credit losses	(9)	(64)
	<u>38</u>	<u>431</u>
Non-current		
Gross investment in finance lease receivables	–	7
Unguaranteed residuals	–	11
Unearned future finance lease income	–	(1)
Net lease receivable	–	17
Allowance for expected credit losses	–	(2)
	<u>–</u>	<u>15</u>
Balance at 1 July	446	3,445
Receipts in respect of lease receivable	(511)	(3,244)
Finance lease income	62	247
Impairment loss	41	(2)
	<u>38</u>	<u>446</u>

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 24(c) for detailed analysis of the ageing of lease receivables and expected credit losses recognised.

9. Other Current Assets

	30 June 2021	30 June 2020
	£,000	£,000
Prepayments	222	233
Insurance prepayments	4	55
Accrued income – insurance commission (see Note 12(i))	154	290
Sundry debtors	–	346
	<u>380</u>	<u>924</u>

10. Financial assets at fair value through profit or loss

	30 June 2021	30 June 2020
	£,000	£,000
Investment in Clearpay Finance Limited	125,000	53,733
	125,000	53,733

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 2021 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 17.5% 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. In August 2021 Square Inc (“Square”) and Afterpay announced the intention for Square to acquire Afterpay in a deal which valued Afterpay at US\$29 billion (AU\$39 billion). The transaction is expected to complete in the first quarter of the calendar year 2022. Under the terms of the agreement that ThinkSmart has with Afterpay, relating to the sale of the Group’s remaining holding in Clearpay, a change of control of Afterpay gives Afterpay the right to exercise its call option to purchase the remaining shares in Clearpay from ThinkSmart at any time following said change of control. The exercise price for the call option will be determined by the same pre-agreed valuation principles whether or not the option is exercised early. 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 £125.0m at 30 June 2021. The investment in Clearpay is a level 3 financial instrument.

Sensitivity of the asset to changes in the principal assumptions

If all other assumptions remained unchanged, reducing the discount for lack of marketability by 10% would increase the fair value by £15.2m; increasing the discount for lack of marketability by 10% would reduce the fair value by £15.2m.

The valuation range identified by the independent valuation reflects the sensitivities of the key inputs used in that valuation. If all other assumptions remained unchanged, selecting a point in the independent valuation range 10% higher would increase the fair value by £2.7m; selecting a point in the independent valuation range 10% lower would decrease the fair value by £2.7m.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

11. Contract assets

	30 June 2021	30 June 2020
	£,000	£,000
Balance at 1 July	1,430	2,032
Recognised as revenue in period ⁽ⁱ⁾	370	858
Recognised as customer acquisition cost ⁽ⁱⁱ⁾	(110)	(145)
Transferred to Plant & Equipment Operating lease additions	(913)	(1,315)
	<u>777</u>	<u>1,430</u>
Contract asset revenue to be recognised less than 1 year	215	479
Contract asset revenue to be recognised between 1 and 2 years	71	180
Contract asset revenue to be recognised between 2 and 3 years	10	42
Contract asset revenue to be recognised between 3 and 4 years	–	2
	<u>296</u>	<u>703</u>

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

12. Other Non-Current Assets

	30 June 2021	30 June 2020
	£,000	£,000
Insurance prepayments	–	5
Accrued income – insurance commission ⁽ⁱ⁾	48	86
Deposits held by funders ⁽ⁱⁱ⁾	2,021	2,056
	<u>2,069</u>	<u>2,147</u>

- (i) Accrued income reflects brokerage commission earned from making insurance arrangements on behalf of lessee's and is net of a clawback provision. The clawback provision for each reporting year has been estimated to be 30% based on historical experience and is calculated on the gross commission receivable.
- (ii) Deposits held by funders for the servicing and management of their portfolios in the event of default. The deposits earn interest at market rates of return for similar instruments. See note 24 for further information.

13. Plant and Equipment

	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				
Balance at 30 June 2019	2,601	690	3,023	6,314
Transferred from contract assets	–	–	1,315	1,315
Transferred to cost of inertia assets sold	–	–	(587)	(587)
Additions	14	–	–	14
Disposals	(2,463)	–	(3,391)	(5,854)
Balance at 30 June 2020	152	690	360	1,202
Transferred from contract assets	–	–	917	917
Transferred to cost of inertia assets sold	–	–	(655)	(655)
Additions	17	–	–	17
Disposals	(78)	–	(339)	(417)
Balance at 30 June 2021	91	690	283	1,064
Accumulated Depreciation				
Balance at 30 June 2019	(2,511)	(437)	(2,828)	(5,852)
Depreciation expense	(54)	(69)	(697)	(820)
Disposals	2,463	–	3,391	5,854
Balance at 30 June 2020	(102)	(506)	(134)	(742)
Depreciation expense	(35)	(69)	(333)	(437)
Disposals	78	–	339	417
Balance at 30 June 2021	(59)	(575)	(128)	(762)
Net Book Value				
At 30 June 2020	50	184	226	460
At 30 June 2021	32	115	155	302

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

14. Intangible Assets

	Contract rights £,000	Software £,000	Intellectual Property £,000	Total £,000
Gross carrying amount				
At cost				
Balance at 30 June 2019	1,456	5,697	356	7,509
Effect of movement in exchange rate	–	–	3	3
Additions	385	109	–	494
Disposals	(1,400)	(1,437)	–	(2,837)
Balance at 30 June 2020	441	4,369	359	5,169
Effect of movement in exchange rate	–	–	(11)	(11)
Additions	8	115	–	123
Disposals	(41)	(2,755)	–	(2,796)
Balance at 30 June 2021	408	1,729	348	2,485
	Contract rights £,000	Software £,000	Intellectual Property £,000	Total £,000
Accumulated amortisation and impairment				
Balance at 30 June 2019	(1,418)	(3,587)	(321)	(5,326)
Effect of movement in exchange rate	–	–	(20)	(20)
Amortisation expense	(57)	(1,153)	(17)	(1,227)
Disposals	1,400	1,437	–	2,837
Balance at 30 June 2020	(75)	(3,303)	(358)	(3,736)
Effect of movement in exchange rate	–	–	9	9
Amortisation expense	(139)	(826)	1	(964)
Disposals	41	2,755	–	2,796
Balance at 30 June 2021	(173)	(1,374)	(348)	(1,895)
Net book value				
At 30 June 2020	366	1,066	1	1,433
At 30 June 2021	235	355	–	590

15. Interest in Subsidiaries

Interest in Subsidiaries	Country of Incorporation	% of Equity	
		30 June 2021	30 June 2020
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
ThinkSmart Inc	USA	100	100
ThinkSmart Employee Share Trust	Australia	100	100
ThinkSmart LTI Pty Limited	Australia	100	100

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

16. Trade and Other Payables, and Provisions

	30 June 2021	30 June 2020
	£,000	£,000
Trade and other payables	79	220
GST/VAT Payable	132	92
Other accrued expenses	517	883
	<u>728</u>	<u>1,195</u>
Provisions		
Annual leave	111	159
Long service leave	86	86
Risk Transfer cancellation and claims	5	10
	<u>202</u>	<u>255</u>
Annual and long service leave		
Balance at 1 July	245	218
Effect of exchange rate movement	(7)	3
Additional provisions made in the year	3	24
Amounts used during the year	(44)	–
Balance at 30 June	<u>197</u>	<u>245</u>
Other		
Balance at 1 July	10	34
Additional provisions made in the year	–	–
Amounts used during the year	(5)	(24)
Balance at 30 June	<u>5</u>	<u>10</u>

17. Lease liabilities

	30 June 2021	30 June 2020
	£,000	£,000
Balance brought forward	242	330
Rental paid in period	(112)	(114)
Interest charged	19	26
	<u>149</u>	<u>242</u>
	30 June 2021	30 June 2020
	£,000	£,000
Lease liabilities due within 12 months	103	94
Lease liabilities due greater than 12 months	46	148
	<u>149</u>	<u>242</u>
Undiscounted maturity analysis		
Lease liabilities due up to 1 year	113	113
Lease liabilities due between 1 and 2 years	47	113
Lease liabilities due between 3 and 5 years	–	47
Lease liabilities due over 5 years	–	–
	<u>160</u>	<u>273</u>

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

18. Contract liabilities

	30 June 2021	30 June 2020
	£,000	£,000
Balance brought forward	1,327	1,993
Recognised as revenue in period	(585)	(666)
	<u>742</u>	<u>1,327</u>
Contract liabilities to be recognised as revenue within 12 months	410	648
Contract liabilities to be recognised as revenue greater than 12 months	332	679
	<u>742</u>	<u>1,327</u>

19. Issued Capital and reserves

(a) *Issued and paid up capital*

	30 June 2021	30 June 2020
	£,000	£,000
106,542,814 Ordinary Shares fully paid (2020: 106,509,994)	<u>10,413</u>	<u>13,164</u>

Fully Paid Ordinary Shares

	2021	2021	2020	2020
	Number	£000	Number	£000
Balance at beginning of the financial year	106,509,994	13,164	106,509,994	15,211
Issue of ordinary shares	32,820	6	–	–
Return of capital to shareholders	–	(2,757)	–	(2,047)
Balance at end of the financial period	<u>106,542,814</u>	<u>10,413</u>	<u>106,509,994</u>	<u>13,164</u>

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.

At the AGM on 11 November 2020 shareholders approved a return of capital to shareholders. The return of capital had a record date of 13 November 2020 and was paid on 9 December 2020. The following return of capital was paid by the Group for the year:

	12 months to	12 months to
	30 June 2021	30 June 2020
	£,000	£,000
2.59 pence per ordinary share (2020: 1.92)	<u>2,757</u>	<u>2,047</u>
	<u>2,757</u>	<u>2,047</u>

(b) *Share options – employee options*

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

Options issued in previous years and vested but not yet exercised as at 30 June 2021:

1,724,532 options over ordinary shares were issued 21 December 2016 and exercisable at £0.1745, vested and exercisable on 21 December 2019 until 21 December 2026. The fair value of these options at grant date was £0.0371. The value of these options has been expensed over the vesting period in accordance with AASB 2.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

19. Issued Capital and reserves (continued)

(c) *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 at Grant date	£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 2021		Year ended 30 June 2020	
	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	1,757,352	0.2200
Exercised during the financial year	(32,820)	0.1745	–	–
Balance at the end of financial year	1,724,532	0.1745	1,757,352	0.2200
Exercisable at end of the financial year	1,724,532	0.1745	1,757,352	0.2200

The options and loan-funded shares outstanding at 30 June 2021 have an exercise price of £0.1745 (30 June 2020: £0.22) and a weighted average contractual life of 5 years (30 June 2020: 6 years). The following is the total expense recognised for the year arising from share-based payment transactions:

	12 months to 30 June 2021 £	12 months to 30 June 2020 £
Share compensation – employee shares	–	6,502
Total expense recognised as employee costs (note 6e)	–	6,502

(d) *Dividends*

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

	12 months to 30 June 2021 £,000	12 months to 30 June 2020 £,000
0.85 pence per ordinary share (2020: 1.09)	901	1,135
	901	1,135

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

19. Issued Capital and reserves (continued)

(e) *Nature and purpose of reserves*

The Group's reserves are as stated in the consolidated statement of changes in equity and represent the following:

Accumulated profit

Cumulative profit and loss net of distributions to owners.

Foreign currency translation reserve

The cumulative effect of movements in foreign exchange rates on the translation of Group entities with a functional currency other than the Group's presentation currency. These amounts are recognised in other comprehensive income.

20. Notes to the Cash Flow Statement

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

	as at 30 June 2021 £,000	as at 30 June 2020 £,000
Reconciliation of cash and cash equivalents		
Cash balance comprises:		
– Available cash and cash equivalents	7,007	8,744
– Restricted cash	60	61
	7,067	8,805

The Group's exposure to credit risk, interest rate and sensitivity analysis of the financial assets and liabilities are provided in Note 24.

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

	12 months to 30 June 2021 £,000	12 months to 30 June 2020 £,000
Profit after tax	71,664	53,042
Add back non-cash and non-operating items:		
Depreciation	437	820
Amortisation	964	1,227
Impairment losses on finance lease receivables	(57)	(181)
Equity settled share-based payment	–	7
Lease interest	19	26
Gain on Financial Instruments	(71,267)	(54,418)
Cost of inertia assets sold	655	594
(Increase)/decrease in assets:		
Trade receivables, deposits held with funders and other movements in lease assets	654	121
Finance lease receivable	465	3,180
Contract asset recognised to revenue	(264)	(719)
Increase/(decrease) in liabilities:		
Trade and other creditors	(466)	(84)
Contract liabilities	(585)	(666)
Other interest bearing liabilities	23	(2,533)
Provisions	(53)	3
Provision for income tax	–	540
Net cash from operating activities	2,189	959

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

21. 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;
- ThinkSmart Inc.

Operating Segments

Information about reportable segments

	UK		Corporate and unallocated		Total	
	June 2021 £,000	June 2020 £,000	June 2021 £,000	June 2020 £,000	June 2021 £,000	June 2020 £,000
For the year ended:						
Revenue	4,286	6,079	–	–	4,286	6,079
Other revenue	61	233	1	20	62	253
Total revenue	4,347	6,312	1	20	4,348	6,332
Customer acquisition cost	(258)	(627)	–	–	(258)	(627)
Cost of inertia assets sold	(335)	(700)	–	–	(335)	(700)
Other operating expenses	(2,782)	(3,555)	(649)	(715)	(3,431)	(4,270)
Depreciation and amortisation	(1,401)	(2,047)	–	–	(1,401)	(2,047)
Impairment gains/(losses)	41	(2)	–	–	41	(2)
Gain on Financial Instruments	71,267	54,418	–	–	71,267	54,418
Other gains	1,450	–	–	–	1,450	–
Reportable segment profit/(loss) before income tax	72,329	53,799	(648)	(695)	71,681	53,104
Reportable segment current assets	4,181	6,162	3,359	4,127	7,540	10,289
Reportable segment non-current assets	128,738	59,218	–	–	128,738	59,218
Reportable segment liabilities	1,575	2,695	246	324	1,821	3,019
Capital expenditure	139	509	–	–	139	509

22. Remuneration of Auditor

	12 Months to June 2021 £	12 Months to June 2020 £
Audit and review services:		
<i>Auditor of the Company:</i>		
Provided by BDO	124,791	139,948
Audit and review of financial statements	124,791	139,948

The Group's auditors are BDO.

23. Commitments and Contingent Liabilities

	June 2021 £,000	June 2020 £,000
Leases where Group acts as agent (not included in the statement of financial position)	2,583	6,029
Deposits held by funder	2,021	2,056

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 12).

24. 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 2021 £,000	June 2020 £,000
Variable rate instruments		
Cash and cash equivalents (note 20a)	7,067	8,805
Deposits held by funder (note 12)	2,021	2,056
Net financial assets	9,088	10,861

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 2021 £,000	June 2020 £,000
Effect of 1% increase in rates	91	109
Effect of 1% decrease in rates	(91)	(109)

(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).

24. Financial Instruments (continued)

(b) *Fair value of financial instruments (continued)*

Key assumptions in the valuation of the instruments were limited to interpolating interest rates for certain future periods where there was no observable market data. The majority of financial assets and liabilities are measured at amortised cost. At 30 June 2021 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 £125,000,000 (2020: £53,733,333). The holding in Clearpay is a Level 3 financial instrument. Details of the key inputs included in the valuation of this asset, as well as the sensitivity of these inputs are included in note 10.

(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 2021 £,000	June 2020 £,000
Cash and cash equivalents	20(a)	7,067	8,805
Trade receivables		55	129
Loan and lease receivable (current)	8	38	495
Loan and lease receivable (non-current)	8	–	17
Insurance prepayment and accrued income (current)	9	158	345
Insurance prepayment and accrued income (non-current)	12	48	91
Sundry debtors	9	–	346
Deposits held by funders	12	2,021	2,056
		9,387	12,284

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

	June 2021 £,000	June 2020 £,000
Australia	3,278	4,075
UK	6,109	8,209
	9,387	12,284

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 2021 £,000	June 2020 £,000
Banks ⁽ⁱ⁾	7,067	8,805
Funders ⁽ⁱⁱ⁾	2,021	2,056
Insurance partners ⁽ⁱⁱⁱ⁾	206	436
Retail customers ^(iv)	38	512
Others	55	475
	9,387	12,284

(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.

24. Financial Instruments (continued)

(c) *Credit risk management (continued)*

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

	Gross June 2021 £,000	Impairment June 2021 £,000	Gross June 2020 £,000	Impairment June 2020 £,000
Not past due	66	–	492	2
Past due 0-30 days	19	–	29	4
Past due 31-120 days	10	8	43	30
Past due 121-365 days	17	11	90	43
	<u>112</u>	<u>19</u>	<u>654</u>	<u>79</u>

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

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

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

	June 2021 £,000	June 2020 £,000
Balance at 1 July	79	253
Impairment loss recognised	(44)	(2)
Bad debt written off	(16)	(172)
Balance at 30 June	<u>19</u>	<u>79</u>

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

(d) *Currency risk management*

Exposure to currency risk

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

	June 2021 £,000	June 2020 £,000
Cash and cash equivalents	3,277	4,074
10% strengthening of AUD	(328)	(407)
10% weakening of AUD	328	407
	<u>3,277</u>	<u>4,074</u>
	June 2021	June 2020
AUD/GBP year end exchange rate	<u>0.5429</u>	<u>0.5586</u>

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

24. Financial Instruments (continued)

(e) *Liquidity risk management*

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

	June 2021 £,000	June 2020 £,000
Trade and other payables	728	1,195
Lease liabilities	149	242
	877	1,437
Less than 1 year	831	1,289
1-2 years	46	148
	877	1,437

25. 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

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

	12 months to June 2021 £	12 months to June 2020 £
Short-term employee benefits	414,690	463,409
Post-employment benefits	14,403	13,971
Other long-term benefits	2,958	2,575
Share-based payments	–	5,825
	432,051	485,780
Business expenses incurred by KMP's and reimbursed by the Company	–	55,922

26. Subsequent Events

There has not arisen, in the interval between the end of the financial period and the date of this report, any 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.

ThinkSmart Limited
Notes to the Consolidated Financial Statements (continued)

27. Earnings per Share

	12 months to June 2021 £,000	12 months to June 2020 £,000
Profit after tax attributable to ordinary shareholders	71,664	53,042
	30 June 2021 Number	30 June 2020 Number
Weighted average number of ordinary shares (basic)	106,518,740	106,509,994
Effects of dilution from share options	1,724,532	1,757,352
Weighted average number of ordinary shares (diluted)	108,243,272	108,267,346
	30 June 2021	30 June 2020
Earnings per share		
Basic earnings per share (pence)	67.28	49.80
Diluted earnings per share (pence) – continuing operations	66.21	48.99

28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	June 2021 £,000	June 2020 £,000
(Loss)/Profit after tax	(319)	476
Total comprehensive income	(319)	476

Statement of financial position

	June 2021 £,000	June 2020 £,000
Total current assets	3,359	4,127
Total assets	10,137	14,186
Total current liabilities	246	324
Total liabilities	246	324
Equity		
Issued share capital	10,413	13,164
Accumulated profits	(522)	698
Total equity	9,891	13,862

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 2021 and 30 June 2020.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

28. 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.

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 2021, 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 2021 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.

Financial assets at fair value through profit or loss	
Key audit matter	How the matter was addressed in our audit
<p>As disclosed in Note 10 of the financial report, the Group holds a significant asset in Clearpay Finance Limited.</p> <p>In accordance with AASB 9 <i>Financial Instruments</i>, the asset is required to be carried at fair value at reporting date and any associated fair value movements reflected in profit or loss.</p> <p>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.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • 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 4, 10 and 24(b) of the financial report.
Revenue Recognition	
Key audit matter	How the matter was addressed in our audit
<p>As disclosed in Note 3(c), the Group has several 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.</p> <p>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.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • 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; • Assessed the cut off of revenue recognition to ensure that revenue has been appropriately recorded in the correct period; • 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 Group’s accounting policies and related disclosures in Note 3(c) and 4 of the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information contained in financial report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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 21 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of ThinkSmart Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

Handwritten signature of Ashleigh Woodley, consisting of the letters 'BDO' above a stylized signature.

Ashleigh Woodley

Director

Perth

13 September 2021

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)

Company Secretary

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

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Australia

Company Registrars

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Australia

Depository

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

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