

# THINKSMART

P R O S P E C T U S

ThinkSmart Limited ABN 24 092 319 698



SOLE LEAD MANAGER AND UNDERWRITER

**JPMorgan** 

CO-MANAGER

**ORD MINNETT**

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## IMPORTANT INFORMATION

### Lodgement and listing

This Prospectus is dated 10 May 2007 and was lodged with ASIC on that date. Neither ASIC nor the ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. The Company will apply to the ASX for listing and quotation of the Shares on the ASX within seven days after the date of this Prospectus. No securities will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

### Note to Applicants

The Offer contained in this Prospectus does not take into account the investment objectives, financial situation and particular needs of the investor.

It is important that you read this Prospectus carefully and in full before deciding to invest in the Company. In particular, in considering the prospects of the Company, you should consider the risk factors that could affect the financial

performance of the Company in light of your personal circumstances (including financial and taxation issues), some of which are set out in Section 8 and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding to invest. No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company or the Directors.

### No offering where offering would be illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to

register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Specifically, the Shares have not been and will not be registered under the US Securities Act and may not be offered or sold in the US or to, or for the account or benefit of, US persons (as defined in Regulation S promulgated under the US Securities Act), except in certain transactions exempt from, or not subject to, the registration requirements of the US Securities Act.

For further information, see Section 5.16.1.



# THINKSMART PROSPECTUS

## **Electronic Prospectus**

This Prospectus, excluding any Application Form, is available in electronic form via [www.thinksmartworld.com](http://www.thinksmartworld.com) and may be viewed only by Australian residents. No offer is made pursuant to the distribution of this Prospectus (excluding any Application Form) in electronic form. Applications for Shares may only be made on the Application Form attached to or accompanying the hard copy Prospectus.

## **Exposure period**

The Corporations Act prohibits the Company from processing Applications in the seven day period after the date of lodgement of this Prospectus. This period may be extended by ASIC by up to a further seven days. This period is an exposure period to enable this Prospectus to be examined by market participants prior to the raising of funds. Applications received during the exposure period will not be processed until after the expiry of that period.

## **Photographs**

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person shown endorses this Prospectus or its contents or that the assets shown in them are owned by the Company.

## **Financial amounts and time**

Money as expressed in this Prospectus is in Australian dollars unless otherwise indicated. All times stated are Australian Eastern Standard Time ("AEST").

## **Glossary**

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary of terms in Section 11.

## **Privacy**

The privacy obligations and policy relating to this Prospectus are contained in Section 10.18.

# CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Board of Directors of ThinkSmart Limited, I am pleased to offer you the opportunity to become a Shareholder in ThinkSmart.

ThinkSmart is an international leader and innovator in the provision of business-to-business (“B2B”) IT financing for transactions between A\$500 and A\$10,000 (“Nano-Ticket”). ThinkSmart’s core competency is to process high volumes of Nano-Ticket B2B finance transactions via its proprietary SmartCheck technology. ThinkSmart currently partners with some of the leading computer retailers in the United Kingdom, Australia and Spain and is seeking further channels in France to deliver its rental finance product.

From its formation in 1996, ThinkSmart has grown to be a truly international business and it has seen significant growth in volumes and revenues as its product has expanded globally. ThinkSmart operates in computer retail markets worth over US\$32 billion with exposure to over 180 million people and 11.7 million small businesses.

The Board is committed to continuing ThinkSmart’s growth with a strategy that focuses on leveraging its existing proprietary software and business model to grow the business in partnership with existing retailers and also through the active expansion of its product to new retail relationships and new regions.

The Offer Price is \$2.15 per Share. The purpose of the Offer is to provide Existing Shareholders with a mechanism to realise part of their investment in ThinkSmart, fund the buyout of the Halifax Bank of Scotland’s (“HBoS”) 50% ownership in the UK Joint Venture, provide ThinkSmart with ongoing access to capital markets and provide Shareholders with continued liquidity. The Offer will also provide an opportunity for certain members of the senior management of ThinkSmart and ThinkSmart employees to participate in the ownership structure of the Company.

On behalf of the Directors, I invite you to consider this opportunity to participate in ThinkSmart’s future. This Prospectus contains detailed information about the Offer and the historical and forecast financial position of ThinkSmart and I encourage you to read it fully.

I look forward to welcoming you as a Shareholder of ThinkSmart.

Yours sincerely,



Peter Mansell  
ThinkSmart Chairman

# KEY OFFER INFORMATION

| Event   | Date        |
|---|-------------|
| Prospectus Date   | 10 May 2007 |
| Broker Firm Offer opens                                     | 18 May 2007 |
| Broker Firm Offer closes                                    | 31 May 2007 |
| Employee Offer opens  | 18 May 2007 |
| Employee Offer closes                                       | 28 May 2007 |
| Expected settlement date                                    | 1 June 2007 |
| Expected allotment date                                     | 4 June 2007 |
| Deferred settlement trading on the ASX expected to commence | 4 June 2007 |
| Expected dispatch of Shareholder statements                 | 4 June 2007 |
| Normal trading on the ASX expected to commence              | 6 June 2007 |

## Key Offer statistics

|   |          |
|---|----------|
| Offer Price   | \$2.15   |
| Total number of Shares available under the Offer    | 39.8m    |
| Cash proceeds                                       | A\$85.6m |
| Total number of Shares on issue following the Offer | 95.0m    |
| Market capitalisation at the Offer Price            | A\$204m  |

## 2008 Directors' Forecasts<sup>1</sup>

|   |            |
|---|------------|
| NPAT (pre-amortisation)                 | A\$11.7m   |
| EBITDA                                  | A\$16.7m   |
| EPS (pre-amortisation)                  | 12.2 cents |
| Price/earnings ratio                    | 17.6x      |
| Enterprise value/EBITDA                 | 12.2x      |
| Dividends per Share (partially franked) | 5.0 cents  |
| Dividend yield <sup>2</sup>             | 2.3%       |

Note:

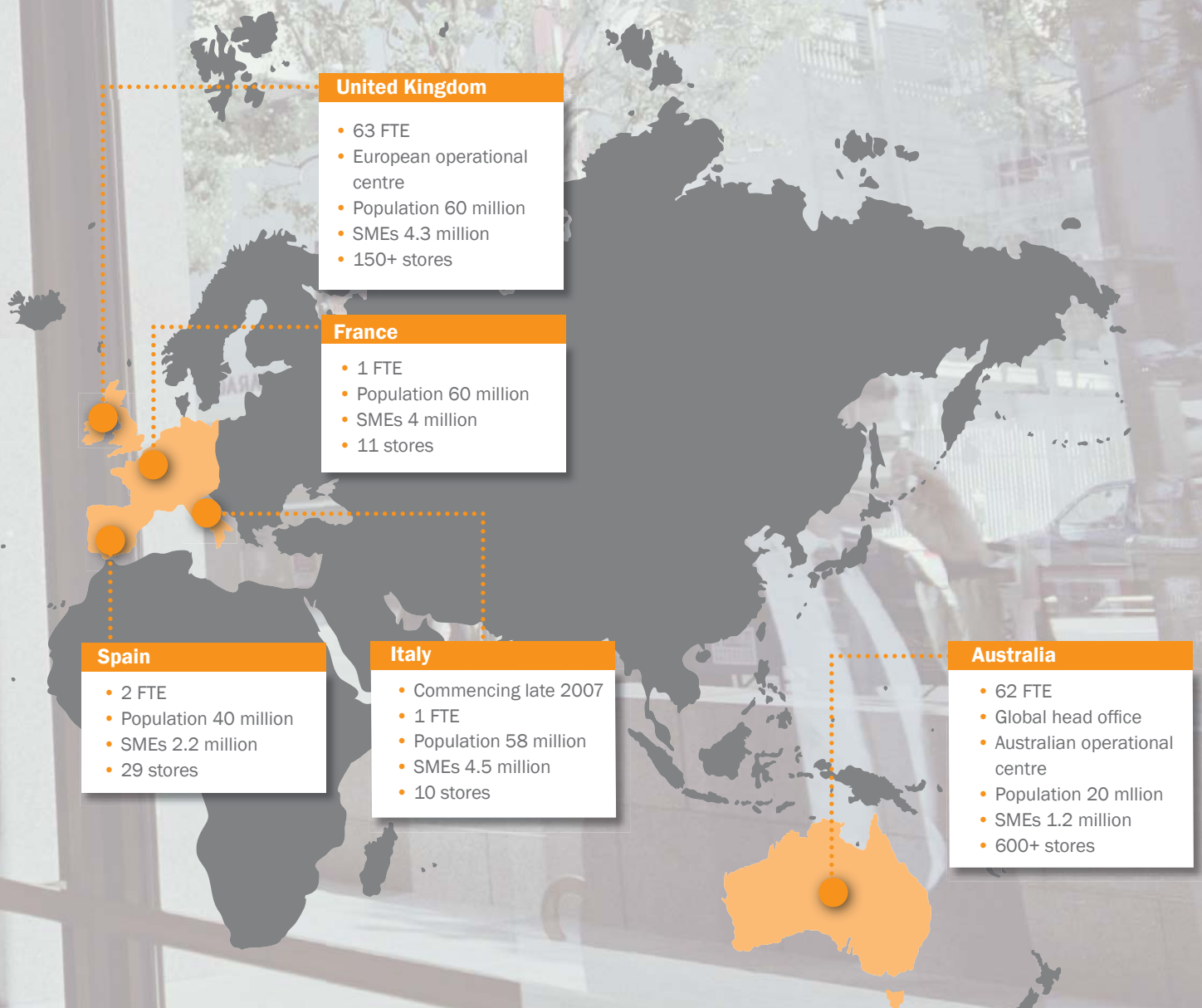
1 Directors' Forecasts are set out in Section 7.4, including the assumptions on which the forecasts are based.

2 Based on the Offer Price and proposed dividends payable in September 2008 and April 2009.

The Company and JPMorgan reserve the right to alter any of the dates relating to the Offer described in this Prospectus without notice. Investors are encouraged to submit their Applications as soon as possible after the opening of the Offer.

# LEADING INTERNATIONAL FOOTPRINT

ThinkSmart is a truly international business, currently operating in computer retail markets worth over US\$32 billion with exposure to over 180 million people and 11.7 million small businesses.





ThinkSmart's products are delivered through the stores of its key retail partners.



# EXCLUSIVE AND ENTRENCHED

## RETAIL PARTNER RELATIONSHIPS

### UNITED KINGDOM

| Retail partners   | # Stores | Launched | Current contract | % of 2006 volumes | Funder                   | Description  |
|---|----------|----------|------------------|-------------------|--------------------------|--|
| <br> | >150     | 2003     | 2011             | 52%               | Halifax Bank of Scotland | <ul style="list-style-type: none"> <li>• Exclusive two-way relationship</li> <li>• Umbrella agreement to roll out across Europe</li> </ul> |

### AUSTRALIA


| Retail partners   | # Stores | Launched | Current contract | % of 2006 volumes | Funder                     | Description                                |
|---|----------|----------|------------------|-------------------|----------------------------|--|
|  | 167      | 1996     | 2011             | 34% <sup>1</sup>  | Adelaide Bank <sup>1</sup> | • Long-term exclusive working relationship |
|  | 17       | 1996     | 2011             |                   |                            |  |
|  | 72       | 2007     | 2011             |                   |                            |  |
|  | 16       | 2002     | 2008             |                   |                            | • #1 Apple reseller in Australia           |

1 For Australia in total.

### SPAIN

| Retail partner  | # Stores | Launched | Current contract | % of 2006 volumes | Funder          | Description                      |
|---|----------|----------|------------------|-------------------|-----------------|----------------------------------|
|  | 29       | 2005     | 2011             | 13%               | Banco Santander | • Exclusive two-way relationship |

### FRANCE

| Retail partner  | # Stores | Launched | Current contract | % of 2006 volumes | Funder           | Description   |
|---|----------|----------|------------------|-------------------|------------------|---|
|  | 11       | 2006     | 2011             | 1%                | Societe Generale | • PC City future in France uncertain. ThinkSmart pursuing other retail partners |



## STRATEGIC FINANCIAL VALUE

### **RentSmart/SmartPlan product is a pure profit line for retailer**

- ✓ Drives higher core deal value and margin sales
- ✓ ThinkSmart also pays rebates on all approved deals
- ✓ Can positively impact margins across all product lines
- ✓ Reflected in SmartPlan/RentSmart being a core internal key performance indicator within select retailers' businesses

### **ThinkSmart invests significantly to attract customers to retailer**

- ✓ Advertising and marketing dedicated funding
- ✓ Sales incentive funding
- ✓ Investment into CRM to drive repeat spend with existing customers

1

## SALES INTEGRATION

### **ThinkSmart has dedicated field sales team for select retailers**

- ✓ Integral part of stores' resources
- ✓ Support and manage retailer training
- ✓ Drives campaigns and activity (incentives, marketing, advertising, offers, etc.)

### **ThinkSmart maintains fully integrated approach to results and performance**

- ✓ Results appear on select retailers' results summaries and store operating statements
- ✓ Weekly results produced and distributed by ThinkSmart

2

## SYSTEMS INTEGRATION

### **Transaction processing systems**

- ✓ ThinkSmart's SmartCheck system integrated with stores' transaction systems in select retailers

### **Sales processing systems**

- ✓ ThinkSmart operations processes integrated into retailers' standard operations procedures and intranet

### **E-tail sites**

- ✓ ThinkSmart's SmartCheck system integrated with web checkout on key volume e-tail site

3

## STRATEGIC FACE-TO-FACE RELATIONSHIPS

### **Stores head office level**

- ✓ Senior management a party to contractual agreement
- ✓ Quarterly senior management updates
- ✓ Monthly senior management meetings

### **Stores regional manager level**

- ✓ Weekly conference calls
- ✓ Stores monthly meetings
- ✓ Combined store visits
- ✓ Regional management conference attendance
- ✓ Store level interaction

4

# COMPELLING AND HIGHLY PROFITABLE VALUE PROPOSITION

FOR THINKSMART'S SME CUSTOMERS,  
RETAIL PARTNERS AND FUNDERS

## SME CUSTOMERS

- ✓ On-the-spot approval
- ✓ No requirement for financials
- ✓ Repayments up to 100% tax deductible
- ✓ Upgrade path to new technology
- ✓ Affordable monthly repayments
- ✓ Good for cash flow
- ✓ Off-balance sheet
- ✓ Bundle all equipment and services into one contract

## RETAILERS

- ✓ Gross profit vehicle
- ✓ Bigger sales
- ✓ Higher profit margin products (best brands plus warranty etc.)
- ✓ ThinkSmart sales management
- ✓ Attractive rebate
- ✓ Reduces need to discount
- ✓ Fast in-store process
- ✓ No requirement to disclose APR

## FUNDERS

- ✓ Access to a niche market
- ✓ Attractive margin
- ✓ Less risky than consumer business

# FOCUSED, LOW RISK B2B BUSINESS MODEL

Nano-Ticket transactions focused on SME market (10 employees or less)

Credit risk is limited to the pre-agreed loss reserves; non-recourse funding arrangements with leading banks

ThinkSmart takes no underwriting risk on its insurance products but receives a significant portion of the insurance premium as a commission

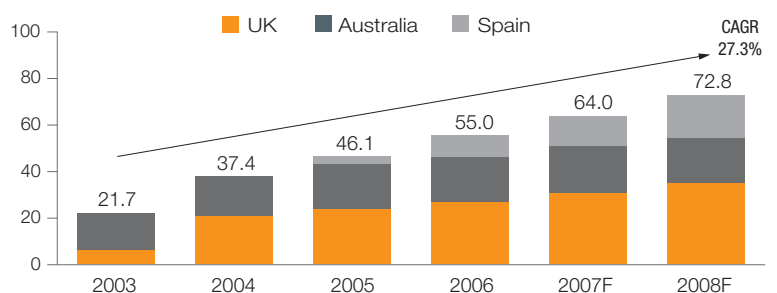
ThinkSmart carries no inventory risk

The ability of ThinkSmart to focus on the niche B2B market results in a stronger product offering and an inherently less risky business for ThinkSmart than personal lending or leasing.

# PROVEN TRACK RECORD OF GROWTH

## Growth in settled value (A\$m)

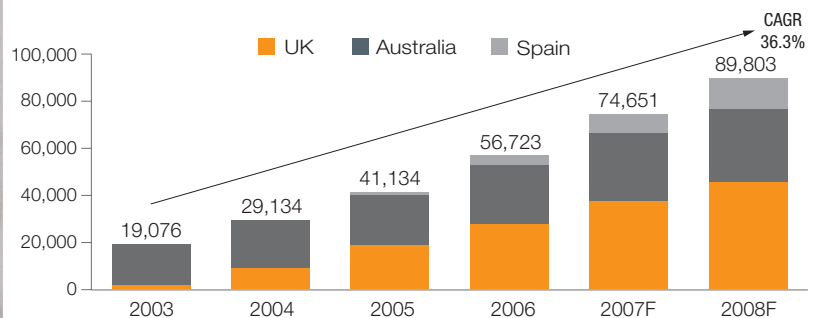
- 36.2% CAGR in settled value between 2003 to 2006
- Forecast CAGR in settled value of 15.1% in 2006 to 2008



ThinkSmart has a strong track record of growth with settled values growing at a compound rate of 36.2% p.a. between 2003 and 2006, and the number of active accounts growing at 43.8% p.a. during the same period.

### ThinkSmart customers – active accounts

- 43.8% CAGR in active customers between 2003 to 2006
- Forecast CAGR of 25.8% in active accounts between 2006 and 2008



Approximately 67% of the 2008F EBITDA is from contracts already written.

# PLATFORM FOR SIGNIFICANT INTERNATIONAL AND DOMESTIC GROWTH

## Established Market growth opportunities

### UNITED KINGDOM



| Market commentary  | Volume  | Revenue  |
|--|---|--|
| <ul style="list-style-type: none"> <li>• Developing market dynamic</li> <li>• ThinkSmart entered the market in 2003 with PC World (computer retailing arm of DSG)</li> </ul> | <ul style="list-style-type: none"> <li>• ThinkSmart focusing on increasing penetration</li> <li>• Further store growth anticipated</li> </ul> | <ul style="list-style-type: none"> <li>• Inertia income increasing as contracts mature</li> <li>• Increasing cash flow from insurance income on portfolio</li> </ul> |

### AUSTRALIA



| Market commentary  | Volume  | Revenue  |
|--|---|--|
| <ul style="list-style-type: none"> <li>• Mature market dynamic</li> <li>• In partnership with leading computer retailers                             <ul style="list-style-type: none"> <li>• Dick Smith</li> <li>• JB Hi-Fi</li> <li>• Next Byte</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• JB Hi-Fi increasing the number of stores with PC offering from 35 to most of their 72 stores and adding an additional six new stores in 1H07 to bring total to 78</li> <li>• Dick Smith planning an additional 17 stores in 1H07 to bring total to 397<sup>1</sup></li> <li>• ThinkSmart focusing on increasing penetration</li> </ul> | <ul style="list-style-type: none"> <li>• Solid flows of Inertia and insurance income</li> <li>• Improving efficiency of sales staff and documentation accuracy through concerted training programs with retail partners</li> </ul> |

<sup>1</sup> In Australia and New Zealand

### SPAIN



| Market commentary   | Volume  | Revenue  |
|---|---|--|
| <ul style="list-style-type: none"> <li>• New market dynamic</li> <li>• ThinkSmart entered this market through an umbrella agreement with DSG in 2005</li> </ul> | <ul style="list-style-type: none"> <li>• ThinkSmart focusing on increasing penetration</li> <li>• Further store growth anticipated</li> </ul> | <ul style="list-style-type: none"> <li>• Inertia income as contracts mature</li> <li>• Insurance product to be offered in late 2007</li> </ul> |



## International growth opportunities

### ITALY



- To begin trading with PC City in late 2007
- 10 PC City stores in Italy
- In dialogue with current funding partners

### FRANCE



- PC City reviewing its operations in France
- ThinkSmart open to pursue broader distribution channels

### EUROPE



- Umbrella agreement with DSG throughout Europe
- DSG currently in 14 countries
- ThinkSmart investigating opportunities, including Poland, Czech Republic, Greece and Sweden
- ThinkSmart plans to roll out one new territory p.a.

### US



- ThinkSmart actively pursuing US market
- Non-binding heads of terms with one leading national retailer
- Non-binding letters of intent with two national Funders

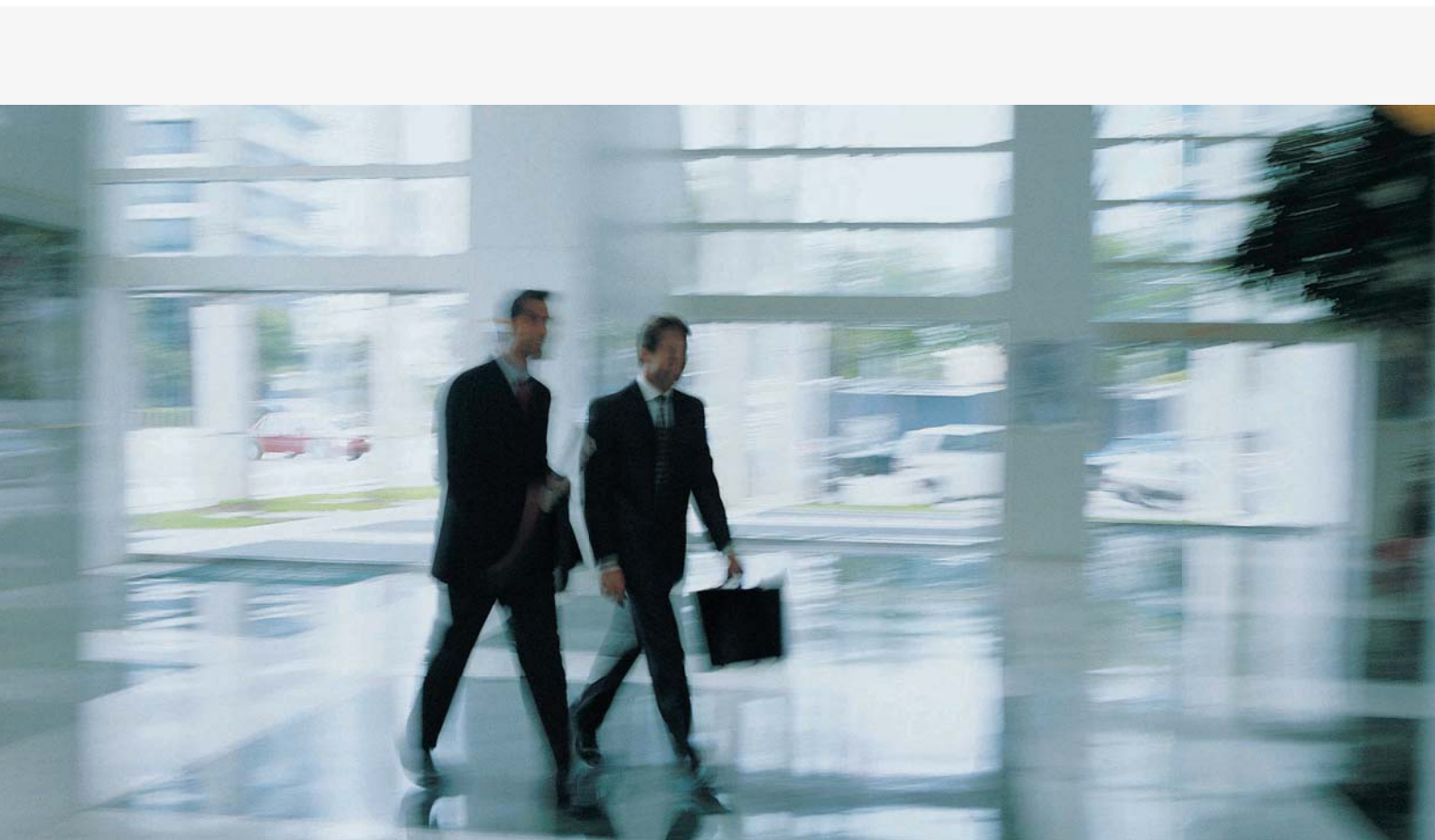
# KEY RISKS

There are a number of risks associated with an investment in ThinkSmart. For further information, please read Section 8 which provides more detail on the key risks set out below and other significant risks associated with an investment in ThinkSmart.



- Reliance on retail partners to sell ThinkSmart products – ThinkSmart is dependent on its retail partners and their salespeople in order to sell its products within the retail partners' stores
- Key retail partner reliance – DSG International (including PC World and PC City) is the most important retail partner to ThinkSmart, and accounts for approximately 66% of ThinkSmart's volumes
- Access to funding – ThinkSmart's ability to finance new lease and rental products depends on its capacity to source suitable Funders
- Credit environment conditions – whilst ThinkSmart is not directly exposed to credit risk (this is borne by the Funders), ThinkSmart is indirectly exposed to credit risk as Funders may increase ThinkSmart's cost of funds in a deteriorating credit environment





- Retail price volatility of IT equipment – IT equipment has demonstrated a downward trend in pricing in recent years. This trend, should it continue, may affect ThinkSmart’s average transaction value and could arguably reduce customer propensity to lease
- Changing regulatory landscape and compliance – the industry in which ThinkSmart operates has a sophisticated and dynamic regulatory profile, which requires continuous monitoring and adaptation. ThinkSmart’s business could be adversely impacted by a change in the regulatory environment
- Competition from banks and other financiers – the actions of current or new competitors could result in a decline in the number of contracts ThinkSmart enters as well as declining margins should the competitors succeed in securing any of ThinkSmart’s current distribution channels at the expiration point of the existing exclusive retailer contracts

# INVESTMENT OVERVIEW

1



# 1.

## INVESTMENT OVERVIEW

### 1.1. THINKSMART BUSINESS OVERVIEW

ThinkSmart is an international leader and innovator in the provision of business-to-business (“B2B”) financing for the SME IT market for transactions between A\$500 and A\$10,000 (“Nano-Ticket”). ThinkSmart’s core competency is to process high volumes of Nano-Ticket IT finance transactions via its proprietary SmartCheck technology.

ThinkSmart partners with some of the leading computer retailers in the UK, Australia and Spain and is seeking further channels in France to deliver its rental finance product.

ThinkSmart was established in Australia in 1996. ThinkSmart’s product offering via the “SmartPlan” brand in the UK and Europe and the “RentSmart” brand in Australia has been extremely successful because it enables the small business customer to get on-the-spot finance via a tax and cash flow efficient rental product.

Further information on ThinkSmart’s business is provided in Section 3.

### 1.2. THINKSMART INVESTMENT HIGHLIGHTS

#### Leading international footprint across the UK, Australia, Spain and France

ThinkSmart is a truly international business, operating in computer retail markets worth over US\$32 billion with exposure to over 180 million people and over 11.7 million small businesses.

By partnering with leading international computer retailers, ThinkSmart has access to the UK, Australian and select European IT markets. ThinkSmart currently derives approximately 66% of its volume from overseas markets, and this proportion is set to increase as ThinkSmart increases penetration within its current markets and expands into new territories within Europe and potentially North America.

For further information, please see Section 3.11.

#### Proven track record of growth

ThinkSmart has a strong track record of growth with settled values growing at a compound rate of 36.2% p.a. between 2003 and 2006, and the number of active accounts growing at 43.8% p.a. during the same period.

#### Proven track record

Figure 1.1 Growth in settled value (A\$m)

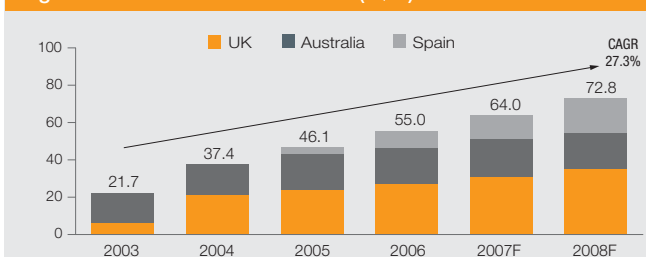
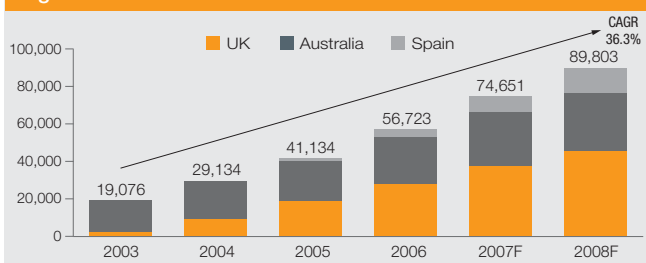


Figure 1.2 ThinkSmart customers – active accounts



#### Platform for significant international and domestic growth

The Directors are forecasting NPAT (pre-amortisation) growth of A\$6.7 million and EBITDA growth of A\$8.6 million between the FY2007 Directors’ Pro Forma Forecast and the FY2008 Directors’ Statutory Forecast. A\$11.2 million (67%) of the 2008 EBITDA is derived from contracts already written. Sections 7 and 8 provide further details on the forecasts, the key assumptions and associated risks.

ThinkSmart’s strong growth is expected to continue as a result of numerous factors including:

- Increased product penetration rates within existing retail partner channels;
- The growth in Inertia income from the UK and European markets as existing ThinkSmart customer contracts mature;
- Increased revenue from repeat and renewal activity from existing ThinkSmart customers;
- Increased revenue from the introduction of an insurance product in Spain;
- Increased revenue from the opening of new stores by ThinkSmart’s existing retail partners;

- Expected commencement of trading with PC City in Italy in late 2007 (forecasts do not include any revenue from Italy);
- On-going expansion into additional European territories under ThinkSmart's exclusive umbrella agreement with DSG;
- Benefits from the roll-out of JB Hi-Fi's computer category from 35 stores to most of its 72 stores in 2007;
- Exploration of new retail partnerships in France (forecasts do not include any revenue from France); and
- Potential expansion into North America.

ThinkSmart's operations are run from two operations hubs – Manchester in the UK and Perth in Australia. ThinkSmart's proprietary finance system SmartCheck can provide automatic approval within minutes, 24 hours a day, seven days a week. SmartCheck has been designed to be both scalable and portable. Expansion into European territories has leveraged the core UK processing hub with minimal need for additional capital or operating expenditure.

For further information, please see Section 3.12.

### **Compelling and highly profitable value proposition for SME customers, retail partners and wholesale Funders**

For the retailer, the SmartPlan or RentSmart products are a pure gross profit vehicle with no stock, shelf space, obsolescence, leakage or expenditure issues. SmartPlan and RentSmart are structured such that the break-down of invoice price into regular monthly rental payments encourages customers to spend more as the improvement in specification and brand on a PC becomes a matter of dollars per month rather than hundreds of dollars up-front. In addition, customers typically add more products and services onto a SmartPlan/RentSmart transaction versus a credit card or cash purchase. As a result, the retailer achieves a bigger sale and margin opportunity which can be as much as five times the gross profit of an ordinary credit card or cash purchase.

For further information, please see Sections 3.8 to 3.10.

### **Exclusive and entrenched partnerships with market leading international retailers**

ThinkSmart distributes its products exclusively through its international and national retailing partners. ThinkSmart has long and established relationships with numerous retailers including Europe's largest electrical retailing group DSG International, Woolworths, JB Hi-Fi, Next Byte, David Jones, and Myer. Some of these relationships date back as far as 1996.

For further information, please see Section 3.8.

### **Focused, low risk B2B business model**

ThinkSmart's business model focuses on the provision of finance for the IT equipment needs of the SME market. ThinkSmart operates in the retail environment and yet carries no inventory risk. ThinkSmart is solely focused on the B2B market in the UK and Europe and is predominantly SME focused in Australia. The ability of ThinkSmart to focus on this B2B niche market means a stronger product offering and an inherently less risky business for ThinkSmart than personal lending or leasing.

ThinkSmart's non-recourse, fully amortised product funding model limits liability and credit risk as ThinkSmart operates agency agreements with its Funders who are bound to accept contracts (based on a pre-agreed credit matrix). These agreements mean ThinkSmart is not liable for losses that exceed pre-agreed loss pools. Also, ThinkSmart's focus on the SME market enhances the probability of Inertia income and repeat contracting, while mitigating its exposure to the higher risk consumer business.

Strong relationships with ThinkSmart's Funders and the low price elasticity of demand for rental products have meant that ThinkSmart has been able to pass on changes in the cost of funds to the end product user.

ThinkSmart also receives income through its insurance offering, retaining a significant part of the insurance premium as commission, but bearing no underwriting risk.

For further information, please see Section 3.7.

## **1.3. SUMMARY FINANCIAL INFORMATION AND OPERATING STATISTICS**

Table 1.1 summarises ThinkSmart's pro forma historical financial performance for 2005 and 2006 and the Directors' Forecasts, and provides summary operating statistics. The table should be read in conjunction with the more detailed discussion of Pro Forma Historical Information, Directors' Forecasts, Directors' best estimate assumptions and risk factors set out in Sections 7 and 8 and Appendix 12.3.

Due to a number of pro forma adjustments defined in Appendix 12.4, the Directors' Statutory Forecast in FY2007 differs from the Directors' Pro Forma Forecast.

**Table 1.1 Summary financials and operating statistics<sup>1</sup>**

|  | Pro Forma Historical <sup>1</sup> |             | Directors' Statutory Forecast | Directors' Pro Forma Forecast <sup>1,2</sup> | Directors' Statutory Forecast <sup>2</sup> | 2005-2008F CAGR (%) |
|--|-----------------------------------|-------------|-------------------------------|--|--|---------------------|
|  | FY2005 A\$m                       | FY2006 A\$m | FY2007 A\$m                   | FY2007 A\$m                                  | FY2008 A\$m                                |                     |
| Applications                                   | 30,014                            | 36,443      | 42,778                        | 42,778                                       | 45,379                                     | 14.8%               |
| Settled value                                  | 46.1                              | 55.0        | 64.0                          | 64.0   | 72.8                                       | 16.4%               |
| Revenue  | 21.3                              | 26.8        | 35.9                          | 35.9   | 45.6                                       | 28.7%               |
| EBITDA   | 0.3                               | 1.7         | 4.0                           | 8.1  | 16.7                                       | 276.6%              |
| <b>Net profit after tax (pre-amortisation)</b> |                                   |             | <b>1.3</b>                    | <b>5.0</b>                                   | <b>11.7</b>                                |                     |

Note:

- 1 Reconciliation of the pro forma historical and forecast information to the statutory information from which it is derived is provided in Appendix 12.3 and 12.4.
- 2 The FY07 and FY08 Directors' Forecast exclude any costs associated with a launch into the US should the decision to pursue that market be made (see Section 7.4.5.2).

## 1.4. DIVIDEND POLICY

The Directors anticipate that the first interim dividend for 2008 of 2.5 cents per Share partially franked will be paid in September 2008, and a final dividend for 2008 of 2.5 cents per Share partially franked expected to be payable in April 2009. This represents an annualised 2008 dividend yield of approximately 2.3% based on the Offer Price.

The Directors can give no assurance as to the extent or timing of dividends or the level of franking of dividends, as these matters will depend upon future events, including the profitability, capital requirements and taxation position of the Company from time to time. The payment of dividends by ThinkSmart will be at the complete discretion of the Directors.

## 1.5. KEY RISKS

There are a number of risks associated with an investment in ThinkSmart. For further information, please read Section 8 which provides more detail on the key risks set out below and other significant risks associated with an investment in ThinkSmart.

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- Access to funding – ThinkSmart's ability to finance new lease and rental products depends on its capacity to source suitable Funders;
- Credit environment conditions – whilst ThinkSmart's is not directly exposed to credit risk (this is borne by the Funders), ThinkSmart is indirectly exposed to credit risk as Funders may increase ThinkSmart's cost of funds in a deteriorating credit environment;
- Retail price volatility of IT equipment – IT equipment has demonstrated a downward trend in pricing in recent years. This trend, should it continue, may affect ThinkSmart's average transaction value and could arguably reduce customer propensity to lease;
- Changing regulatory landscape and compliance – the industry in which ThinkSmart operates has a sophisticated and dynamic regulatory profile, which requires continuous monitoring and adaptation. ThinkSmart's business could be adversely impacted by a change in the regulatory environment;
- Competition from banks and other financiers – the actions of current or new competitors could result in a decline in the number of contracts ThinkSmart enters as well as declining margins should the competitors succeed in securing any of ThinkSmart's current distribution channels at the expiration point of the existing exclusive retailer contracts.

## 1.6. OFFER SUMMARY AND USE OF PROCEEDS

This Prospectus invites investors to apply for a total of 39.8 million Shares at the Offer Price of \$2.15 per Share, which will represent 42% of the issued Shares at completion of the Offer. Of the total 39.8 million Shares under the Offer, 6.0 million will be New Shares issued by the Company and the remaining 33.8 million Shares will be offered for sale by the Vendor Shareholders.

The components of the Offer are:

- The Institutional Offer;
- The Broker Firm Offer; and
- The Employee Offer.

There is no general retail public offer of Shares under this Prospectus.

The Closing Date of the Broker Firm Offer is 31 May 2007.

The Closing Date for the Employee Offer is 28 May 2007.

The Company and JPMorgan reserve the right to alter any of the dates relating to the Offer described in this Prospectus without notice. Investors are encouraged to submit their Applications as soon as possible after the opening of the Offer.

Full details of the Offer are set out in Section 5.

You should read this Prospectus in its entirety before deciding to complete and lodge an Application Form. Potential investors are encouraged to submit their Application Forms as early as possible as the Offer or any part of the Offer may be closed before the indicated Closing Date without prior notice.

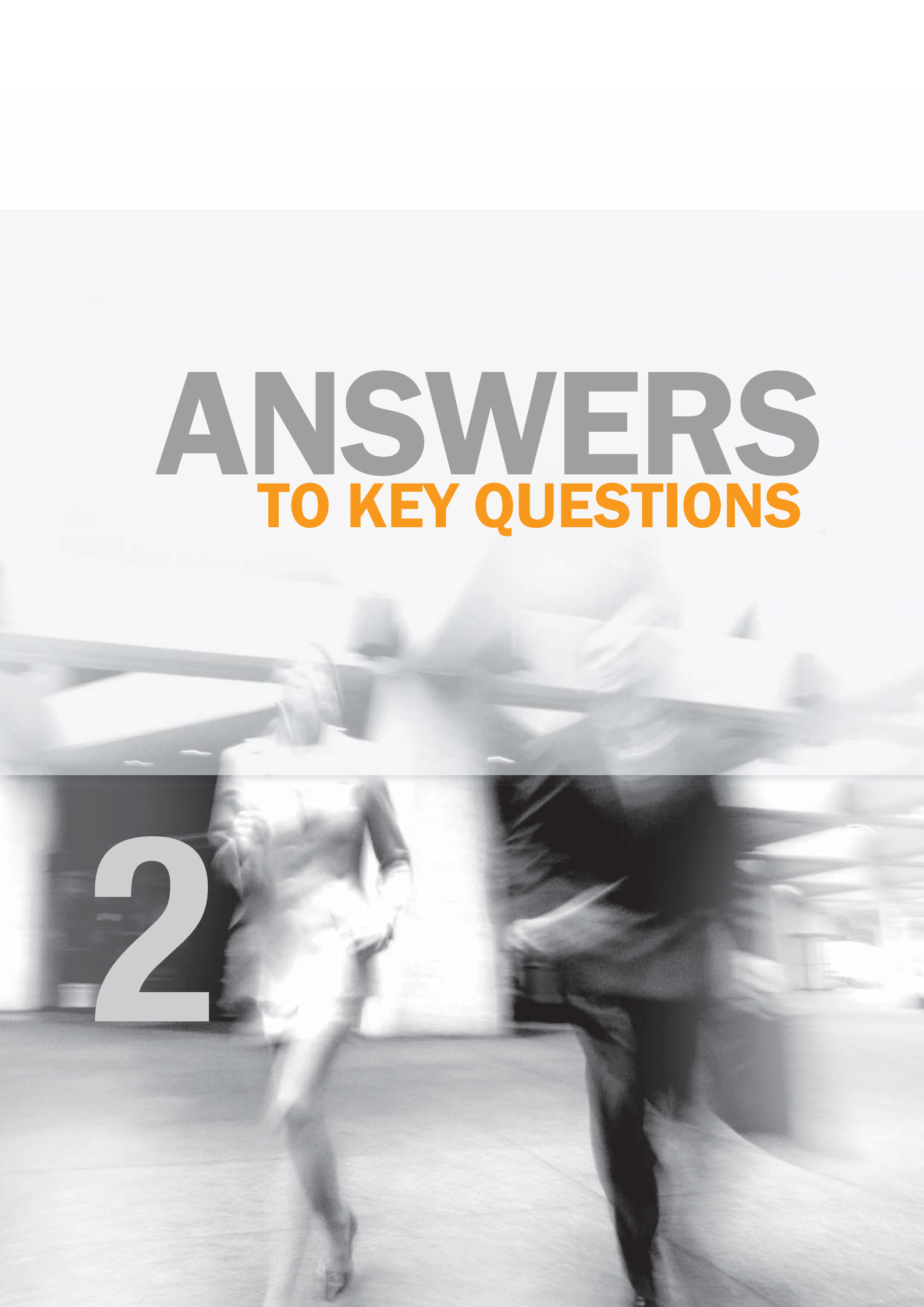
The gross proceeds of the Offer will be \$85.6 million and will be used as follows in Table 1.2:

| Sources                 | A\$m        | Uses  | A\$m        |
|-------------------------|-------------|---|-------------|
| Proceeds from the Offer | 85.6        | Vendor Shareholders   | 72.6        |
|                         |             | Acquisition of HBoS' 50% interest in the UK Joint Venture   | 7.8         |
|                         |             | Estimated fees and costs associated directly with the Offer | 4.8         |
|                         |             | Cash to balance sheet                                       | 0.4         |
| <b>Total sources</b>    | <b>85.6</b> | <b>Total uses</b>   | <b>85.6</b> |

See Section 5.2 for further details.

# ANSWERS TO KEY QUESTIONS

2



# 2.

## ANSWERS TO KEY QUESTIONS

| Topic  | Summary  | Where to find more information |
|--|--|--------------------------------|
| <b>Who is the issuer of this Prospectus?</b>                 | ThinkSmart Limited (“ThinkSmart”).   | Section 3.1                    |
| <b>Who is ThinkSmart?</b>                                    | ThinkSmart is an international market leader and innovator in the provision of IT finance in the Nano-Ticket finance market.   | Section 3.1                    |
| <b>What is the Offer?</b>                                    | The Offer is an initial public offering of 39.8 million Shares based on an Offer Price of \$2.15 per Share.<br>The Shares under the Offer include the sale of Shares by Existing Shareholders and New Shares and will represent 42% of the issued capital of ThinkSmart (based on the Offer Price) immediately following completion of the Offer.  | Section 5.1                    |
| <b>What is the Offer Price?</b>                              | \$2.15 per Share.  | Section 5.1                    |
| <b>What is the number of Shares on issue?</b>                | Prior to the Offer, there were 88.9 million Shares on issue.<br>On completion of the Offer, there will be 95.0 million Shares on issue.  |                                |
| <b>What is the market capitalisation at the Offer Price?</b> | \$204 million.   |                                |
| <b>What is the Offer size?</b>                               | Based on the Offer Price for the offer of 39.8 million Shares, the total cash proceeds from the Offer will be \$85.6 million.  | Section 5.2                    |
| <b>How will the proceeds of the Offer be used?</b>           | The Offer proceeds of \$85.6 million will be used to: <ul style="list-style-type: none"> <li>• Pay the Vendor Shareholders for the acquisition of the Sale Shares thereby providing them with a mechanism to realise part of their investment in ThinkSmart;</li> <li>• Fund the buyout of HBoS’ 50% ownership in the UK Joint Venture; and</li> <li>• Fund the costs of the Offer.</li> </ul>   | Section 5.2                    |
| <b>Who can invest?</b>                                       | The Offer is only open to: <ul style="list-style-type: none"> <li>• Retail Investors who are a client of the Co-Manager;</li> <li>• Persons who are Institutional Investors; or</li> <li>• Eligible Employees of the Company;</li> <li>• There is no general public offer;</li> <li>• This Offer document is not registered under the securities laws of any jurisdiction outside Australia.</li> </ul>  | Section 5.5                    |
| <b>Is the Offer underwritten?</b>                            | The Offer of Shares is fully underwritten by JPMorgan.   | Section 5.11                   |
| <b>What are the key benefits of investing in Shares?</b>     | Investing in ThinkSmart allows investors to gain exposure to a company that has: <ul style="list-style-type: none"> <li>• A leading international footprint across the UK, Australia and Spain;</li> <li>• A proven track record of growth;</li> <li>• A platform for significant international and domestic growth;</li> <li>• A potential for wider international growth;</li> <li>• A compelling and highly profitable value proposition for retail partners, SME customers and Funders;</li> <li>• Exclusive and entrenched relationships with market leading international and national retailers;</li> <li>• A focused, low risk B2B business model; and</li> <li>• A strong and experienced Board and management team.</li> </ul> | Section 1.2 and 6              |



| Topic   | Summary  | Where to find more information |
|---|--|--------------------------------|
| <b>What are the key risks of investing in the Shares?</b> | <p>Key risks of investing in ThinkSmart are that the Company suffers financially as a result of, but not limited to:</p> <ul style="list-style-type: none"> <li>• Reliance on retail partners to sell ThinkSmart's products;</li> <li>• Key retail partner reliance;</li> <li>• Access to funding;</li> <li>• Credit environment conditions;</li> <li>• Retail price volatility of IT equipment;</li> <li>• Changing regulatory landscape and compliance; and</li> <li>• Competition from banks and other financiers.</li> </ul>   | Section 8                      |
| <b>What is the minimum Application amount?</b>            | The minimum Application for Broker Firm Applicants and Eligible Employee Applicants is 2,000 Shares. JPMorgan, in consultation with the Company and its Directors, reserves the right to reject any Application or to allocate a lesser number of Shares than that applied for.  | Section 5.7, 5.8, 5.9 and 5.10 |
| <b>How can I apply?</b>                                   | To apply, submit a valid Application Form accompanying this Prospectus in accordance with the instructions relating to it.   | Section 5.9                    |
| <b>What are the key dates of the Offer?</b>               | <p>The Broker Firm Offer and the Employee Offer open at 9.00am AEST on 18 May 2007.</p> <p>The Employee Offer closes at 12.00pm AEST on 28 May 2007.</p> <p>The Broker Firm Offer closes at 5.00pm AEST on 31 May 2007.</p> <p>Holding statements are expected to be dispatched on or about 4 June 2007 and the Shares are expected to commence trading on a deferred settlement basis the same day. Trading on a normal settlement basis is expected to commence on 6 June 2007.</p> <p>The Company and JPMorgan reserve the right to alter any of the dates relating to the Offer described in this Prospectus without notice. Investors are encouraged to submit their Applications as soon as possible after the opening of the Offer.</p> | Section 5.4                    |
| <b>What is the allocation policy?</b>                     | <p>JPMorgan, in consultation with the Company, has discretion regarding the allocations under the Institutional Offer and the allocation of Shares between the Broker Firm Offer, the Employee Offer and the Institutional Offer.</p> <p>Firm stock which has been allocated to the Co-Manager for allocation to their Australian resident Retail Investors will be issued to Broker Firm Applicants nominated by the Co-Manager. It will be a matter for the Co-Manager as to how they allocate firm stock among their Retail Investors, and they (and not the Company or JPMorgan) will be responsible for ensuring that Retail Investors who have received a firm allocation from them receive the relevant Shares.</p>                     | Section 5.10                   |

| Topic   | Summary  | Where to find more information |
|---|--|--------------------------------|
| <b>What is the forecast yield on the Shares?</b>                      | <p>The Directors anticipate that the first interim dividend for 2008 of 2.5 cents per Share partially franked will be paid in September 2008, and a final dividend for 2008 of 2.5 cents per Share partially franked is expected to be payable in April 2009. This represents an annualised 2008 dividend yield of approximately 2.3% based on the Offer Price.</p> <p>The Directors can give no assurance as to the extent or timing of dividends or the level of franking of dividends, as these matters will depend upon future events, including the profitability, capital requirements and taxation position of the Company from time to time. The payment of dividends by ThinkSmart will be at the complete discretion of the Directors.</p> | Section 7.10                   |
| <b>Will there be a dividend plan in connection with the Offer?</b>    | No.  |                                |
| <b>Is there any commission payable to financial advisers?</b>         | <p>Yes, a handling fee of 1.5% of the Application Payments will be paid to the Co-Manager out of the proceeds of the Offer in respect of Shares allotted pursuant to stamped Application Forms from the Co-Manager's clients, subject to the following conditions.</p> <p>The handling fee will be limited to A\$3,000 in respect of any one Application or aggregate of Applications if a single investor submits more than one Application. Accordingly, no handling fee will be paid on any Application (or aggregate of Applications if a single investor submits more than one Application) on the amount of monies above A\$200,000 and handling fees will only be paid to the Co-Manager.</p>   |                                |
| <b>What are the taxation implications of investing in the Shares?</b> | <p>Shareholders will be subject to Australian tax on dividends.</p> <p>The tax consequences for investors, particularly non-resident Shareholders will differ depending on their individual circumstances. Investors should consider seeking tax advice prior to making an investment in ThinkSmart.</p>   | Section 10.12                  |
| <b>Where can I find more information?</b>                             | <p>Speak to your accountant, stockbroker or other professional adviser.</p> <p>Call the ThinkSmart Share Offer Line on 1300 305 388 from within Australia or +61 3 9415 4601 from overseas.</p> <p>Visit the ThinkSmart website at <a href="http://www.thinksmartworld.com">www.thinksmartworld.com</a>.</p>   | Section 5.18                   |
| <b>Who are the advisers to the Offer?</b>                             | <p>JPMorgan is the Lead Manager and Underwriter of this Offer.</p> <p>Ord Minnett is the Co-Manager to the Offer.</p> <p>Freehills is the Australian legal adviser in connection with the Offer.</p> <p>KPMG Transaction Services has prepared the Investigating Accountant's report on Historical and Pro Forma Historical Financial Information and Directors' Forecasts.</p>  | Section 10.10                  |



# PROFILE

## OF THINKSMART

# 3

# 3.

## PROFILE OF THINKSMART

### 3.1. THINKSMART OVERVIEW

ThinkSmart is an international leader and innovator in the provision of B2B financing for the SME IT market for transactions between A\$500 and A\$10,000 (“Nano-Ticket”). ThinkSmart’s core competency is to process high volumes of Nano-Ticket IT finance transactions via its proprietary SmartCheck technology.

ThinkSmart partners with some of the leading computer retailers in the UK, Australia and Spain and is seeking further channels in France to deliver its rental finance product.

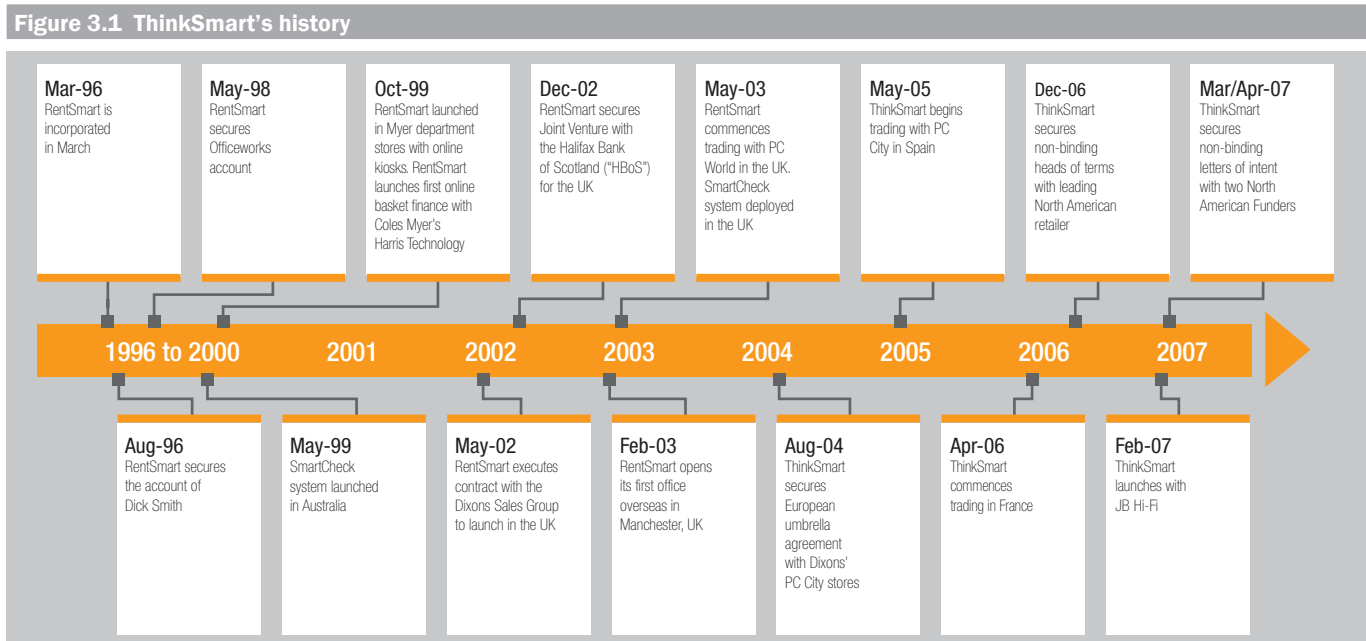
ThinkSmart was established in Australia in 1996. ThinkSmart’s product offering in Australia under the RentSmart brand has been very successful because it enables the small business customer to get on-the-spot finance via a tax and cash flow efficient rental product.

In 2003, ThinkSmart took the rental finance product to the UK market through an exclusive long-term distribution agreement with PC World, the UK computer retailing arm of DSG International, Europe’s largest electrical retailer. ThinkSmart’s monthly UK sales volumes through its SmartPlan brand eclipsed those of the Australian operations in just 10 months of commencement. ThinkSmart subsequently established a long-term umbrella agreement with DSG’s continental European computer retailing arm, PC City, in August 2004 seeing it launch in Spain in May 2005 and France in April 2006.

DSG is currently trading in 14 European countries of which ThinkSmart is currently operating in three. DSG is actively pursuing expansion into at least one new territory each year. ThinkSmart’s plan to roll out the SmartPlan product with PC City stores in Europe continues with Italy in late 2007 and ThinkSmart is exploring future opportunities in Poland, Czech Republic, Sweden and Greece. Entry into Italy will see ThinkSmart’s products exposed to an additional 57.7 million people and over 4.5 million small businesses, however, no revenue from Italy is included in the Directors’ Forecasts. Further, with PC City reviewing its operations in France, ThinkSmart is free to explore other retail relationships, allowing continued exposure to this market of 60 million people and 4.0 million small businesses. No revenue from France is included in the Directors’ Forecasts.

In early 2007, ThinkSmart received non-binding letters of intent to enter formal agreements with two North American Funders to support the launch of ThinkSmart’s rental finance product in the US market. Negotiations with these Funders are ongoing. ThinkSmart has also entered a non-binding heads of terms and is continuing discussions with a North American retailer as well as seeking to engage with other retailers to support ThinkSmart in its initiative to bring its in-store B2B finance model to the unexploited US market. While ThinkSmart is actively pursuing the US market, there can be no assurance that ThinkSmart’s activities to date in the US will lead to contractual arrangements with retailers and accordingly, the Directors’ Forecasts do not include any revenue from the potential expansion of ThinkSmart’s operations into the US.

### 3.2. THINKSMART’S HISTORY



### 3.3. THE THINKSMART PROPOSITION

ThinkSmart's B2B rental finance products are targeted at SMEs for the purchase of computer and office equipment.

- Branded SmartPlan in the UK and Europe and RentSmart in Australia;
- Delivered at point-of-sale in retail environments;
- Funders gain attractive exposure to a niche market;
- Fills the gap between credit card and bank loan;
- ThinkSmart's Customer Retention Management ("CRM") program drives retention and repeat transactions by offering retailers the opportunity to up-sell and/or cross-sell products and services during the contract term and encourages customers to upgrade to the latest equipment upon contract expiry;
- ThinkSmart's proprietary finance system, SmartCheck, can provide automatic approval within minutes, 24 hours a day, seven days a week.

ThinkSmart succeeds because all parties to a transaction derive substantial benefits.

#### 3.3.1. The SME customer

For the SME customer, SmartPlan and RentSmart are an attractive business proposition as:

- On-the-spot fuss-free approval offers the convenience that time-poor SMEs require and allows immediate use of their goods;
- No requirement for financials;
- Repayments are up to 100% tax deductible for SME customers;
- The rental product offers an easy upgrade path to new technology and flexible end-of-term options;

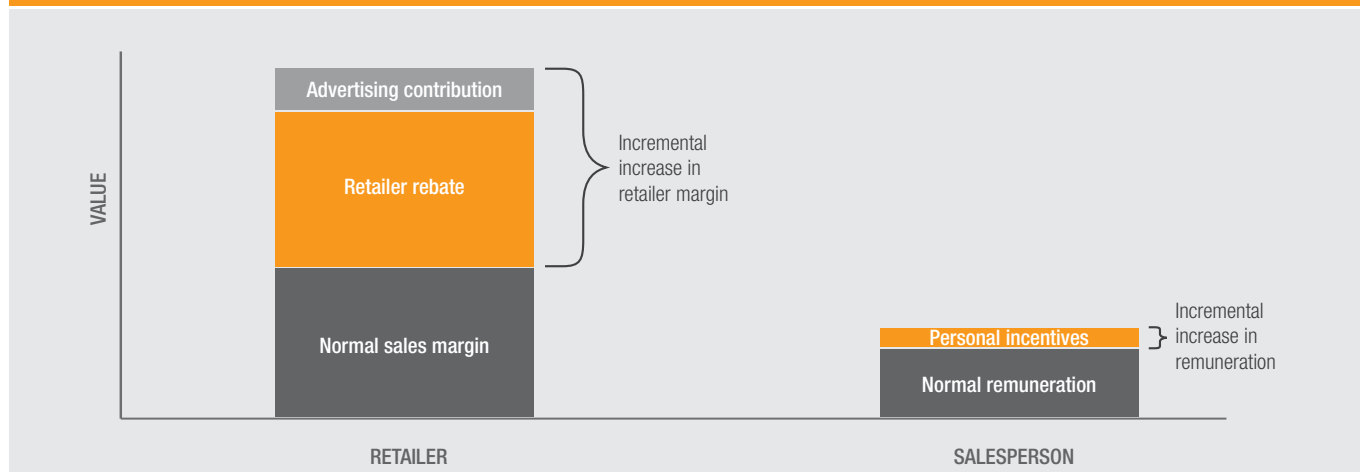
- Affordable monthly pricing minimises the need for a large initial outlay and allows the customer to access IT of a quality they may otherwise be unable to afford;
- Ability to pay for IT and business purchases on a monthly basis improves cash flow and spreads the cost of the equipment over its useful life;
- IT equipment is kept off the balance sheet; and
- Ability to bundle all equipment and services into one contract.

Figure 3.2 ThinkSmart proposition



Figure 3.3 Value proposition example

Indicative incremental gains for retailers and sales people from using SmartPlan/RentSmart



Note: Example only. Retailer incremental increase of in excess of 100% on normal sales margin based on ATV of £1,000 and ThinkSmart's average retailer rebate and advertising contribution. Salesperson incremental increase of more than 25% shows the impact on a single day's wages of making one new customer four year SmartPlan or RentSmart sale per day.

### 3.3.2. The retailer

For the retailer, the SmartPlan or RentSmart product is a pure gross profit vehicle with no stock, shelf space, obsolescence, leakage or expenditure issues. The SmartPlan or RentSmart product adds significant value to the basic profitability of a sale for the retailer as the break-down of invoice price into regular monthly rental payments encourages customers to spend more as the improvement in specification and brand on a PC, for example, becomes a matter of dollars per month rather than hundreds of dollars up-front. This leads to a significantly higher average transaction value (“ATV”) (£150 to £300) per sale. In addition, customers typically add additional items to a rental transaction versus a credit card or cash transaction, including




margin-rich products and services. This means the retailer achieves a bigger sale and margin opportunity which can be as much as five times the gross profit of an ordinary credit card or cash purchase.

As well as earning a higher sales margin, the retailer is able to provide a more competitive offering to the SME customer, is more likely to close a sale in-store and is more likely to encourage repeat spending from existing customers without any further substantial investment.

### 3.3.3. The Funder

The Funder generates business from a niche market that it could not otherwise adequately service in return for an attractive margin.

## 3.4. PRODUCTS AND KEY BRANDS

| 3.4 ThinkSmart's brands |   |  |  |
|-------------------------|---|--|--|
| Company                 | Brands  | Product description                                      | Current markets                                |
| <b>THINKSMART</b>       |   | Business rental  | UK, Spain and France, and Italy (in late 2007) |
|                         |  | Business and consumer rental                             | Australia                                      |
|                         |  | ThinkSmart's proprietary credit approval software system |  |

SmartPlan and RentSmart are delivered at point-of-sale through ThinkSmart's distribution agreements with leading electrical retailers. SmartPlan and RentSmart enable SME customers to rent IT and office equipment from leading international retailers with credit approval being delivered on-the spot within minutes. Contracts are for terms of two years (in Australia only), three years and four years. Payments are made monthly in advance by either credit card or direct debit. SmartPlan and RentSmart also include an additional insurance option, the ability to fund the retailers' warranty offering and the opportunity for SME customers to update and add-on products during the term of the contract.

Customers have several end-of-term choices:

- Return of the equipment to ThinkSmart (at the customer's expense);
- Continue to rent – either month-by-month or for a fixed term; or
- Offer to purchase the asset at “fair market value”.

SmartCheck, ThinkSmart's proprietary credit approval system enables ThinkSmart to provide retailers with automatic credit processing and in-store approval within minutes through retailer trading hours while providing online 24 hours a day, seven days a week approvals for end users and retailers alike.

## 3.5. HOW DOES A SMARTPLAN OR RENTSMART TRANSACTION WORK?

- The customer goes to one of the retailers with which ThinkSmart has a distribution agreement to buy IT equipment.
- The retailer's staff, trained in either SmartPlan or RentSmart, offer the customer a rental option. At the point-of-sale, the customer can choose whether to purchase the equipment outright or use SmartPlan or RentSmart to rent the equipment.
- The customer applies to rent the product and the retailer contacts ThinkSmart, which uses its proprietary SmartCheck system to run the necessary checks in a matter of minutes to confirm whether the Funders with which ThinkSmart has agreements will be willing to provide finance for the product. If the transaction is approved, the money supplied by the Funder is used to pay the retailer for the equipment so that the customer can take it home. The customer typically uses their credit card to make the first rental payment.
  - Approval can be granted within a matter of minutes and the customer can typically leave the store with their equipment and documentation.
  - It is at this point (settlement) that ThinkSmart is paid its up-front brokerage fee for the transaction.
  - Under the rental contract, the customer is also required to take out insurance for the equipment. ThinkSmart

- arranges this insurance and receives a commission (up-front in Australia and over the life of the rental contract in the UK) but takes no underwriting risk.
- During the term of the rental contract, ThinkSmart controls all aspects of dialogue with the customer on payment queries and manages the customer relationship through to end-of-term. ThinkSmart collects the monthly rental payments (usually by direct debit) and remits them to the Funder. ThinkSmart is only exposed to non-payment by the customer to the extent of pre-agreed loss reserves such that any additional credit risk associated with a transaction is borne by the Funder.
- At the end of the rental contract term ThinkSmart exercises its contractual right to acquire the equipment from the Funder for a nominal fee (refer to Figure 3.6).

- At the end-of-term, the customer has the option of:
  - Continuing to rent, in which case all rental payments from this point are ThinkSmart's;
  - Purchasing the equipment from ThinkSmart for an agreed price, in which case the purchase price is payable to ThinkSmart; or
  - Returning the equipment to ThinkSmart (at the customer's own cost) for ThinkSmart to sell on its own account.
- At this point, the customer may also wish to enter a new rental agreement for new equipment. ThinkSmart's CRM program drives retention and repeat transactions by offering retailers the opportunity to up-sell and/or cross-sell products and services during the contract term, and encourages the customer to upgrade to the latest equipment upon contract expiry.

Figure 3.5 ThinkSmart initial transaction – UK example

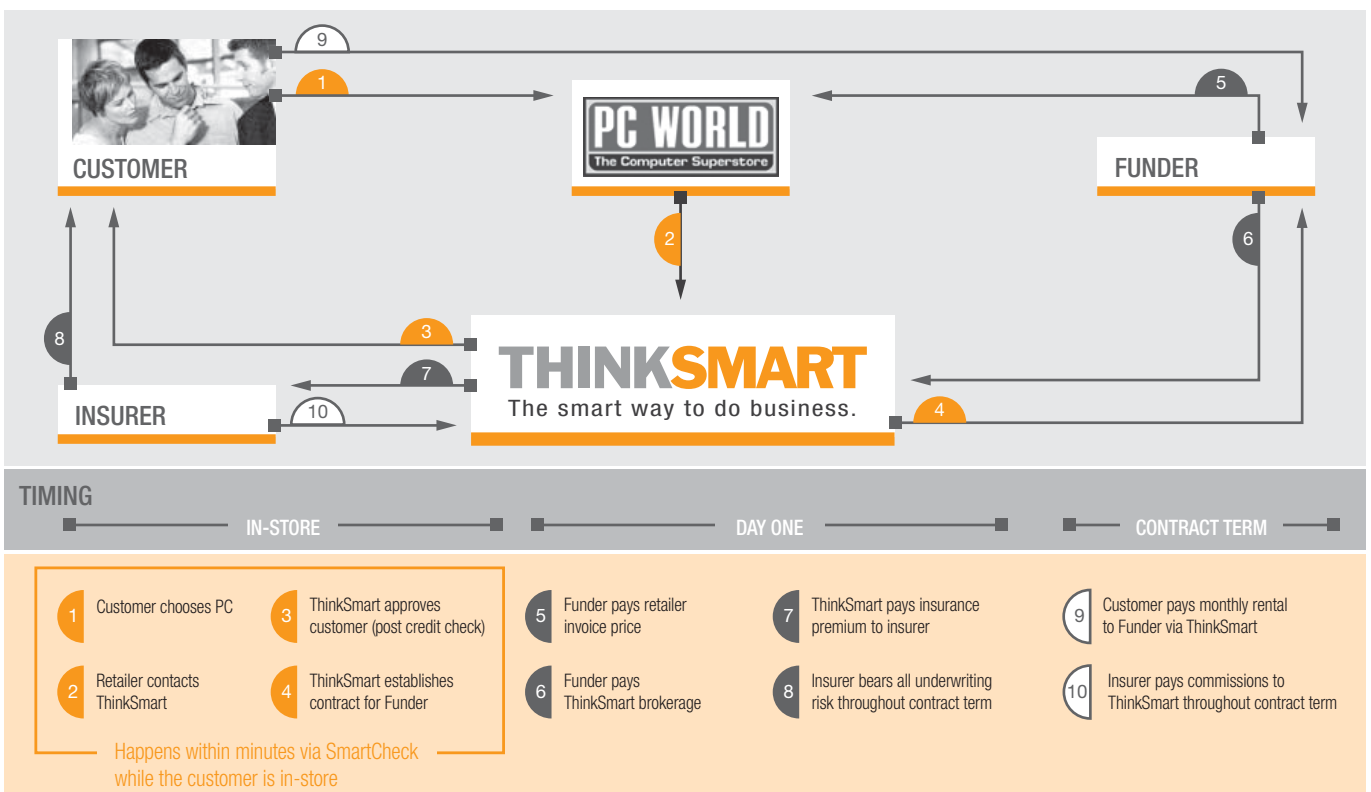
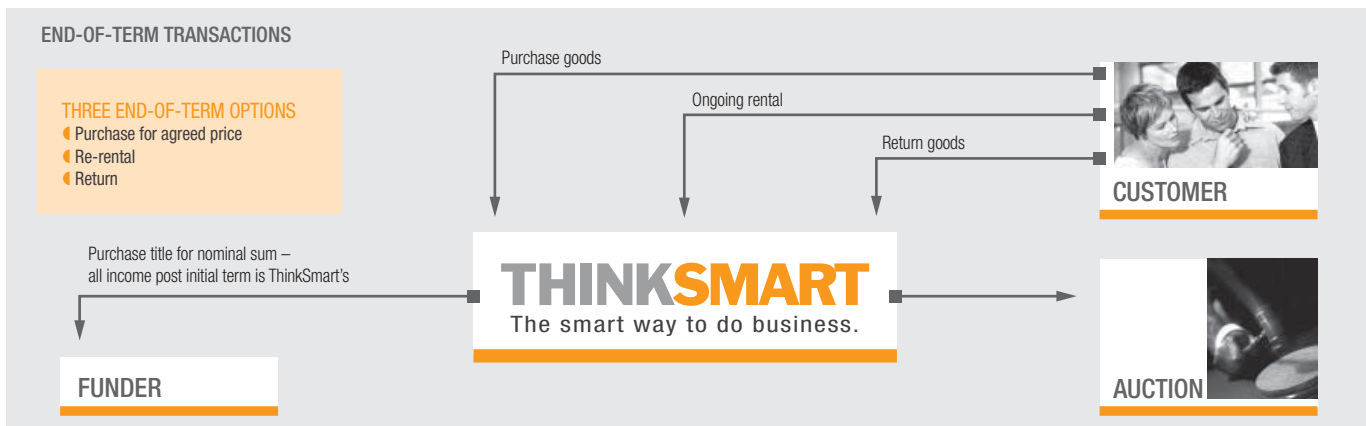


Figure 3.6 ThinkSmart end-of-term transaction (generates Inertia income)



### 3.6. REVENUE SOURCES

Under ThinkSmart's business model, ThinkSmart earns income at a number of stages of the transaction and from a variety of sources, as shown in Figure 3.7.

#### 3.6.1. Brokerage

A primary, up-front income stream (brokerage) is achieved from a fee payable on settlement (when the transaction is approved and the customer takes the goods). The fee is calculated as the difference between the net present value of the periodic rental payments discounted at the Funder's cost of funds and the invoice price of the goods.

#### 3.6.2. Insurance commission

The customer is contractually obligated to have insurance cover under the terms of the rental agreement with ThinkSmart. This cover is provided automatically to customers in the UK, who are subsequently able to cancel this policy if they choose to arrange alternative cover. In Australia, insurance cover is offered to the customer as part of the initial contract set-up. Arranging the provision of additional insurance cover therefore provides a secondary income stream to ThinkSmart (over the life of the contract in the UK market, and up-front in the Australian market). With 70%–75% of customers taking out the insurance cover arranged by ThinkSmart, ThinkSmart achieves an additional income via the cross-sell of insurance. No underwriting risk is borne by ThinkSmart at any stage.

An insurance product similar to that in Australia will be introduced into Spain during 2007 with origination fees being received and recognised at commencement of the contract.

#### 3.6.3. End-of-term Inertia income

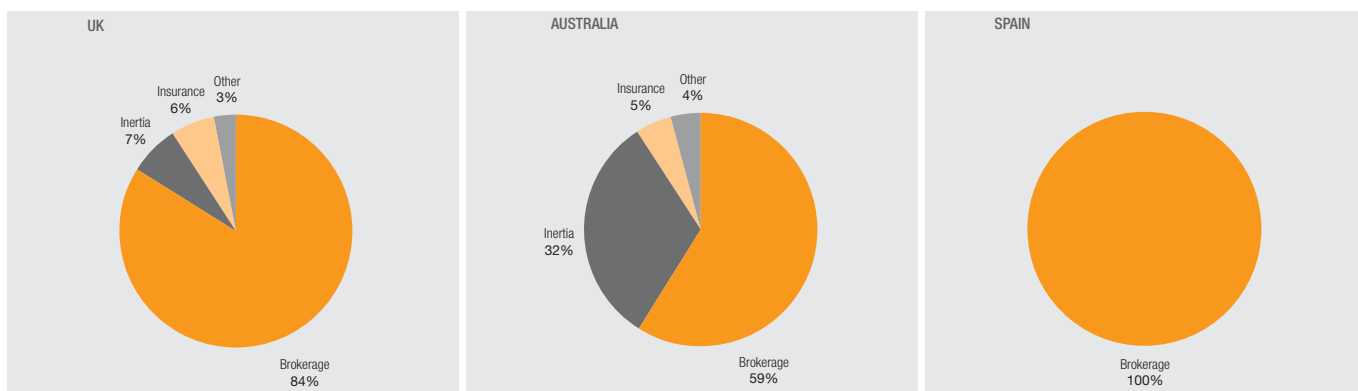
A final income stream from rental contracts is derived through ThinkSmart's Inertia strategies for managing the contracts at expiry. A contractual right to purchase the equipment and the fully amortised contract from the Funder for a nominal sum at the end of their primary term enables ThinkSmart to on-rent or sell the equipment yielding up to 30% of the original invoice price.

End-of-term options include:

- Secondary rental from ThinkSmart – long-term experience in the Australian market and more recent UK experience shows that approximately 53% of contracts enter a secondary rental period;
- Equipment sale – through either direct sales to the existing customer, sale through auction houses or direct sales to the public return on average between 10%–25% of original invoice price, depending on the disposal channel and the age of equipment at sale; and
- Upgrading to the latest equipment and enter a new rental agreement.



Figure 3.7 Revenue mix – by geography (2006)



### 3.7. THINKSMART’S LOW RISK BUSINESS MODEL

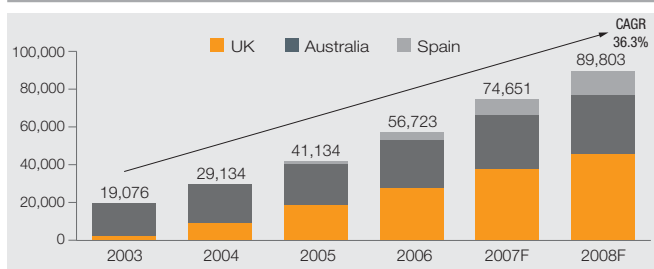
ThinkSmart’s business model focuses on the provision of finance for the IT equipment needs of the SME market. ThinkSmart is solely focused on the B2B market in the UK and Europe and predominantly SME focused in Australia. The ability of ThinkSmart to focus on the B2B niche market means a stronger product offering and an inherently less risky business for ThinkSmart than personal lending or leasing. Further, credit risk is limited to pre-agreed loss reserves and ThinkSmart has non-recourse funding arrangements with leading banks (“Funders”).

ThinkSmart operates in the retail environment and yet carries no inventory risk. ThinkSmart also receives income through its insurance offering, retaining a substantial part of the insurance premium as commission, but taking no underwriting risk.

### 3.8. CUSTOMERS

The increasing popularity of SmartPlan and RentSmart is evidenced by the increase in ThinkSmart’s customer base. Between 2003 and 2006, the number of active accounts increased at a compound annual growth rate of 43.8% p.a. The total number of active accounts is expected to increase at a compound rate of 25.8% p.a. from 2006 to 2008, reaching a total of almost 90,000 in 2008, as shown in Figure 3.8.

Figure 3.8 Number of active accounts – Established Markets



### 3.9. RETAIL PARTNERS

ThinkSmart distributes its products exclusively through its international and national retailing partners. ThinkSmart has long established relationships with numerous retailers including Europe’s largest electrical retailing group DSG International, Woolworths, JB Hi-Fi, Next Byte, David Jones, and Myer. Some of these relationships date back as far as 1996. ThinkSmart’s current retail partners and the jurisdiction in which they operate are set out on page 6 of this Prospectus.

In addition to the provision of the rental product to these channels, ThinkSmart also brings technology, sales and marketing infrastructure that enables the retailer to focus on its core business while ThinkSmart takes the responsibility to make the product a success in these channels. By committing dedicated staff and resources that are aligned to the culture and structure of each of its key retail clients, ThinkSmart creates strong partnerships which encourage management buy-in at all levels of the retailer and result in ThinkSmart becoming an integral part of the retailer’s internal training, budgeting, sales and marketing processes. This integration and the significant inherent costs associated with changing finance providers helps entrench ThinkSmart’s position and provide strong barriers to entry for any potential competitors.

The foundation of ThinkSmart’s retail partnerships is focused on “co-ownership” of SmartPlan/RentSmart at every level of both ThinkSmart and the retailer. This dynamic two-way relationship encompasses every essential business component to make SmartPlan/RentSmart successful for both parties. ThinkSmart offers a commitment to support and partner its retail partners via:

- Planning:
  - Aligning sales strategies and setting short, medium and long-term goals;
  - Agreeing areas of strategic focus in order to deliver these goals; and
  - Delivering messages consistent with management strategies;

- Support and empowerment:
  - Providing the groundwork to ensure the SmartPlan/RentSmart product is delivering for both ThinkSmart and the retailer via training, marketing and systems support;
  - Integrating SmartPlan/RentSmart into the retailer's in-store and internet sales systems;
  - Running training programs including national road shows, interactive workshops, quarterly national programs and academy accreditation to enhance SmartPlan/RentSmart and B2B knowledge in the store environment;
  - Supporting the retailer with a dedicated finance focused ThinkSmart sales force to build key retailer relationships at all levels and to ensure that the retailer focuses on B2B sales; and
  - Funding additional staff incentives (such as the SmartPoints sales staff incentive system in the UK and Europe) and marketing and sales rebates to encourage and motivate the retailer's sales staff and managers;
- Promotions and marketing:
  - Contributing to sales and marketing pools to drive dedicated advertising campaigns for products, with all promotional material integrated with the retailer's advertising; and
  - Committing to fund customer offers at key times during the year; and
- Review:
  - Creating and distributing weekly marketing reports which provide insight into SmartPlan/RentSmart performance for both sales and marketing functions within both ThinkSmart and the retailer;
  - Participating in monthly review meetings and staff/store/regional/national "score-cards" which ensure that both ThinkSmart and the retailer's management are able to monitor the success of strategies and attainment of goals and allow issues to be resolved quickly and effectively; and
  - Focusing on any changes in the dynamics of a retailer's business to ensure the continued success of the product.

Figure 3.9 Retail advertising example

**Capital Idea**

Save your capital. Rent this Toshiba Vista™ laptop for only £3.97\* per week

**Buying for business:**

- Save your capital
- Spread your costs
- Improve your cash flow
- Be tax efficient\*

**SmartPlan:** Rent your Technology TODAY!

Available in-store NOW!

**SmartPlan for Business** Powered by RentSmart

**PC WORLD** The Computer Superstore

**PC WORLD Business**

\*All references to taxation, VAT and accounting treatment are subject to confirmation by your professional advisors. The total retail value of equipment must be over £200 net VAT for Business use only. Subject to credit approval by RentSmart (UK) Limited. Further terms and conditions apply. Visit [www.pcwb.com/microsoft/](http://www.pcwb.com/microsoft/) for further information.

\*Price based on Toshiba A100-027 - 438539 £452.52 Ex VAT (£499.99 inc VAT)

### 3.10. FUNDERS

To fund the rental contracts it creates, ThinkSmart operates agency agreements with its Funders who are bound to buy contracts according to a pre-approved matrix developed in conjunction with the Funder. ThinkSmart has established funding relationships with the following Funders for each territory:

- UK: Halifax Bank of Scotland (HBoS);
- Australia: Adelaide Bank;
- Spain: Banco Santander;
- France: Societe Generale;
- Italy: expressions of interest from two parties being negotiated; and
- North America: letters of intent signed with two Funders.

These agreements limit ThinkSmart's liability for losses to pre-agreed loss pools. All contracts are fully amortised. No residual positions are taken by ThinkSmart.

Strong relationships with Funders and the low price elasticity of demand for rental products have meant that ThinkSmart has been able to pass on any change in the cost of funds to the end product user.

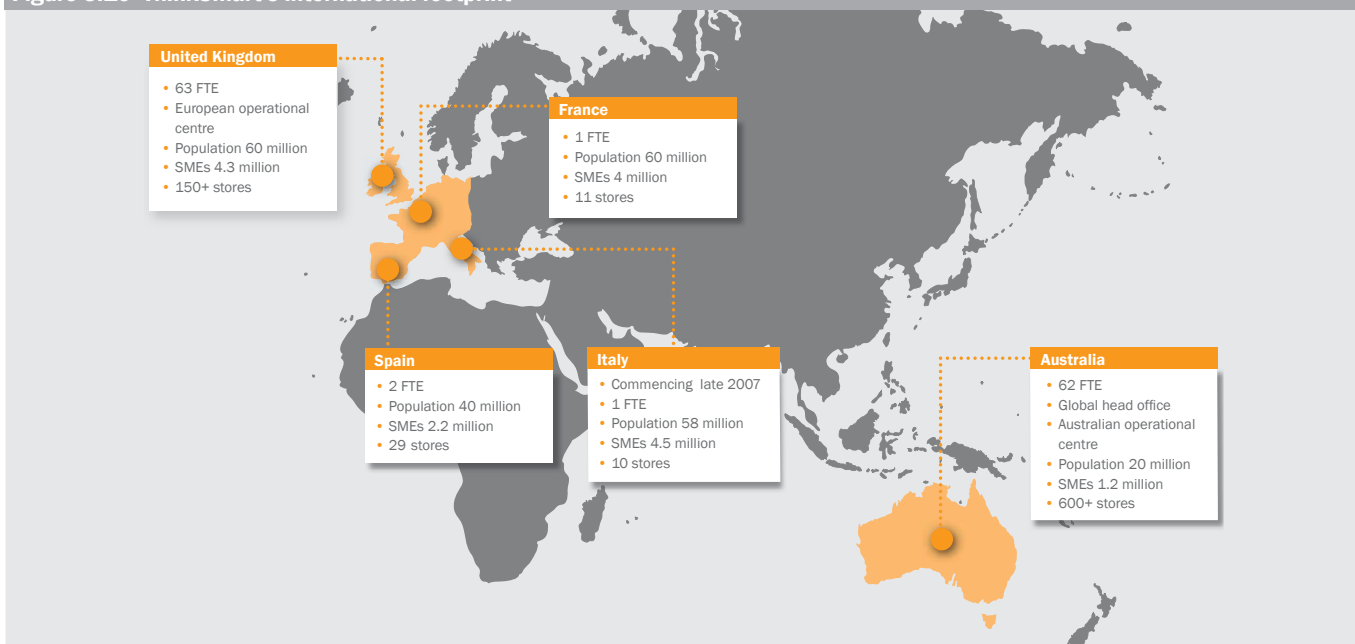
### 3.11. THINKSMART'S MARKETS AND PRODUCT LIFE CYCLES

ThinkSmart is a truly international business, operating in computer retail markets worth over US\$32 billion with exposure to over 180 million people and 11.7 million small businesses.

ThinkSmart derives approximately 66% of its volume from overseas markets. A snapshot of the markets in which ThinkSmart operates is provided below and in Figure 3.10:

- UK:
  - Population of 60 million people and 4.3 million small businesses;
  - SmartPlan is distributed through an exclusive partnership with DSG's PC World in the UK, with exposure to over 150 stores;
  - 100% SME product offering;
  - ThinkSmart's European operational centre is located in Manchester; and
  - ThinkSmart employ 63 FTEs in the UK;
- Australia:
  - Population of 20 million people and 1.2 million small businesses;
  - RentSmart is distributed through a number of retail partners including Dick Smith, JB Hi-Fi, Next Byte, Myer and David Jones, with exposure to over 600 stores;
  - Predominantly SME product offering;
  - ThinkSmart's Australian operational centre and global head office are located in Perth, Australia; and
  - ThinkSmart employs 62 FTEs through Australia;
- Spain:
  - Population of 40 million people and 2.2 million small businesses;
  - SmartPlan is distributed through an exclusive partnership with DSG's 29 PC City stores; and
  - ThinkSmart employs two FTEs in Spain with operations managed through Manchester;
- France:
  - Population of 60 million people and 4.0 million small businesses;
  - SmartPlan is distributed through the 11 PC City stores, but with PC City reviewing its operations in this market, ThinkSmart is free to pursue other retail opportunities; and
  - ThinkSmart employs one FTE in France with operations managed through Manchester;
- Italy:
  - Population of 58 million people and 4.5 million small businesses;
  - ThinkSmart to commence operations with the 10 PC City stores in late 2007; and
  - ThinkSmart to employ one FTE with operations managed through Manchester.

Figure 3.10 ThinkSmart's international footprint



ThinkSmart's markets are each at different stages of the rental finance product life cycle. The established RentSmart product in Australia results in approximately 64% of total revenue from up-front brokerage and insurance income, while 32% comes from Inertia income at the end of term. SmartPlan in the UK delivers 84% of income from up-front brokerage, 6% from insurance income over contract life, and 7% from Inertia. As contracts written in 2003, 2004 and 2005 in the UK approach their third and fourth years, Inertia income will increase significantly. Similarly in Spain, Inertia income can be expected to begin to be earned as contracts written in 2005 and 2006 approach their third and fourth years. Additionally, ThinkSmart can be expected to begin to earn up-front insurance income upon the introduction of an insurance product in Spain in late 2007.

### 3.12. GROWTH OPPORTUNITIES

ThinkSmart has extensive growth opportunities beyond the underlying growth in each of its markets:

- About 67% of ThinkSmart's forecast 2008 EBITDA is due to Inertia and insurance income from contracts already written prior to the commencement of FY2007:
  - As contracts written in 2003, 2004 and 2005 in the UK approach their third and fourth years, Inertia income can be expected to increase significantly; and
  - ThinkSmart expects to begin to see similar growth in Inertia income in Spain and will also grow insurance earnings after the introduction of an insurance product in late 2007;
- ThinkSmart's existing retail partners are increasing their store numbers and thereby expanding the reach of SmartPlan/RentSmart. Publicly stated expansion plans include:
  - UK: as at November 2006, PC World was planning an additional two stores for 1H07;
  - Australia: JB Hi-Fi is expanding the number of stores with a PC offering from 35 to most of their 72 existing stores and adding six new stores in 1H07. Dick Smith is planning an additional 17 new stores in 1H07 bringing the total number of stores in Australia and New Zealand to 397; and
  - Spain: as at November 2006, PC City was planning an additional two stores in 1H07;
- ThinkSmart has a large and growing database of active customers in each territory. ThinkSmart's CRM program targets existing ThinkSmart customers to take out additional rental contracts for further equipment. The success of the program sees up to 18% of all monthly contracts in the Australian market derived directly from ThinkSmart's existing customer base;
- ThinkSmart's strong retail relationships and concerted training, development and marketing efforts place it in an ideal position to exploit the organic growth opportunities

provided by the expansion and increased penetration of existing retail clients and through the increased penetration of SmartPlan/RentSmart;

- ThinkSmart is positioned to expand with DSG as it continues to expand into one new European territory each year. ThinkSmart is expecting to begin trading in Italy in late 2007 which will see SmartPlan exposed to an additional 58 million people and approximately 4.5 million small businesses. The forecasts do not include any revenue from Italy; however, costs of A\$0.3 million associated with the expansion into Italy are included in the 2007 forecasts;
- With PC City reviewing its operations in France, ThinkSmart is exploring opportunities with new retailers in France;
- ThinkSmart is exploring opportunities as part of its umbrella agreement with DSG in Poland, Czech Republic, Greece and Sweden;
- ThinkSmart has recently received non-binding letters of intent to enter formal agreements with two North American Funders to support the launch of ThinkSmart's rental finance product in the US market. Negotiations with these Funders are ongoing. ThinkSmart has also entered a non-binding heads of terms and is continuing discussions with a large national US retailer as well as seeking to engage with other retailers to support ThinkSmart in its initiative to bring its in-store B2B IT Nano-Ticket finance model to the unexploited US market. While ThinkSmart is actively pursuing the US market, there can be no assurance that ThinkSmart's activities to date in the US will lead to contractual arrangements with retailers and accordingly, the Directors' Forecasts do not include any revenue from the potential expansion of ThinkSmart's operations into the US.

### 3.13. SYSTEMS AND TECHNOLOGY

ThinkSmart operates from two core operations centres: one in Manchester, UK; and the other in Perth, Australia; employing 63 people and 62 people respectively. These processing centres use ThinkSmart's proprietary finance system, SmartCheck, to provide automatic credit processing and in-store approval which can be achieved within minutes, 24 hours a day, seven days a week. SmartCheck enables retailers to efficiently and quickly process high volumes of low value transactions.

The core of the ThinkSmart business and its ability to deliver its rental finance product is its end-to-end processing model which comprises three components:

- Proprietary developed credit approval software (SmartCheck);
- Streamlined credit matrices that are operated by ThinkSmart (but with any associated risk accepted by the Funder); and
- Efficient operational processing centres that quickly process credit applications to set up a low maintenance book that is managed via an automated direct debit system.

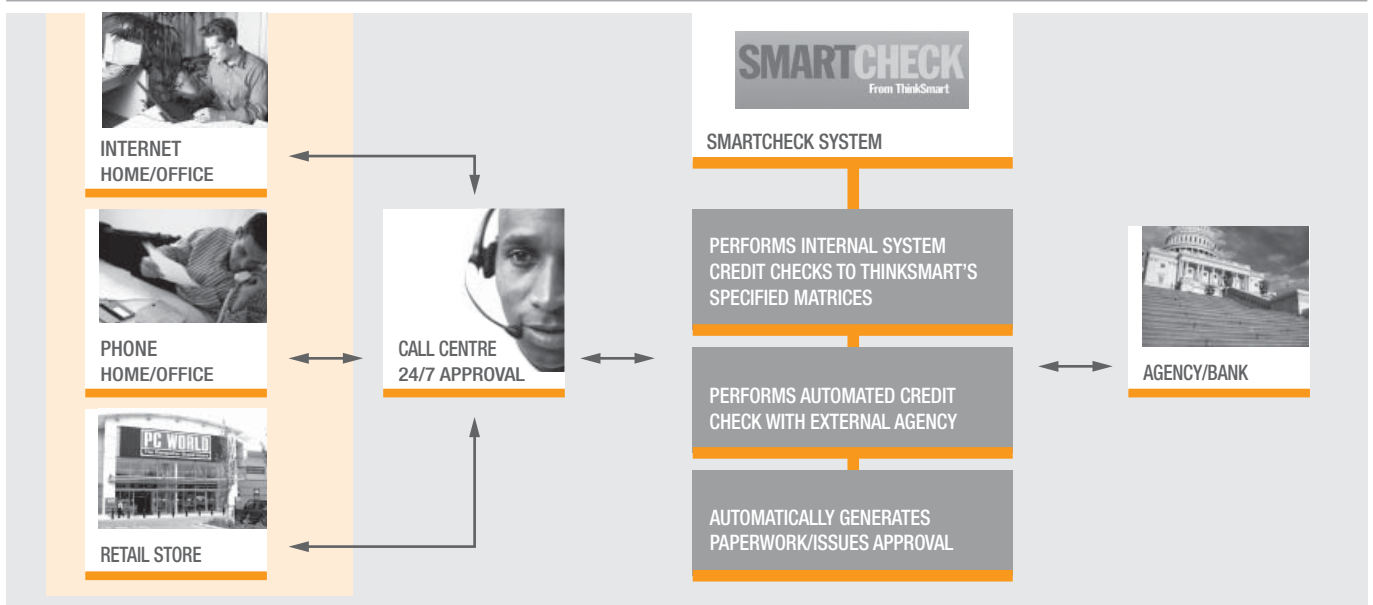
ThinkSmart's proprietary ownership of its credit approval software system (SmartCheck) is a significant advantage to its international strategy. ThinkSmart has made a considerable investment into the initial development and ongoing enhancement of the software. Initially developed in 2000, it was benchmarked to be fully portable, scalable and multilingual, to enable it to be seamlessly transferred into any country around the world.

The business has invested in upgrading the technology platform for its system to the new .Net technology. The upgrade will enable the business to deploy more products more efficiently and more cost effectively as it continues to expand world-wide. The development commenced in April 2005. Already vertical slices of the upgrade have been placed into production with the remainder on target for completion in the second half of 2007.

The SmartCheck software is used by both ThinkSmart's processing call centres and also its web-based applications system which enables the customer to apply for finance either online from their home/office, over the phone, or at a retailer. In the processing centre, SmartCheck is run alongside powerful phone management systems which enable ThinkSmart to deliver industry leading customer service and response times.

On the web, customers can be approved and delivered documentation within minutes, 24 hours a day, seven days a week. To put this in perspective, many existing 'online finance' facilities merely act as an email form to collect the customers' information, which is then processed by a person in the back-office. These financiers can therefore only promise to get back with a finance approval in 24 hours. ThinkSmart's SmartCheck system by contrast can automatically deliver a binding finance approval in minutes.

Figure 3.11 The SmartCheck system



# INDUSTRY

## OVERVIEW

4

A blurred black and white photograph of a person in a suit running with a briefcase, symbolizing industry and speed. The person is on the left side of the frame, moving towards the right. The background is heavily blurred, suggesting motion and a fast-paced environment. The overall tone is professional and dynamic.

# 4.

## INDUSTRY OVERVIEW

### 4.1. INTRODUCTION

The niche Nano-Ticket (transactions between A\$500 to A\$10,000) B2B finance market in which ThinkSmart operates, recognises and services the need for “off-the-shelf” IT purchases by small businesses from the growing computer superstore market.

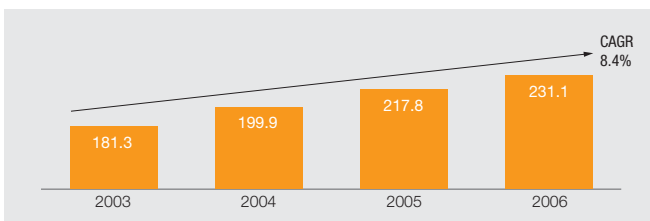
### 4.2. DRIVERS OF DEMAND

ThinkSmart’s products meet the needs of both the computer retailer, who is responsible for selling its SmartPlan and RentSmart products, as well as its end users who benefit from it. This dual customer base is likely to continue to demand ThinkSmart’s finance product as:

1. SME demand for computer and IT products grows; and
2. Computer retailers expand their operations and product and service offerings.

Historically, global commercial PC sales have experienced growth of about 8.4% p.a. since 2003. Growth in this market has exceeded global retail industry growth during the same period.

Figure 4.1 Global PC value of shipments (US\$bn)



Source: IDC Worldwide PC 2006-2010 Forecast update: December 2006.

Drivers of this growth include:

- Continued advances in technology, product innovation and expanded internet usage which is expected to sustain SME demand for computer and software goods;
- SMEs continually upgrading computer hardware in order to exploit improved performance and the latest software packages;
- The increased importance of the internet which is driving demand for higher performance fixed and mobile access devices; and
- The changing nature of the office and business environment, including the growth in the number of off-site workers and home offices, which is leading to ever-increasing demand for laptops and other portable IT products.

### 4.3. PRODUCT MARKET

The growing demand for retail point-of-sale financing facilities for businesses purchasing IT equipment has been underpinned by the desire of computer retailers to quickly and efficiently process high volumes of low value financing transactions. ThinkSmart’s operations in this niche market fill a void in the financial services sector that is not covered by the traditional credit card and loan

offerings of banks and other financiers. By offering a significant speed and service advantage for retailers, ThinkSmart’s product has successfully exploited the gap for fast, fuss-free SME finance that existed in the retail store environment.

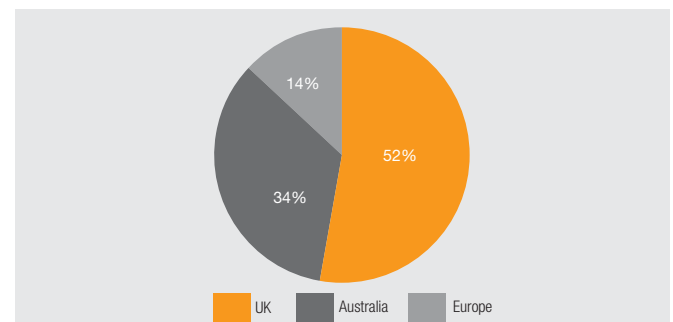
ThinkSmart also offers Funders access to higher margin retail markets in which they would not otherwise have had the dedicated resources and knowledge necessary to compete.

ThinkSmart’s product has also proven an attractive proposition for the end user – the SME customer – by offering them an opportunity to take advantage of tax deductible rental payments and more efficient cash flow management.

### 4.4. GEOGRAPHIC MARKET

Since commencing operations in Australia in 1996, ThinkSmart has expanded operations globally, with agreements with some of the leading electrical retail chains in the UK, Australia and Spain, in addition to the French market where it is already operating with PC City and seeking further channels. International expansion has rapidly diversified the markets that ThinkSmart operates in. As illustrated in the following chart of contracts settled in 2006, 66% of settled business volumes are generated through ThinkSmart’s UK and European operations.

Figure 4.2 ThinkSmart’s markets<sup>1</sup>



1. Based on 2006 settled contract volumes.

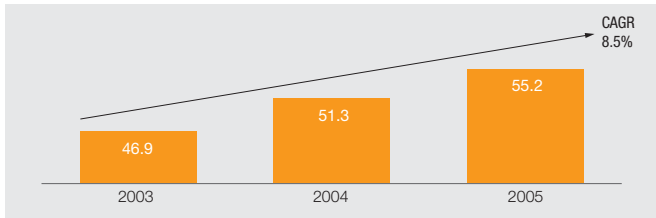
In addition, ThinkSmart is actively pursuing the US. However, there can be no assurance that ThinkSmart’s activities to date in the US will lead to contractual arrangements with retailers.

#### 4.4.1. Europe

With the expansion of its product offering into the UK and Europe, ThinkSmart already has access to a market (the UK, Spain and France) that is more than five times the size of the Australian market, with over 159 million people and 10.5 million small businesses.

The European retail PC market grew by 8.5% p.a. between 2003 and 2005, to reach a value of US\$55.2 billion. In terms of volumes, the market grew by 9.5% in 2005, to reach a total volume of 48.7 million units.

**Figure 4.3 UK and European PC market value (US\$bn)**



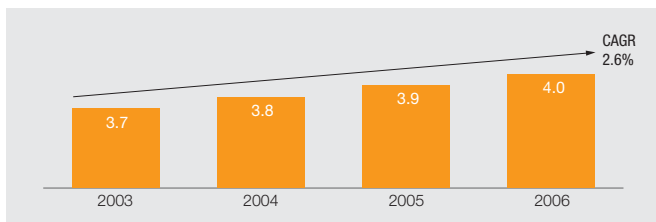
Source: Datamonitor Industry Profile, October 2006.

The UK is the largest PC market in Europe, generating 21.4% of the region's revenues.

#### 4.4.2. Australia

The Australian market of approximately 20 million people and 1.2 million small businesses has an annual computer and software spend of approximately \$4.0 billion. The Australian computer and software market has grown at 2.6% p.a. from 30 June 2003 to 30 June 2006.

**Figure 4.4 Australian computer & software market value (A\$bn)**



Source: IBISworld Industry Report, March 2007.

### 4.5. INDUSTRY REGULATION

ThinkSmart's operations are subject to a number of laws and regulations in the jurisdictions in which it operates, in particular with regard to consumer credit, trade practices and privacy.

An overview of the main laws and regulations applicable to the markets in which ThinkSmart operates is set out below. Further information on these laws and regulations is set out in Sections 10.7 (for Australia) and 10.8 (for Europe).

#### 4.5.1. Europe

##### UK

ThinkSmart's rental agreements are subject to the Consumer Credit Act and the Unfair Contract Terms Act 1974. The Funder in the UK has primary responsibility for compliance with this legislation but it also impacts ThinkSmart as it has undertaken to the Funder that it will comply with all relevant legal and regulatory requirements.

The offering of ThinkSmart's insurance product in the UK requires ThinkSmart to be authorised to be engaged in insurance mediation activity under the Financial Services and Markets Act 2000.

ThinkSmart must also comply with the Data Protection Act 1998 which governs the way in which personal data can be collected, kept, used and disclosed.

##### Spain

ThinkSmart's conduct in relation to its rental agreements must comply with the requirements of the General Terms and Conditions Act which govern the acceptance of the agreements and their content.

ThinkSmart must also comply with the Fair Publicity Act which prohibits misleading publicity and the Data Protection Act concerning the collection and handling of customers' personal data.

##### France

ThinkSmart's rental agreements are subject to common rules of contract law and under the Civil Code, ThinkSmart must not intentionally misinform customers.

In the handling of personal data, ThinkSmart must comply with the provisions of French legislation which requires that ThinkSmart must file with the relevant regulatory authority and provide persons from whom personal information is obtained with certain information.

#### 4.5.2. Australia

ThinkSmart's consumer lease products are subject to the requirements of the Uniform Consumer Credit Code which, along with related legislation, contains requirements relevant to the form and content of consumer leases, changes on account of hardship and unjust transactions and enforcement procedures.

ThinkSmart's Australian operations are also subject to the Trade Practices Act 1974 (Cth) and the Fair Trading Act of each of the States and Territories which provide for consumer protection, as well as the unfair contracts legislation in Victoria and New South Wales.

ThinkSmart must comply with the Privacy Act in relation to its handling of personal information in Australia.



# DETAILS OF THE OFFER

5

A low-angle, black and white photograph of a person in a dark coat walking on a modern escalator. The person is carrying a white briefcase. The escalator has a glass railing and a perforated metal floor. The background shows a bright, modern interior space with large windows and architectural details. The overall mood is professional and dynamic.

# 5.

## DETAILS OF THE OFFER

### 5.1. DESCRIPTION OF THE OFFER

This Prospectus invites investors to apply for a total of 39.8 million Shares, which will represent 42% of the issued Shares at completion of the Offer. The Shares are being offered at the Offer Price of \$2.15 per Share.

The Offer comprises:

- The transfer of 33.8 million Sale Shares from Vendor Shareholders; and
- The issue of 6.0 million New Shares by ThinkSmart.

All of the proceeds from the transfer of the Sale Shares will be paid to the Vendor Shareholders.

The Sale Shares and the New Shares are equivalent in all respects. Successful Applicants may receive Sale Shares, New Shares or a combination of the two. No stamp duty will be payable by successful Applicants on either the transfer of Sale Shares or the issue of New Shares to them pursuant to the Offer.

### 5.2. PURPOSE OF THE OFFER AND USE OF PROCEEDS

The key purposes of the Offer are to:

- Raise the funds necessary for the completion of the acquisition from HBoS of its 50% interest in the UK Joint Venture;
- Provide an opportunity for certain Existing Shareholders to transfer a portion of their Shares to the public to realise part or all of their investment in the Company and in order to broaden the Company's Shareholder base and improve liquidity;
- Achieve a listing on the ASX to provide access to public capital markets in order to strengthen the Company's balance sheet and fund future growth opportunities; and
- Provide an opportunity for Eligible Employees of ThinkSmart to participate in the ownership of the Company.

The Company will apply the funds raised through the Offer in accordance with Table 5.1.

| Sources                 | A\$m        | Uses  | A\$m        |
|-------------------------|-------------|---|-------------|
| Proceeds from the Offer | 85.6        | Vendor Shareholders   | 72.6        |
|                         |             | Acquisition of HBoS' 50% interest in the UK Joint Venture   | 7.8         |
|                         |             | Estimated fees and costs associated directly with the Offer | 4.8         |
|                         |             | Cash to balance sheet                                       | 0.4         |
| <b>Total sources</b>    | <b>85.6</b> | <b>Total uses</b>   | <b>85.6</b> |

All funds received by the Company from the transfer of Sale Shares by the Vendor Shareholders will be paid to the Vendor Shareholders.

### 5.3. POST-OFFER OWNERSHIP AND ESCROW

The ownership structure of the Company at completion of the Offer will be as follows:

| Shareholder                          | Holding pre-Offer | Holding following Offer |
|--------------------------------------|-------------------|-------------------------|
| Interests related to Ned Montarello  | 39.0%             | 14.5% <sup>1</sup>      |
| ANZ Banking Group Ltd                | 14.8%             | 3.5%                    |
| Interests related to Steven Penglis  | 1.5%              | 1.4%                    |
| Interests related to Peter Mansell   | 3.0%              | 2.8%                    |
| Interests related to David Griffiths | 2.2%              | 2.1%                    |
| Other Existing Shareholders          | 39.5%             | 33.8%                   |
| New Shareholders                     | -                 | 41.9%                   |
| <b>Total</b>                         | <b>100%</b>       | <b>100%</b>             |

Note:

- 1 Excludes Ned Montarello's 6,800,000 options as disclosed in Section 10.4.

The Existing Shareholders' continuing commitment to the Company is also demonstrated by certain of the Existing Shareholders entering into the escrow arrangements, further details of which are set out in Section 10.9.

### 5.4. TIMETABLE OF THE OFFER

| Event   | Date        |
|---|-------------|
| Prospectus Date   | 10 May 2007 |
| Broker Firm Offer opens                                     | 18 May 2007 |
| Broker Firm Offer closes                                    | 31 May 2007 |
| Employee Firm Offer opens                                   | 18 May 2007 |
| Employee Firm Offer closes                                  | 28 May 2007 |
| Expected settlement date closes                             | 1 June 2007 |
| Expected allotment date                                     | 4 June 2007 |
| Deferred settlement trading on the ASX expected to commence | 4 June 2007 |
| Expected dispatch of Shareholder statements                 | 4 June 2007 |
| Normal trading on the ASX expected to commence              | 6 June 2007 |

The Company and JPMorgan reserve the right to alter any of the dates relating to the Offer described in this Prospectus without notice. Investors are encouraged to submit their Applications as soon as possible after the opening of the Offer.

## 5.5. STRUCTURE OF THE OFFER

There are three components to the Offer:

- The Institutional Offer, open to certain Institutional Investors;
- The Broker Firm Offer, open to Australian resident Retail Investors who have received a firm allocation from the Co-Manager; and
- The Employee Offer, open to Eligible Employees of ThinkSmart.

### **There is no general retail public offer of Shares under this Prospectus**

The allocation of Shares between the Institutional Offer, Broker Firm Offer and Employee Offer will be determined by JPMorgan in consultation with the Company.

The Offer will be managed by JPMorgan, in consultation with the Company. Details of the Underwriting Agreement, to which the Company and JPMorgan are parties, including the termination provisions and the fees payable, are set out in Section 10.6.12.

## 5.6. INSTITUTIONAL OFFER

The Offer to Institutional Investors will be managed by JPMorgan. Institutional Investors must apply in accordance with the instructions received from JPMorgan.

The Company and JPMorgan will determine the allocation of Shares among Applicants in the Institutional Offer. The Company and JPMorgan have absolute discretion regarding the basis of allocation of Shares, and there is no assurance that any Applicant will be allocated any Shares, or the number of Shares for which they have applied.

## 5.7. BROKER FIRM OFFER

The Broker Firm Offer is only open to Australian resident Retail Investors who have received a firm allocation from the Co-Manager. The Broker Firm Offer opens at 9.00am AEST on Friday 18 May 2007 and closes at 5.00pm AEST on Thursday 31 May 2007. The Company in conjunction with JPMorgan reserve the right to vary the Closing Date of the Broker Firm Offer without notice.

Applicants who have been offered a firm allocation by the Co-Manager will be treated as a Broker Firm Applicant in respect of that allocation. Broker Firm Applicants should complete and lodge the orange Broker Firm Application Form, together with a cheque(s) for the Application Payments, in accordance with the instructions of the Co-Manager from whom the firm allocation of Shares was received.

Broker Firm Applicants should not send their Broker Firm Application Forms to the Share Registry.

If you elect to participate in the Broker Firm Offer through the Co-Manager, the Co-Manager will act as your agent in submitting your Broker Firm Application Form and in depositing your Application Payment into the designated Applications account. The Co-Manager is responsible for ensuring there are available funds in the Applicant's account. JPMorgan, ThinkSmart and the Share Registry take no responsibility for any acts or omissions by the Co-Manager in connection with your Application, Broker Firm Application Form or Application Payment.

Applications under the Broker Firm Offer must be for a minimum 2,000 Shares and thereafter in multiples of 500 Shares. No brokerage is payable by Broker Firm Applicants under the Broker Firm Offer.

## 5.8. EMPLOYEE OFFER

The Employee Offer is open to employees of the Company and its subsidiaries (who have a registered address in Australia) as at the date of the Prospectus and remain employed by the Company or its subsidiaries as at the Closing Date ("Eligible Employees"). Participation in the Employee Offer is voluntary.

The Employee Offer opens at 9.00am AEST on Friday 18 May 2007 and closes at 12.00pm AEST on Monday 28 May 2007. The Company in conjunction with JPMorgan reserve the right to vary the Closing Date of the Employee Offer without notice.

Eligible Applicants under the Employee Offer will be entitled to receive a guaranteed minimum allocation of 2,000 Shares. Applications under the Employee Offer under this Prospectus should be made in accordance with the instructions on the back of the Application Form. The completed Application Form, together with a cheque in Australian dollars for the value of the Shares applied for, should be mailed or delivered to the attention of the Group CFO at the Company's address shown in the Corporate Directory.

## 5.9. APPLICATIONS

An Application Form may only be distributed with, attached to, or accompany a complete and unaltered copy of this Prospectus. Application Forms included with or accompanying this Prospectus contain a declaration that the investor has personally received the complete and unaltered Prospectus prior to completing the Application Form.

ThinkSmart will not accept a completed Application Form if it has reason to believe that the Applicant has not received a complete copy of this Prospectus or if it has reason to believe that the Application Form has been altered or tampered with in any way.

## 5.10. ALLOCATION POLICY

### 5.10.1. Allocations under the Institutional Offer

The allocation of Shares among bidders in the Institutional Offer will be determined by JPMorgan in consultation with the Company at their absolute discretion. There is no assurance that any investor lodging a bid in the Institutional Offer will be allocated any Shares or the number of Shares for which it has bid.

### 5.10.2. Allocations under the Broker Firm Offer

Firm stock which has been allocated to the Co-Manager for allocation to their Australian resident Retail Investors will be issued to Broker Firm Applicants nominated by the Co-Manager. It will be a matter for the Co-Manager as to how they allocate firm stock among their Retail Investors, and they (and not the Company or JPMorgan) will be responsible for ensuring that Retail Investors who have received a firm allocation from them receive the relevant Shares.

Broker Firm Applicants will be able to confirm their firm allocations through the Co-Manager. However, Applicants in the Broker Firm Offer who sell Shares before receiving an initial statement of holding do so at their own risk, even if they have obtained details of their holding from their Broker.

### 5.10.3. Allocations under the Employee Offer

Eligible Applicants under the Employee Offer will be entitled to receive a guaranteed minimum allocation of 2,000 Shares. Allocations above this level will be at the discretion of the Company.

## 5.11. UNDERWRITING

All 39.8 million Shares under the Offer have been underwritten by JPMorgan at the Offer Price. A summary of the Underwriting Agreement and the circumstances under which JPMorgan's obligations will cease is set out in Section 10.6.12.

## 5.12. ALL APPLICATIONS

The Company and JPMorgan reserve the right to decline any Application in whole or in part, without giving any reason.

Application Payments received will be held in a bank account on trust for Applicants pending the transfer and issue of Shares offered under this Prospectus (or until Application Payments are refunded if the Offer does not proceed).

If no allocation is made or if an Applicant is allocated fewer Shares than the number of Shares for which that Applicant applied, the Applicant will receive a refund cheque for the amount of the Application Payment that was not used to pay for Shares as soon as practicable after the relevant Closing Date. No interest will be paid on amounts refunded.

## 5.13. TAXATION

Taxation consequences of any investment in Shares will depend on each investor's circumstances. For a summary of taxation issues, refer to Section 10.12. Investors should make their own enquiries about the taxation consequences of an investment in ThinkSmart. If investors are in doubt as to the course of action they should take, they should consult a legal adviser, accountant, or other professional adviser.

## 5.14. ASX LISTING AND TRADING

Application will be made to the ASX no later than seven days after the date of this Prospectus for ThinkSmart to be admitted to the official list of the ASX and for official quotation of the Shares offered under this Prospectus. If ThinkSmart is not admitted to the official list of the ASX within three months after the date of this Prospectus, all Application Payments will be refunded without interest.

It is expected that ThinkSmart will trade under the ASX code "TSM".

The ASX takes no responsibility for this Prospectus or the investment to which it relates. Admission to the official list of the ASX is not to be taken as an endorsement by the ASX of ThinkSmart.

It is expected that Shares will be transferred or issued to successful Applicants on 4 June 2007 and that trading of Shares on the ASX on a deferred settlement basis will commence the same day. Trading on a normal settlement basis is expected to commence on 6 June 2007. ThinkSmart, in consultation with JPMorgan, has the right to change these dates.

## 5.15. CHESS AND SHAREHOLDING STATEMENTS

ThinkSmart will apply to participate in CHESS in accordance with the ASX Listing Rules and ASTC Settlement Rules.

Following the transfer or issue of Shares to successful Applicants, Shareholders will be sent an initial statement that sets out the number of Shares which they have been allocated in the Offer. This statement will also provide details of a Shareholder's Holder Identification Number or, where applicable, the Shareholder Reference Number for issuer sponsored holders. It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Shareholders will receive subsequent statements showing changes to their shareholding in ThinkSmart. Share certificates will not be issued.

## 5.16. OVERSEAS APPLICATIONS

### 5.16.1. No offering where offering would be illegal

No action has been taken to register or qualify the Shares, or the Offer, or otherwise to permit the public offering of the Shares, in any jurisdiction outside Australia.

The distribution of this Prospectus within jurisdictions outside Australia may be restricted by law and persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws.

This Prospectus does not constitute an offer of Shares in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

In particular, the Shares have not been and will not be registered under the US Securities Act and may not be offered or sold within the US or to, or for the account or benefit of, US persons, except in certain transactions exempt from, or not subject to, the registration requirements of the US Securities Act. In this section of the Prospectus, the term “US person” means (i) any individual resident in the US, (ii) any corporation, pension, profit-sharing or other trust or other entity (including any such entity constituting an investment adviser acting with discretionary authority) whose office most directly involved with the purchase is located in the US or (iii) any person who is a “US person” as such term is defined in Regulation S (as promulgated under the US Securities Act).

It is the responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to their application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty that there has been no breach of such law and that all necessary approvals and consents have been obtained.

### 5.16.2. Hong Kong Professional investors offer

The Shares may not be sold in Hong Kong, by means of any document, other than:

- To “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “Securities and Futures Ordinance”) and any rules made under that Ordinance; and
- In other circumstances which do not result in the documentation being a “Prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; or
- To persons whose ordinary business is to buy or sell shares or debentures.

No advertisement, invitation or document relating to the Shares may be issued whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

This Prospectus has not been and will not be registered in Hong Kong. This Prospectus is intended to be distributed to professional investors (as defined above) or persons in Hong Kong whose ordinary business is to buy or sell shares or debentures only.

### 5.16.3. Singapore institutional investor offer

This Prospectus has not been registered as a Prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other documentation or material in connection with the offer or sale, or invitation for subscription or purchase, of the Shares may not be circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than:

- To an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”);
- To a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA; or
- Otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Shares are subscribed or purchased under Section 275 of the SFA by a person which is:

- A corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- A trust where the trustee is not an accredited investor whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

Shares, debentures and units of shares and debentures of that corporation or beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares pursuant to an offer made under Section 275 except:

- To an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than Singapore dollars 200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- Where no consideration is or will be given for the transfer; or
- Where the transfer is by operation of law.

### **5.17. WITHDRAWAL**

ThinkSmart may at any time decide to withdraw this Prospectus and the Offer, in which case all Application Payments will be returned as soon as practicable. No interest will be paid on any Application Payments refunded as a result of the withdrawal of this Prospectus and the Offer.

### **5.18. ENQUIRIES**

If you require assistance to complete the Application Form or require additional copies of this Prospectus, you should contact the ThinkSmart Offer line on 1300 305 388 from within Australia or +61 3 9415 4601 from overseas, or your stockbroker.

If you are in doubt as to whether to invest in ThinkSmart, you should contact your stockbroker, financial adviser, legal adviser, accountant, or other professional adviser.

# BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

6



# 6.

## BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

### 6.1. BOARD OF DIRECTORS

Figure 6.1 ThinkSmart Board of Directors

**Peter Mansell,  
Non-Executive Chairman**



Peter practised as a commercial lawyer for nearly 34 years until he retired as a partner in Freehills in February 2004. Over the years as a solicitor he has advised extensively on a number of wide-ranging corporate transactions. He was President of the Council of the Australian Institute of Company Directors, Western Australian Division, having sat on the national board of the Australian Institute of Company Directors Ltd in 2002 and 2003. He is also a director of a number of listed companies:

- Zinifex Ltd (non-executive chairman);
- Bunnings Warehouse Property Trust (non-executive director);
- West Australian Newspapers Holdings Ltd (non-executive chairman); and
- Great Southern Ltd (non-executive director).

**Ned Montarello,  
Managing Director and CEO**



Ned has over 20 years experience in the finance industry. He founded ThinkSmart over 10 years ago and through this vehicle has been credited with elevating the Nano-Ticket rental market sector in Australia, receiving the Telstra and Australian Government's Entrepreneur of the Year Award in 1998.

Ned steered the expansion of the business into Europe, establishing agreements in 2002/2003 with DSG International and HBoS to launch in the UK. He subsequently played a leading role in securing the broader agreement with DSG and new agreements with Banco Santander and Societe Generale to expand into Spain and France, and Italy in late 2007.

**Steven Penglis,  
Non-Executive Director**



Steven is a prominent legal practitioner in Western Australia, practising in the area of corporate and Corporations Act advice and litigation. He is:

- A partner of the law firm Freehills, having being admitted to the partnership in 1987;
- A part-time Senior Member of the Commonwealth Administrative Appeals Tribunal;
- An elected member of the Legal Practice Board of Western Australia and former chairman; and
- An elected member of the Council of the Law Society of Western Australia.

**David Griffiths,  
Non-Executive Director**



David has an extensive background in finance and investment banking including 14 years in equity capital markets, mergers and acquisitions and corporate advisory work most recently as a Division Director of Macquarie Bank Ltd. He is a director of a number of listed companies:

- Great Southern Ltd (non-executive chairman);
- ARC Energy Ltd (non-executive chairman);
- Advanced Nanotechnology Ltd (non-executive chairman); and
- Automotive Holdings Group Ltd (non-executive director).

David is the Pro-Chancellor at the University of Western Australia.



## 6.2. SENIOR MANAGEMENT

**Figure 6.2 ThinkSmart senior management**

|   |  |
|---|--|
| <b>Ned Montarello,<br/>Managing Director and CEO</b>        | See above  |
| <b>Neil Barker,<br/>Group CFO and Company<br/>Secretary</b> | Neil is a Certified Practising Accountant (Fellow) with over 22 years experience in banking and finance. Prior to joining ThinkSmart, Neil was the Group Financial Controller of Alinta, an Australian public listed company. Prior to joining Alinta, Neil was employed with the NAB Group in senior finance roles based in UK and Australia.   |
| <b>Neil Le Febvre,<br/>Group Marketing Director</b>         | Neil has over 15 years experience in marketing, having worked for consultancies in the UK and Australia. Prior to joining ThinkSmart in September 1999, Neil consulted to the Company for 18 months. He was acting general manager for the establishment of ThinkSmart's UK operations in 2003, returning to Perth in 2006. He holds a Postgraduate Diploma in Marketing Management from Staffordshire University, UK.                                     |
| <b>Gajendra Varma,<br/>Group Chief Information Officer</b>  | Gajendra is a Systems Analyst with nearly 15 years experience in the field. Prior to joining ThinkSmart in 2000, he was a Principal Consultant for PWC managing major systems developments for several clients including RAC Insurance. Previous roles have included senior positions with systems integrator Alpha West, Sealcorp Holdings, PanCredit Systems (UK) and ICL Ltd (UK). Gajendra holds a Bachelor of Applied Science in Information Science. |

**Figure 6.3 European operations**

|   |  |
|---|--|
| <b>Gareth Parry,<br/>Managing Director, Europe</b>                      | Gareth has over 20 years experience in sales management, 13 of which were with the Bank of Scotland where he was most recently a Director of Asset Finance. Gareth's main areas of responsibility were for Scotland Direct, based in Edinburgh, Glasgow and Inverness, as well as the Bank's Warrington Business Centre.   |
| <b>John Rozenbroek,<br/>CFO, Europe</b>                                 | John is a graduate Chartered Accountant with over 15 years experience in senior commercial roles in the retail, financial services and IT industries. Prior to joining ThinkSmart he was Group Commercial Director for Logic Group Plc, joining the business after 8 years with GUS Plc where he was Commercial Services Director for Reality Group Limited, a wholly owned subsidiary of GUS. |
| <b>Ken Ferro,<br/>General Manager, Sales and<br/>Operations, Europe</b> | Ken has nearly 15 years experience in sales management roles. Having spent four years in the Australian Navy in communications, Ken then spent the following nine years, immediately prior to joining ThinkSmart in 2001, working within sales and operations roles in the IT industry.  |

**Figure 6.4 Australasian operations**

|   |  |
|---|--|
| <b>Milko Radotic,<br/>General Manager Sales and<br/>Operations, Australia</b> | Milko has extensive experience in sales management having held senior sales positions within Fortune-500 companies such as Texas Instruments and PMC-Sierra. He has been based in Canada, US, Sweden and the UK, most recently establishing European operations for Tundra, a semiconductor manufacturer, prior to relocating to Australia. Milko holds an Executive MBA from London Business School, a Master of Science in Electrical Engineering from RHIT, Indiana and an Undergraduate Degree in Electrical Engineering from the University of Boras in Sweden. |
|---|--|

## 6.3. CORPORATE GOVERNANCE

### 6.3.1. Board of Directors

The Board comprises ThinkSmart's Managing Director and three independent non-executive Directors including the Chairman. To prepare for its public listing, Peter Mansell was recently appointed non-executive Chairman. Peter brings a long history of public company and legal experience with him and will assist in overseeing the continued growth of ThinkSmart. Further Directors may be appointed in the future.

ThinkSmart has in place corporate governance practices to ensure the Company is effectively directed and managed, risks are monitored and assessed, and appropriate disclosures are made. To the extent that it does not already comply, the Company proposes to comply fully with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The responsibilities of the Board, led by the non-executive Chairman, will include the following:

- Working with management to establish the strategic direction of the Company;
- Monitoring management and financial performance;
- Monitoring compliance and risk management;
- Developing and implementing succession plans for senior management; and
- Ensuring effective disclosure policies and procedures.

Board committees and individual Directors may seek independent external professional advice for the purposes of proper performance of their duties.

### 6.3.2. Board committees

ThinkSmart has two Board committees comprising the remuneration and nomination committee and the audit and risk committee. These committees serve to support the functions of the Board and will make recommendations to the Directors on issues relating to their area of responsibility.

#### Remuneration and nomination committee

The objective of the remuneration and nomination committee is to help the Board achieve its objective of ensuring the Company has a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties, and to determine and review the compensation arrangements for the Directors and senior management team. The remuneration and nomination committee comprises Peter Mansell (Chair), Ned Montarello, Steven Penglis and David Griffiths.

#### Audit and risk committee

The audit and risk committee provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to ThinkSmart's financial statements, financial and market reporting processes, internal accounting and financial control systems, internal audit, external audit, risk management and such other matters as the Board may request from time to time. The audit and risk committee comprises Peter Mansell, Steven Penglis and David Griffiths (Chair).

### 6.3.3. Communication and continuous disclosure Communication to Shareholders

The Board aims to ensure that Shareholders are informed of all major developments affecting the Company's state of affairs. Information will be communicated to Shareholders through ASX announcements, the Company's annual report, annual general meeting, half and full year results announcements and the Company's website, [www.thinksmartworld.com](http://www.thinksmartworld.com).

#### Continuous disclosure

All relevant information provided to the ASX will be posted immediately on the Company's website, [www.thinksmartworld.com](http://www.thinksmartworld.com), in compliance with the continuous disclosure requirements of the Corporations Act and the ASX Listing Rules.

# FINANCIAL INFORMATION

7



# 7.

## FINANCIAL INFORMATION

### 7.1. INTRODUCTION

This Section sets out the Historical Financial Information and Pro Forma Historical Financial Information and the Directors' Forecasts for ThinkSmart. The basis for preparation and presentation is explained at Section 7.1.1.

ThinkSmart had a 50% interest in RentSmart UK prior to 1 December 2006 when it acquired the remaining 50% interest resulting in it becoming a wholly owned subsidiary. Prior to the acquisition on 1 December 2006, ThinkSmart equity accounted for its interest in RentSmart UK and hence consolidated historical financial information does not exist for the Group as it is currently structured. The Directors have therefore prepared pro forma historical consolidated income statements and statements of cash flows to illustrate to potential investors what the financial performance and cash flows of ThinkSmart would have been if RentSmart UK had always been wholly owned since 1 January 2005.

The financial information has been prepared by management and adopted by the Directors. The Directors are responsible for the inclusion of all financial information in this Prospectus.

KPMG Transaction Services has prepared an Investigating Accountant's report in respect of the Historical and Pro Forma Historical Financial Information and the Directors' Forecasts. A copy of the report is set out in Section 9.

The financial information in this Section should be read in conjunction with the Directors' best estimate assumptions underlying the preparation of their forecasts, the sensitivity analysis, the summary of significant accounting policies, the reconciliations of the Pro Forma Historical Information to the underlying statutory information from which it was extracted set out in this section and Appendix 12 of the Prospectus, the risk factors set out in Section 8, and other information contained within this Prospectus.

This Section contains:

- Historical and Pro Forma Historical Financial Information at 31 December 2006;
- Pro Forma Historical Information for FY2005 and FY2006;
- Directors' Forecasts;
- Management discussion and analysis of the Historical and Pro Forma Historical Information and Directors' Forecasts;
- Directors' best estimate assumptions underlying the Directors' Forecasts;
- Sensitivity analysis;
- Pro Forma Historical and Directors' Forecasts geographic segmentation;
- Selected notes to the Historical and Pro Forma Historical Financial Information;
- Summary of the dividend policy; and

- Summary operating statistics to assist potential investors in evaluating the historical and forecast performance of ThinkSmart.

### 7.1.1. Basis of preparation and presentation of Historical and Pro Forma Historical Financial Information

#### 7.1.1.1. Historical Financial Information

The Historical Financial Information consists of the historical balance sheet at 31 December 2006 (set out in Section 7.11), the historical income and cash flow statements set out in Appendix 12.3 and notes thereto set out in Appendix 12.1 and 12.2.

#### 7.1.1.2. Pro Forma Historical Financial Information

As outlined above ThinkSmart owned only 50% of RentSmart UK during the majority of the period for which historic information is presented in this Prospectus. Consequently, the Directors have prepared Pro Forma Historical Financial Information to show the historical financial performance and historical cash flows of ThinkSmart on a consistent basis.

The Pro Forma Historical Financial Information consists of:

- The pro forma historical income statements for FY2005 and FY2006 (set out in Section 7.2);
- The pro forma statements of cash flow for FY2005 and FY2006 (set out in Section 7.8);
- The pro forma historical balance sheet as at 31 December 2006 (set out in Section 7.11); and
- The pro forma geographic segment information for FY2005 and FY2006 (set out in Section 7.7).

The Historical and Pro Forma Historical Financial Information has been prepared in accordance with Australian Accounting Standards and the significant accounting policies of the Company are set out in Appendix 12.1.

The Historical and Pro Forma Historical Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures and notes required in an annual financial report prepared in accordance with Australian Accounting Standards and the Corporations Act.

The Historical and Pro Forma Historical Financial Information has been extracted from a number of sources as set out below. A reconciliation of the Historical and Pro Forma Historical Financial Information to the underlying statutory information from which it has been derived is set out in Appendix 12.3.

As ThinkSmart has historically operated under a different corporate structure and with a different gearing profile prior to the acquisition of the remaining 50% of RentSmart UK, the historical amortisation, net interest and income tax expenses and the historical net financing and income tax cash flows

are not considered to be meaningful or appropriate, and this information has therefore not been included in the Pro Forma Historical Financial Information.

### **7.1.1.3. Sources of Pro Forma Historical Financial Information**

The Pro Forma Historical Financial Information has been extracted from:

- The financial statements of ThinkSmart for FY2005 and FY2006 which were audited by Deloitte Touche Tohmatsu; and
- The financial statements of RentSmart UK for FY2005 and FY2006 which were audited by KPMG Audit Plc.

In preparing the Pro Forma Historical Financial Information, certain adjustments (“Pro Forma Adjustments”) were made to the audited financial information.

For the pro forma historical income statements, these were made to reflect the ownership of RentSmart UK as if it had been owned 100% throughout the historic period from 1 January 2005. A reconciliation and more detailed explanation are provided at Appendix 12.3.

The pro forma historical balance sheet has been derived from the audited consolidated financial statements of ThinkSmart at 31 December 2006 by making pro forma adjustments to show the impact of the following events as if they had occurred at 31 December 2006:

- IPO and capital raising; and
- The completion of previous provisional accounting arising from the RentSmart UK business combination.

Further details of these adjustments and a reconciliation between the pro forma historical balance sheet and the statutory financial information from which it is derived is set out in Section 7.11 and Appendix 12.3.

## 7.2. SUMMARY PRO FORMA HISTORICAL AND DIRECTORS' FORECASTS INCOME STATEMENTS AND KEY OPERATING STATISTICS

Set out below is the summary of the Company's pro forma historical income statements for FY2005 and FY2006, Directors' Pro Forma Forecast for FY2007 and Directors' Statutory Forecast for FY2008:

**Table 7.1 Pro forma income statement**

|                                  | Pro Forma Historical <sup>1</sup> |             | Directors' Pro Forma Forecast FY2007 <sup>1,2</sup> A\$m | Directors' Statutory Forecast FY2008 <sup>2</sup> A\$m | 05-08 CAGR |
|----------------------------------|-----------------------------------|-------------|--|--|------------|
|                                  | FY2005 A\$m                       | FY2006 A\$m |  |  |            |
| Total Group revenue              | 21.4                              | 26.8        | 35.9   | 45.6   | 28.7%      |
| Operating costs                  | 20.1                              | 23.6        | 25.0   | 27.7   | 11.3%      |
| Corporate development costs      | 1.0                               | 1.5         | 2.8  | 1.2  | 4.6%       |
| EBITDA                           | 0.3                               | 1.7         | 8.1  | 16.7   | 276.6%     |
| Depreciation                     | 1.0                               | 0.7         | 0.6  | 0.5  |            |
| EBITA                            | (0.7)                             | 1.0         | 7.5  | 16.2   |            |
| Amortisation                     |                                   |             | 1.0  | 1.5  |            |
| EBIT                             |                                   |             | 6.5  | 14.7   |            |
| Net interest and borrowing costs |                                   |             | 0.2  | (0.3)  |            |
| Tax                              |                                   |             | 2.0  | 4.3  |            |
| <b>NPAT</b>                      |                                   |             | <b>4.3</b>   | <b>10.7</b>  |            |
| <b>NPAT (pre-amortisation)</b>   |                                   |             | <b>5.0</b>   | <b>11.7</b>  |            |

Note:

- 1 Reconciliation of the pro forma historical and forecast financial information to the statutory financial information from which it is derived is contained in Appendix 12.3 and 12.4.
- 2 Start-up costs, operating revenues and expenses from potential new territory expansion are not included in the Directors' Forecasts - refer Section 7.4.5.2.

**Table 7.2 Key metrics**

|  | Pro Forma Historical |             | Directors' Pro Forma Forecast |             |
|--|----------------------|-------------|-------------------------------|-------------|
|  | FY2005 A\$m          | FY2006 A\$m | FY2007 A\$m                   | FY2008 A\$m |
| Key metrics:                               |                      |             |                               |             |
| Revenue                                    | 21.4                 | 26.8        | 35.9                          | 45.6        |
| <i>growth (%)</i>                          |                      | 25.3        | 34.1                          | 26.8        |
| EBITDA                                     | 0.3                  | 1.7         | 8.1                           | 16.7        |
| <i>growth (%)</i>                          |                      | 446.9       | 378.8                         | 103.4       |
| NPAT (pre-amortisation)                    |                      |             | 5.0                           | 11.7        |
| <i>growth (%)</i>                          |                      |             |                               | 135.5       |
| % of EBITDA from contracts already written |                      |             |                               | 67          |
| Number of settlements                      | 18,171               | 22,283      | 26,538                        | 28,626      |
| Settled value                              | 46.1                 | 55.0        | 64.0                          | 72.8        |

Note: Exchange rates of £2.50 and €1.74 in FY2007 and £2.63 and €1.85 in FY2008 have been assumed. The pro forma income statements and statement of cash flows have been translated at these rates.

## 7.3. MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL FINANCIAL PERFORMANCE

### 7.3.1. Introduction

ThinkSmart derives its revenue from three main sources:

- **Brokerage income**  
Brokerage income is achieved from a fee payable on settlement calculated as the difference between the net present value of the primary period rentals discounted at the Funder's cost of funds and the invoice price of the goods.
- **Insurance income**  
Insurance on the goods is compulsory under both SmartPlan and RentSmart rentals. ThinkSmart receives a commission on the sale of insurance but takes no underwriting risk. The insurance commission is recognised and received at settlement in Australia and over the life of the contract in the UK and Europe due to the differing nature of the insurance arrangements in the territories.
- **Inertia income**  
At the conclusion of the initial rental contract, ThinkSmart has a contractual right to purchase the contracts/equipment from the Funders for a nominal sum. All income post the initial rental contract is for ThinkSmart's account. At the end of each contract, the customer has three options:
  - Return the goods to ThinkSmart (at their own cost) – ThinkSmart then sells the goods and receives the proceeds;
  - Continue to rent either month by month or for a fixed term – ThinkSmart receives all the rental payments; or
  - Purchase the goods at an agreed value from ThinkSmart.

### 7.3.2. Review of historical results – FY2006 compared to FY2005

#### Revenue

ThinkSmart experienced growth in total revenue of 25% from A\$21.4 million in 2005 to A\$26.8 million in 2006. This increase was driven by an increase in all three areas of income. Brokerage income increased by A\$3.4 million or 20%, Inertia income increased by A\$0.7 million or 20%, insurance income increased A\$0.7 million or 104%. This growth was the result of a number of factors, including:

- Increase in brokerage revenue was largely due to volume growth with contract margins increasing slightly from 36.5% to 36.8% following repricing in Australia (in August and November 2006) and, Spain (November 2006). Volume of settled contracts was up 23% from 18,171 to 22,283. Total value of settled units grew by A\$8.8 million or 19%. Settled units in Spain grew by 154%, UK by 18% and Australia by 7%;
- Insurance income growth of A\$0.7 million was due to the commencement of an insurance offering in the UK in late

2005 and has proved very successful with attachment rates of 75% on average; and

- Inertia income growth of A\$0.7 million results from the first UK contracts written in 2003 maturing.

#### Expenses

In 2006, expenses increased by 18% driven mainly by increased business volumes and corporate development expenditure required to establish new territories in Europe and North America. Retailer rebates and incentives grew by 31% to A\$7.6 million, employee costs increased by 11% to A\$9.1 million while administrative expenses increased by A\$0.5 million or 8%. Corporate development expenses increased by A\$0.5 million or 50%.

Expenses were mainly driven by:

- Growth in retailer rebates and incentives in Australia where the focus has been towards securing long-term agreements with key national retailers;
- Significant growth in settled value in the UK and Spain;
- Employee cost growth in UK due to additional employees to service Spain and France business and new employees at the executive level to support key growth initiatives;
- Corporate development expenditure incurred in investigating opportunities in new territories in Europe and elsewhere; and
- Legal/consulting costs associated with new product development in Australia and Europe.

ThinkSmart's policy is to expense corporate development expenses as they are incurred rather than capitalise them.

#### Depreciation

Depreciation decreased 30% from A\$1.0 million in 2005 to A\$0.7 million in 2006.

In the 2005 and 2006 financial years, office furniture, fittings, equipment, computers, leasehold improvements, and software were depreciated using the reducing balance method over 2.5 to five years, assuming a salvage value of nil.

#### Exchange rates

The AUD:GBP exchange rate used for 2006 was 2.48 and 2.39 for 2005. The AUD:EUR exchange rate used for 2006 was 1.66 and 1.63 for 2005. The pro forma results have been translated at an average rate.

#### Income tax

Tax has been incurred at the statutory tax rate for each territory being 30% in the UK and Australia, and at an effective tax rate of 30% in Spain.

## 7.4. DIRECTORS' FORECASTS

### 7.4.1. Introduction

In accordance with customary practice for offerings in Australia, this Prospectus includes forecast financial information.

ThinkSmart incurred expenses relating to its capital structure before the Offer and as a result of the Offer which are not expected to recur in the future. Therefore, the Directors have prepared the Directors' Pro Forma Forecast in addition to the Directors' Statutory Forecast to illustrate to potential investors what the forecast for ThinkSmart would be after adding back those expenses.

The following Sections contain the Directors' Statutory Forecast and the Directors' Pro Forma Forecast for FY2007 and FY2008 (together the "Directors' Forecasts") for ThinkSmart.

All forecast information in this Prospectus should be read in conjunction with the basis of preparation and presentation of the Directors' Forecasts, and the Directors' best estimate assumptions set out below.

### 7.4.2. Basis of preparation and presentation of Directors' Forecasts

The Directors' Forecasts have been prepared by the Directors with due care and attention, on the basis of the Directors' general and specific best estimate assumptions included below. The Directors consider these best estimate assumptions to be reasonable when viewed as a whole.

The Directors' best estimate assumptions are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Directors and the Company, and are not reliably predictable. The industry in which the Company operates is subject to many external influences, which can materially impact the Company's financial performance.

The Directors' Forecasts assume the implementation of certain future business decisions and strategies, which are subject to change, and assume the success of those business decisions and strategies, which are subject to uncertainties and contingencies beyond the control of the Directors and the Company. No assurance can be given that the business decisions and strategies will be effective or that the anticipated benefits from them will be realised in the period for which the Directors' Forecasts have been prepared or otherwise.

Events and circumstances often do not occur as anticipated and therefore, actual results are likely to differ from the forecast financial information. These differences may be material. As shown in the sensitivity analysis in Section 7.6, relatively small changes in key variables can have a significant impact on the financial performance of ThinkSmart and its cash flows.

Accordingly, none of the Directors, the Company, the Vendor Shareholders or any other person guarantees or provides any assurance as to the accuracy or achievement of the Directors' Forecasts or the Directors' best estimate assumptions upon which they are based. The Directors' Forecasts should not be regarded as a representation or warranty that the Company will achieve, or is likely to achieve, any particular results. Actual events and outcomes may differ in quantum and timing from those assumed, with material consequential positive or negative impact on the Company's actual earnings or cash flows.

The Directors' Forecasts should be read in conjunction with the Directors' general best estimate assumptions set out in Section 7.4.5.1, the Directors' specific best estimate assumptions set out in Section 7.4.5.2, the sensitivity analysis set out in Section 7.6, the discussion of the risk factors set out in Section 8 and other information set out in this Prospectus.

The information regarding Directors' best estimate assumptions is intended to assist potential investors in assessing the reasonableness and likelihood of the Directors' Forecasts being achieved, and is not intended to be a representation that those events that have been assumed will occur. Potential investors should thus be aware of the risks of placing undue reliance on the information in this Section.

The significant AIFRS accounting policies set out in Appendix 12.3 have been consistently applied in the preparation of the Directors' Forecasts.

The Directors' Forecasts are presented in abbreviated form insofar as they do not include all the disclosures and notes required by AIFRS applicable to annual financial reports and notes prepared in accordance with the Corporations Act.

The Directors' Forecasts are unaudited, but have been reviewed and reported on by KPMG Transaction Services as the Investigating Accountant (see Section 9).

### 7.4.3. Directors' Forecasts for FY2007

The Directors' Forecasts for FY2007 comprise the Directors' Statutory Forecast and the Directors' Pro Forma Forecast.

The Directors' Statutory Forecast for FY2007 has been compiled from:

- Unaudited consolidated AIFRS management accounts of ThinkSmart Limited for the months of January, February and March 2007; and
- Management forecasts for the nine months ending 31 December 2007.

The Directors' Pro Forma Forecast for FY2007 is set out in Section 7.7.1. The pro forma adjustments to the Directors' Statutory Forecast that have been made to compile the Directors' Pro Forma Forecast for FY2007 is an addback of:



- A\$0.3 million interest payment on the HBoS loan; and
- Those IPO costs adjudged to have been incurred in respect of the sell down of existing equity and therefore expensed of A\$4.1 million;

with appropriate tax adjustments in each case.

Reconciliations of the Directors Pro Forma Forecast to the Directors' Statutory Forecast for FY2007 are set out in Appendix 12.4.

#### **7.4.4. Directors' Forecasts for FY2008**

The Directors' Statutory Forecast for FY2008 has been compiled from management forecasts for the 12 months ending 31 December 2008. As the capital structure which will apply from completion of the Offer will be in place for the whole of FY2008, no pro forma adjustments have been made to the Directors' Statutory Forecast in that year.

#### **7.4.5. Directors' best estimate assumptions**

##### **7.4.5.1. General best estimate assumptions**

The following general best estimate assumptions have been used to derive the forecasts contained in this Prospectus:

- There is no material adverse change in the competitive operating environment in the UK, Australia, or Spain;
- There is continued growth in the Nano-Ticket finance industry in the UK, Australia, and Europe;
- There is no change in applicable AIFRS that would have a material impact on ThinkSmart's accounting policies, financial reporting or disclosure;
- There is no material change to ThinkSmart's operating or regulatory environment;
- Other than as disclosed elsewhere in this Prospectus, there is no material amendment to any material agreement relating to ThinkSmart's business;
- There are no significant disruptions to the continuity of operations of ThinkSmart and there are no other material changes in ThinkSmart's business;
- There is no material litigation that will arise or be settled to the detriment of ThinkSmart;
- There are no contingent liabilities that will arise or be realised to the detriment of ThinkSmart;
- Other than as disclosed elsewhere in this Prospectus, in particular the expiry of the Officeworks/Harris Technology contract in September 2007 as explained in Section 7.4.5.2, there are no material losses of customers or contracts;
- There are no significant changes to the business undertaken by ThinkSmart's retail partners or development plans for new store rollout/closure;
- There is no loss of key management;
- ThinkSmart will maintain the ongoing ability to recruit and retain required personnel;
- There is no impairment of goodwill; and
- There are no material business acquisitions or disposals.

##### **7.4.5.2. Specific best estimate assumptions – FY2007 and FY2008**

The following specific best estimate assumptions have been applied in preparing the consolidated forecast income statement of ThinkSmart for FY2007 and FY2008.

##### **Italy, France and the US operations**

The forecasts for FY2007 and FY2008 do not include any revenue from Italy (expected to begin trading late 2007), France (PC City is reviewing operations in this territory in mid 2007 and ThinkSmart is currently seeking a new retail partner) and from the US opportunity. However, the Directors' Forecasts do include the costs expected to be incurred in determining whether to proceed to the next stage in relation to each of these countries. Where a decision is made to commence trading in a new territory in the forecast period, there will be resultant revenues, start-up costs and operating expenses and these costs may be significant. These have not been included in the Directors' Forecasts.

##### **Brokerage income assumptions**

Brokerage income is the fee received by ThinkSmart on settlement of a rental contract calculated as the difference between the net present value of the primary period rentals discounted at the Funder's cost of funds and the invoice price of the goods.

The forecast brokerage income is derived on a retailer-by-retailer basis from the forecast number of applications, average settlement rates, forecast ATVs, and forecast pricing.

The forecast number of applications has been prepared on the basis of a retailer-by-retailer analysis taking into account historical trends, and discussions with retailers about expected like-for-like growth in store turnover and new store rollout, and increased penetration of the ThinkSmart product on existing store turnover based on sales and marketing initiatives agreed with retailers.

ThinkSmart has forecast an approximate one percentage point increase in the rate used to calculate rental payments on it plans for the UK and Australian businesses, effective from January 2008.

ATVs are forecast based on historical trends adjusted for retailers' own assessment of their future pricing, future changes in the underlying sales mix, and the impact of initiatives agreed with retailers to impact ATV. The ATV in Australia is forecast to decrease by 8% in FY2007 compared to FY2006 due to changes in the underlying sales mix. Reductions of around 2% are forecast in the UK and Spain. No significant change is forecast between FY07 and FY08.

Overall, these assumptions result in a forecast increase in brokerage income of around 19% in FY2007 compared to FY2006 and 18% in FY2008 compared to FY2007.

### Contract/retail relationship assumptions

The forecasts assume that existing retailer relationships continue in accordance with the current terms and conditions unless there is a possibility that the contract may not be renewed at the contract expiry date.

No additional retailers in existing territories have been assumed in the volume forecasts.

ThinkSmart introduced JB Hi-Fi to its Australia business in February 2007. JB Hi-Fi has announced plans to increase the number of stores with PC offerings in the next 12 months, from 35 to most of its existing 72 stores, as well as opening an additional six new stores.

Forecasts for other retail partners store openings have been based on management discussion with relevant retail partners.

### Officeworks and Harris Technology

The forecasts assume no brokerage revenue from Officeworks and Harris Technology after the current contract expires on 1 September 2007.

### Insurance income assumptions

The forecast insurance income is derived from forecast attachment rates of ThinkSmart's insurance products to new deals settled, and expected future pricing and insurance underwriting costs per agreements with brokers. Attachment rates are based on historical trends.

ThinkSmart intends offering an insurance product in Spain from 1 September 2007.

The FY2007 and FY2008 forecasts assume the following insurance assumptions for each Established Market:

|                                  | UK    | Australia | Spain |
|----------------------------------|-------|-----------|-------|
| Insurance attachment rate – FY07 | 70.0% | 77.0%     | 70.0% |
| Insurance attachment rate – FY08 | 70.0% | 77.0%     | 70.0% |
| Insurance margin – FY07          | 47.6% | 57.5%     | 25.0% |
| Insurance margin – FY08          | 47.6% | 61.3%     | 25.0% |

Note: Insurance attachment rates for Spain in FY2007 are annualised as the insurance product is expected to become operational on 1 September 2007.

### Inertia income assumptions

Inertia income is forecast based on the settled value of existing contracts which reach the end of their contract life in the forecast period after adjusting for early terminations. Historical trends have been used to predict the outcome when the equipment is sold by the Funder to ThinkSmart at the end of the contract term – that is, re-rental or sale to existing customer, or sale at auction. A percentage return is assumed from each of these outcomes based on that achieved historically. ThinkSmart does not recognise Inertia revenue until the end of the primary contract term.

### Expenses assumptions

Retailer rebates and incentives have been forecast based on the total forecast settled value of deals and reflect the terms of ThinkSmart's current arrangements with its retail partners. These costs are not capitalised and are expensed at the time of settlement.

Employment costs are assumed to increase with headcount increases driven by processing volumes. Annual salary increases are provided for at levels marginally in excess of expected CPI increases.

Other costs are forecast to grow at least in line with CPI unless there is a contractual or commercial basis for adopting a greater growth rate; for example, premises costs.

Income tax rates are assumed at the rate expected to apply for each territory in each period being the UK – 30% in 2007 and 28% in 2008, Australia – 30% in 2007 and 2008 and Spain – 30% in 2007 and 2008. Any known changes to corporate tax rates are included in the forecasts. Non-deductible items assumed in the forecast calculations are based on historical experience and adjusted for known expenditure items in the forecasts.

Inertia and contract intangibles recognised on the acquisition of HBOs' 50% interest in the UK operations is forecast to be amortised as follows:

- Inertia over the average life of current UK rental contracts on hand as at the date of acquisition being 1 December 2006 based on the Inertia revenue forecast; and
- Contract over the current contract period with DSG being to 2011.

Annual public company costs of A\$0.1 million have been assumed in the FY2007 forecast. Annual public company costs of A\$0.2 million have been assumed in the FY2008 forecast, the growth in the public company costs from FY2007 and FY2008 reflect the fact that ThinkSmart will be listed for the full 2008 financial year.

Share-based payment expenses reflect the amortisation of a portion of the fair value of the share-based payment plans set out in Appendix 12.1.19, including the share-based incentive arrangements with the Managing Director as set out in Section 10.4.

Depreciation and amortisation expense has been based on the continued depreciation of existing assets and software along with forecast capital expenditure. No change in current depreciation rates has been assumed.

Existing cost of funds and contributions to loss pools are assumed to be maintained during the forecast period with any increases negated by ThinkSmart's ability to increase rental rates to the customer.

ThinkSmart has assumed the following exchange rates which are consistent with the forward rates at the date of this Prospectus. ThinkSmart has not hedged its currency exposure.

**Table 7.4 Exchange rates**

|         | 2007F | 2008F |
|---------|-------|-------|
| AUD:GBD | 2.50  | 2.63  |
| AUD:EUR | 1.74  | 1.85  |

### Cash flow assumptions

Revenue recognition and the timing of cash flows are closely correlated with the exception of insurance premiums in the UK. Consequently the Directors have forecast working capital movements in line with those experienced historically allowing for the forecast increase in the number of insurance contracts written in the UK.

Forecast capital expenditure is limited to the replacement and replenishment of technology, computer and sundry office equipment.

Funds raised from the offer will be used to repay the A\$7.8 million HBOS payable and to fund the A\$4.8 million cash costs of the offer. The £1.4 million UK term debt facility will be repaid from operating cash flows during FY2007 and FY2008.

## 7.5. MANAGEMENT DISCUSSION AND ANALYSIS OF PRO FORMA FORECAST INCOME STATEMENT

### 7.5.1. FY2007 forecasts compared to FY2006

#### Revenue

ThinkSmart's total income is forecast to grow by 35% from A\$26.8 million in FY2006A to A\$35.9 million in FY2007F. Brokerage income is expected to increase by A\$3.8 million or 19%, while inertia income is expected to grow by A\$3.2 million or 72% and insurance income is forecast to grow by A\$2.2 million or 178%. The growth in total income is expected to be driven by a number of factors, including:

- Increased brokerage revenue of A\$3.8 million (19%) due to growth in settled value of 16% together with improved contract margin from 36.8% to 37.6%. Margin growth accounts for A\$0.5 million of the A\$3.8 million increase in brokerage revenue and has been delivered through pricing changes effective in Australia (August and September 2006 and January 2008), Spain (November 2006) and the UK (January 2007 and January 2008). Forecast growth in settled value is contributed by:
  - UK – A\$3.6 million (14%), driven by a combination of an increase in store numbers and improved penetration on B2B computer sales at PC World;
  - Australia – A\$1.8 million (10%), driven by the introduction of JB Hi-Fi from March 2007 and continued growth in Dick

Smith Electronics and Next Byte which is partially offset by the assumed loss of Officeworks and Harris Technology from 1 September 2007; and

- Spain – A\$3.6 million (40%), driven by the combination of an increase in store numbers and improved penetration on B2B computer sales at PC City stores in the region.
- Inertia income growth of A\$3.2 million is driven primarily by the expiration of existing three and four year UK rental contracts written in 2003 and 2004 which expire in 2007. The UK accounts for A\$2.8 million of the A\$3.2 million of growth with Australia accounting for the remainder of the growth. All Inertia income is derived from contracts already written.
- Insurance income is forecast to grow A\$2.2 million with an increasing contribution from all territories:
  - The UK is forecast to increase by A\$1.1 million. Of the FY2007 revenue of A\$1.8 million, A\$1.1 million is due to contracts already written since the insurance portfolio commenced in November 2005;
  - Australia's increase of A\$0.9 million is due to revised product pricing implemented in late 2006 together with a three year insurance contract with lower fixed premium rates; and
  - Spain will offer an insurance product from 1 September 2007 contributing insurance revenue for the first time since trading commenced in May 2005. The forecasts assume an attachment rate of 70%.

#### Expenses

Whilst total income is expected to grow by 35%, expenses including corporate development costs are projected to increase by only 11% from A\$25.0 million in 2006 to A\$27.7 million in 2007. Expenses are expected to be driven by direct volume related costs. Retailer rebates and incentives are forecast to grow 24% to A\$9.4 million, employee costs are forecast to grow 7% to A\$9.7 million while administrative expenses are forecast to reduce by A\$0.7 million or 12%. Corporate development costs which ThinkSmart expenses rather than capitalises, is forecast to increase by A\$1.1 million or 64%.

The main drivers of expenses are:

- Growth in retailer rebates and incentives in all territories consistent with respective growth in settled value and brokerage revenues;
- Employee cost growth in the UK is due to additional sales employees in addition to processing staff to manage transactional growth in the UK and Spain together with Inertia activity. Employee numbers in Australia are forecast to remain stable and then decrease in the final quarter of FY2007 consistent with the assumption that the Officeworks and Harris Technology contracts are not renewed post-1 September 2007;
- Administrative expenses are reduced due to the impact of warranty funding in the UK. This significant cost of

A\$0.9 million in FY2006 was removed from the business in late 2006 as a result of the introduction of the PC World “pay-as-you-go” product whereas previously the UK operations had paid the cost of funding the up-front payment to PC World to HBOs as a cost on the date of commencement of each contract; and

- Corporate development expenditure incurred in investigating opportunities in new territories in Europe and elsewhere, introducing new retailers for France, due diligence and pre-implementation activity for Italy, due diligence and pre-trial expenditure for US opportunities, and legal/consulting costs associated with new product development in Australia and Europe.

## 7.5.2. FY2008 forecasts compared to FY2007

### Revenue

In 2008, total income is forecast to grow by 27% from A\$35.9 million in FY2007 to A\$45.6 million. Brokerage income is expected to increase by A\$4.3 million or 18%, while Inertia income is expected to grow by A\$3.3 million or 44% and insurance income is forecast to grow by A\$2.2 million or 61%. This growth is projected to be driven by a number of factors, including:

- Increased brokerage revenue of A\$4.3 million (18%) due to growth in settled value of 14% together with improved contract margin from 37.6% to 38.9%. Margin growth accounts for A\$0.9 million of the A\$4.3 million increase in brokerage revenue and is expected to be delivered through pricing changes effective in Australia (August and November 2006 and January 2008), Spain (November 2006) and the UK (January 2007 and January 2008). Forecast growth in settled value is contributed by:
  - The UK – A\$4.6 million (15%) which is driven by a combination of additional new store openings and LFL growth;
  - Australia – reduction of A\$1.4 million (-7%) due to the assumed loss of the Officeworks and Harris Technology business offset slightly by a full year of JB Hi-Fi and further growth expected to be generated from Dick Smith and Next Byte; and
  - Spain – A\$5.6 million (44%). Growth in Spain is driven by the combination of increased store numbers and improved penetration on B2B computer sales at PC City stores in the region.
- Inertia income growth of A\$3.3 million is driven primarily by the expiration of existing three and four year UK rental contracts written in 2004 and 2005 which expire in 2008. The UK accounts for A\$2.5 million of the A\$3.3 million of growth. Spain is expected to contribute Inertia income from May 2008 and is expected to contribute A\$0.5 million of Inertia revenue from the three year contracts written from in 2005. Importantly, the rapid growth in the Spanish business since inception will be recognised through more meaningful

Inertia revenue streams from 2009 and onwards. All Inertia income is derived from contracts already written.

- Insurance income is forecast to grow A\$2.2 million with an increasing contribution from all territories:
  - UK insurance income is forecast to increase by A\$1.4 million. Of the FY2008 revenue of A\$3.2 million, A\$1.1 million is due to contracts already written since the insurance portfolio commenced in November 2005; and
  - Spain forecast contribution increases by A\$0.7 million as a result of a full year for the insurance offering in Spain together with increased rental contract volumes. The forecasts assume an attachment rate of 70%.
- Australia forecast increases by A\$0.1 million with a price increase of 1% in January 2008 mostly offset by lower forecast volumes arising from the exclusion of Officeworks and Harris Technology from the forecasts which is partly offset by JB Hi-Fi and growth from Dick Smith and Next Byte.

### Expenses

Whilst total income is expected to grow by 27%, expenses including corporate development costs are projected to increase by only 4% from A\$27.7 million in 2007 to A\$28.9 million in 2008. Expenses are expected to be driven by direct volume related costs, offset by a reduction in corporate development expenditure following the expected commencement of a US trial in early 2008. Retailer rebates and incentives are forecast to grow by 16% to A\$10.9 million, employee costs are forecast to grow 7% to A\$10.4 million while administrative expenses are forecast to grow by A\$0.6 million or 12%. Corporate development costs will decrease by A\$1.6 million or 57%.

The main drivers of expenses are:

- Growth in retailer rebates and incentives in all territories consistent with respective growth in settled value and brokerage revenues;
- Employee cost growth in the UK due to additional processing staff to manage transactional growth in the UK and Spain together with Inertia activity. Employee numbers in Australia are forecast to reduce consistent with the assumption that Officeworks/Harris Technology volumes are excluded from the forecast;
- Other operating costs are forecast to grow consistent with volumes and expected increases in operating costs such as listing costs for a full year; and
- Corporate development expenditure incurred in 2008 is forecast to reduce significantly following the high expenditure levels in 2007 expected to be required for the exploration of the US opportunity. However, a level of continuing expenditure will relate to due diligence on new territories in Europe and legal/consulting costs associated with new product development in Australia and Europe.

As noted above, ThinkSmart's operations in the US, France and Italy have been assumed to generate expenses although no corresponding revenue has been assumed.

### Depreciation

Depreciation is assumed to decrease 14% from A\$0.7 million in 2006 to A\$0.6 million in 2007, and by 17% to A\$0.5 million in 2008.

In the 2007 and 2008 financial years, office furniture, fittings, equipment, computers, leasehold improvements, and software are forecast to be depreciated using the reducing balance method over 2.5 to five years, assuming a salvage value of nil.

### Amortisation

Amortisation is assumed to increase 473% from A\$0.2 million in 2006 to A\$1.0 million in 2007, and by 44% to A\$1.5 million in 2008.

In the 2007 and 2008 financial years, Inertia and contract intangibles arising from the acquisition of the remaining 50% of the UK operation in December 2006 are amortised over the life of the Inertia contracts and the contract expiry date.

## 7.6. SENSITIVITY ANALYSIS

The Directors' Pro Forma Forecasts are based on a number of economic and business assumptions about future events, as set out in Sections 7.4.5.1 and 7.4.5.2, and therefore it is considered to be sensitive to different assumptions being made. In addition, the Directors' Pro Forma Forecasts for FY2007 and FY2008 assume the implementation of certain future business decisions and strategies which are subject to change, and assume the success of those business decisions and strategies, which are subject to uncertainties and contingences beyond ThinkSmart's control.

It is possible that more than one variable may move concurrently, giving rise to cumulative or offsetting effects, and so care should be taken in interpreting this information.

Typically, the Company would respond to any material adverse change in conditions by taking appropriate mitigating action to minimise, to the extent possible, any adverse effect on net profit after tax. The effect of any such mitigating action has been excluded from the following analysis. Potential investors should consider this analysis in conjunction with the risk factors set out in Section 8.

Set out below is a summary of the sensitivity of the Directors' Pro Forma Forecast net profit after tax for FY2007 and FY2008 to changes in a number of the key assumptions. Investors should note that changes in the assumptions set out below are not meant to be indicative of the full range of variations that may occur.

**Table 7.5 Earnings sensitivity**

| Variable  | Note | Change   | Sensitivity on NPAT<br>A\$m |           |
|---|------|----------|-----------------------------|-----------|
|   |      |          | FY2007F                     | FY2008F   |
| ATV (\$)  | (a)  | +/-5%    | 0.5/(0.5)                   | 0.7/(0.7) |
| Settlements (units)                             | (b)  | +/-5%    | 0.4/(0.4)                   | 0.8/(0.8) |
| Insurance attachment rates (%)                  | (c)  | +/-5%    | 0.1/(0.1)                   | 0.2/(0.2) |
| Cost of funds for new business (%) <sup>1</sup> | (d)  | +/-0.25% | (0.2)/0.2                   | (0.3)/0.3 |
| Salaries expense (\$)                           | (e)  | +/-1%    | (0.1)/0.1                   | (0.1)/0.1 |
| Exchange rate                                   | (f)  | +/-5%    | 0.2/(0.2)                   | 0.5/(0.5) |

<sup>1</sup> Movement denotes change by a percentage point rather than percentage increase.

Notes:

- (a) ATV – Funder income is in part calculated as a percentage of the settled value of a transaction. The forecast is derived using an average transaction value by retailer. Because in Australia the percentage used to calculate rental payments also varies depending on the settled value, the relationship between ATV and Funder income is not linear.
- (b) Settlements – settlements are the number of rental agreements entered into by customers. An increase/(decrease) in the number of settlements impacts both the level of Funder income received and retailer rebates paid. Because certain retailer agreements provide for stepped increases in rebates depending on the number of settlements in a particular period, the relationship between the number of settlements and Funder income is not linear.
- (c) Insurance attachment rates – the Insurance attachment rate is defined as the proportion of settlements that also incorporate insurance cover. Any increase/(decrease) in the attachment rate will have an impact on insurance revenue.
- (d) Cost of funds – cost of funds is the Funders' cost of funds applied as a discount rate in determining the present value of rental payments used to calculate brokerage income. Any increase/(decrease) directly impacts the Funder income earned.
- (e) Salaries expense – salaries expense consists of direct sales staff and support staff salaries and on-costs.
- (f) Exchange rate – ThinkSmart through its UK and Spain businesses, has earnings and cash flows that are denominated in GBP and EUR, and hence its earnings will be impacted by movements in the AUD/GBP/EUR exchange rates upon conversion to Australian dollars.

## 7.7. OPERATING AND GEOGRAPHIC SEGMENTATION

### 7.7.1. Revenue, EBITDA and NPAT

Table 7.6 Revenue, EBITDA and NPAT

| Group performance summary                | Pro Forma Historical |               | Directors' Forecasts |               | CAGR<br>05-08% |
|--|----------------------|---------------|----------------------|---------------|----------------|
|  | 2005A<br>A\$m        | 2006A<br>A\$m | 2007F<br>A\$m        | 2008F<br>A\$m |                |
| <b>Brokerage revenue</b>                 |                      |               |                      |               |                |
| UK                                       | 9.2                  | 10.5          | 11.6                 | 14.0          | 15.1%          |
| Australia                                | 6.4                  | 6.7           | 7.7                  | 7.5           | 5.3%           |
| Spain                                    | 1.2                  | 3.1           | 4.7                  | 6.8           | 78.3%          |
| <b>Total</b>                             | <b>16.8</b>          | <b>20.3</b>   | <b>24.0</b>          | <b>28.3</b>   | <b>18.9%</b>   |
| <b>Insurance revenue</b>                 |                      |               |                      |               |                |
| UK                                       | 0.1                  | 0.7           | 1.8                  | 3.2           | 288.5%         |
| Australia                                | 0.6                  | 0.6           | 1.5                  | 1.6           | 40.9%          |
| Spain                                    | -                    | -             | 0.2                  | 0.9           |                |
| <b>Total</b>                             | <b>0.7</b>           | <b>1.3</b>    | <b>3.5</b>           | <b>5.7</b>    | <b>109.0%</b>  |
| <b>Inertia revenue</b>                   |                      |               |                      |               |                |
| UK                                       | 0.1                  | 0.8           | 3.6                  | 6.1           | 364.0%         |
| Australia                                | 3.6                  | 3.6           | 4.0                  | 4.3           | 6.3%           |
| Spain                                    | -                    | -             | -                    | 0.5           |                |
| <b>Total</b>                             | <b>3.7</b>           | <b>4.4</b>    | <b>7.6</b>           | <b>10.9</b>   | <b>43.6%</b>   |
| <b>Other revenue</b>                     |                      |               |                      |               |                |
| UK                                       | 0.2                  | 0.4           | 0.4                  | 0.4           | 19.7%          |
| Australia                                | -                    | 0.4           | 0.4                  | 0.3           | 134.6%         |
| Spain                                    | -                    | -             | -                    | -             |                |
| <b>Total</b>                             | <b>0.2</b>           | <b>0.8</b>    | <b>0.8</b>           | <b>0.7</b>    | <b>19.2%</b>   |
| <b>Total revenue</b>                     |                      |               |                      |               |                |
| UK                                       | 9.5                  | 12.4          | 17.4                 | 23.7          | 35.5%          |
| Australia                                | 10.7                 | 11.3          | 13.6                 | 13.7          | 8.3%           |
| Spain                                    | 1.2                  | 3.1           | 4.9                  | 8.2           | 89.5%          |
| <b>Total revenue</b>                     | <b>21.4</b>          | <b>26.8</b>   | <b>35.9</b>          | <b>45.6</b>   | <b>28.7%</b>   |
| <b>EBITDA</b>                            |                      |               |                      |               |                |
| UK                                       | (0.7)                | 0.3           | 5.4                  | 10.1          | 452.5%         |
| Australia                                | 2.3                  | 2.3           | 3.5                  | 3.7           | 15.4%          |
| Spain                                    | (0.3)                | 0.8           | 2.0                  | 4.1           | 120.9%         |
| Corporate development                    | (1.0)                | (1.7)         | (2.8)                | (1.2)         |                |
| <b>Total EBITDA</b>                      | <b>0.3</b>           | <b>1.7</b>    | <b>8.1</b>           | <b>16.7</b>   | <b>276.6%</b>  |
| <b>Pro forma NPAT (pre-amortisation)</b> |                      |               | <b>5.0</b>           | <b>11.7</b>   |                |

## 7.7.2. Other operating data

Table 7.7 Other operating data

| Group performance summary   | Pro Forma Historical |               | Directors' Forecasts |               | CAGR<br>05-08% |
|-----------------------------|----------------------|---------------|----------------------|---------------|----------------|
|                             | 2005A                | 2006A         | 2007F                | 2008F         |                |
| <b>Settlements</b>          |                      |               |                      |               |                |
| UK                          | 9,990                | 11,764        | 13,446               | 14,911        | 14.3%          |
| Australia                   | 6,997                | 7,513         | 8,943                | 8,136         | 5.2%           |
| Spain                       | 1,184                | 3,006         | 4,149                | 5,579         | 67.6%          |
| <b>Total</b>                | <b>18,171</b>        | <b>22,283</b> | <b>26,538</b>        | <b>28,626</b> | <b>16.4%</b>   |
| <b>Settled value (A\$m)</b> |                      |               |                      |               |                |
| UK                          | 23.5                 | 26.6          | 30.2                 | 34.8          | 13.9%          |
| Australia                   | 19.1                 | 19.3          | 21.1                 | 19.7          | 1.1%           |
| Spain                       | 3.5                  | 9.1           | 12.7                 | 18.3          | 73.1%          |
| <b>Total</b>                | <b>46.1</b>          | <b>55.0</b>   | <b>64.0</b>          | <b>72.8</b>   | <b>16.4%</b>   |

## 7.8. PRO FORMA HISTORICAL AND DIRECTORS' FORECAST CASH FLOWS

Table 7.8 Pro forma historical and Directors' Forecast cash flows

|  | Pro Forma Historical |              | Directors' Pro Forma Forecast FY2007 A\$m | Directors' Statutory Forecast FY2008 A\$m |
|--|----------------------|--------------|---|---|
|  | FY2005 A\$m          | FY2006 A\$m  |   |   |
| <b>EBIT</b>                                | <b>(0.7)</b>         | <b>0.8</b>   | <b>6.5</b>                                | <b>14.7</b>                               |
| Depreciation and amortisation              | 1.0                  | 0.9          | 1.6                                       | 2.0                                       |
| <b>EBITDA</b>                              | <b>0.3</b>           | <b>1.7</b>   | <b>8.2</b>                                | <b>16.7</b>                               |
| Non-cash and working capital movements     | 0.6                  | (3.7)        | (1.2)                                     | (0.4)                                     |
| <b>Cash flows from operations</b>          | <b>0.9</b>           | <b>(2.0)</b> | <b>7.0</b>                                | <b>16.3</b>                               |
| Capital expenditure                        | (0.4)                | (0.8)        | (0.9)                                     | (0.2)                                     |
| <b>Cash flows before financing and tax</b> | <b>0.5</b>           | <b>(2.8)</b> | <b>6.1</b>                                | <b>16.1</b>                               |

A reconciliation of the pro forma historical cash flows to the statutory financial information from which it is extracted is contained in Appendix 12.3.

A reconciliation of the Directors' Pro Forma Forecast cash flows to the Director's Statutory Forecast is contained in Appendix 12.4.

## **7.9. MANAGEMENT DISCUSSION AND ANALYSIS OF LIQUIDITY AND CAPITAL RESOURCES**

### **7.9.1. Capital expenditure assumptions**

Capital expenditure during the forecast period is limited to replacement and replenishment of technology and computer equipment and sundry office equipment.

### **7.9.2. Working capital assumptions**

Revenue recognition and cash flow are closely correlated with the exception of up-front insurance premiums in the UK. The UK insurance business is forecast to be cash neutral by mid-2007.

The HBoS Payable of approximately A\$7.8 million will be funded from the proceeds of the Offer. Term debt facilities of £1.4 million in the UK will be repaid from operating cash flow during FY2007 and FY2008, leaving ThinkSmart with no external debt by the end of first quarter 2008.

Corporate development expenditure is forecast to be funded from operational cash flows.

### **7.9.3. Funding assumptions**

Funding relationships with Funders in each territory are assumed to continue throughout the forecast period. New funding relationships forecast to commence in the forecast period are assumed to incur a cost of funds consistent with the contractual terms currently negotiated and subject to completion of legal documentation.

### **7.9.4. Offer and Offer related assumptions**

New capital raised in the Offer is assumed to be applied to fund the HBoS Payable and to fund Offer costs. Offer costs are assumed to be expensed to the profit and loss account and applied as a capital expense as a proportion of Shares sold and new capital raised in the Offer.

### **7.9.5. Seasonality**

Due to seasonal fluctuations in the underlying retail business, ThinkSmart is also subject to fluctuations with increases in applications particularly around June (Australian fiscal year end) and February/March (build up to UK fiscal year end).

## **7.10. DIVIDEND POLICY**

Subject to the Directors' Forecasts being achieved and other relevant factors, the Directors intend to declare a partially franked 2008 dividend of 5.0 cents per Share for FY2008 expected to be split equally between the half year and full year dividend, equivalent to a partially franked annualised yield of 2.3% based on the Offer Price. There can be no assurance that any dividends will be paid or as to the level to which those dividends will be franked, as actual events might differ from the assumptions used in assessing the ability of ThinkSmart to pay these dividends. ThinkSmart's ability to pay partially franked dividends may be impacted by overall portfolio growth and growth of individual products which have different taxation consequences.



## 7.11. STATEMENT OF FINANCIAL POSITION

Table 7.9 Pro forma balance sheet as at 31 December 2006

|                                      | Statutory<br>Historical<br>AIFRS<br>A\$m | IPO<br>adjustments<br>A\$m | Other pro<br>forma<br>adjustments<br>A\$m | Pro forma<br>Historical<br>AIFRS<br>A\$m |
|--------------------------------------|--|----------------------------|---|--|
| <b>Current assets</b>                |  |                            |   |  |
| Cash and cash equivalents            | 2.8                                      | 0.4                        | -   | 3.2                                      |
| Trade and other receivables          | 4.8                                      | -                          | -   | 4.8                                      |
| Other                                | 0.6                                      | -                          | -   | 0.6                                      |
| <b>Total current assets</b>          | <b>8.2</b>                               | <b>0.4</b>                 | <b>-</b>                                  | <b>8.6</b>                               |
| <b>Non-current assets</b>            |  |                            |   |  |
| Plant and equipment                  | 1.3                                      | -                          | -   | 1.3                                      |
| Intangibles                          | 7.1                                      | -                          | (1.4)                                     | 5.7                                      |
| Goodwill                             | 2.1                                      | -                          | 1.0                                       | 3.1                                      |
| Deferred tax asset                   | 1.2                                      | 0.9                        | -   | 2.1                                      |
| <b>Total non-current assets</b>      | <b>11.7</b>                              | <b>0.9</b>                 | <b>(0.4)</b>                              | <b>12.2</b>                              |
| <b>TOTAL ASSETS</b>                  | <b>19.9</b>                              | <b>1.3</b>                 | <b>(0.4)</b>                              | <b>20.8</b>                              |
| <b>Current liabilities</b>           |  |                            |   |  |
| Trade and other payables             | 13.1                                     | (7.8)                      | -   | 5.3                                      |
| UK term loan                         | 0.8                                      | -                          | -   | 0.8                                      |
| Other financial liabilities          | 0.8                                      | -                          | -   | 0.8                                      |
| Provisions                           | 0.4                                      | -                          | -   | 0.4                                      |
| <b>Total current liabilities</b>     | <b>15.1</b>                              | <b>(7.8)</b>               | <b>-</b>                                  | <b>7.3</b>                               |
| <b>Non-current liabilities</b>       |  |                            |   |  |
| Payables                             | 0.2                                      | -                          | -   | 0.2                                      |
| UK term loan                         | 2.7                                      | -                          | -   | 2.7                                      |
| Deferred tax liability               | 2.1                                      | -                          | (0.4)                                     | 1.7                                      |
| <b>Total non-current liabilities</b> | <b>5.0</b>                               | <b>-</b>                   | <b>-</b>                                  | <b>4.6</b>                               |
| <b>TOTAL LIABILITIES</b>             | <b>20.1</b>                              | <b>(7.8)</b>               | <b>(0.4)</b>                              | <b>11.9</b>                              |
| <b>Net assets</b>                    | <b>(0.2)</b>                             | <b>9.1</b>                 | <b>-</b>                                  | <b>8.9</b>                               |
| <b>Equity</b>                        |  |                            |   |  |
| Issued capital                       | 9.8                                      | 12.5                       | -   | 22.3                                     |
| Reserves                             | (0.8)                                    | -                          | -   | (0.8)                                    |
| Accumulated losses                   | (9.2)                                    | (3.4)                      | -   | (12.6)                                   |
| <b>TOTAL EQUITY</b>                  | <b>(0.2)</b>                             | <b>9.1</b>                 | <b>-</b>                                  | <b>8.9</b>                               |

### 7.11.1. Description of pro forma adjustments

The Company will be raising \$13 million in cash through the Offer. The proceeds will be utilised primarily to extinguish the debt owing to HBoS in relation to the acquisition of the remaining 50% share of RentSmart UK, and to fund IPO costs. The adjustments are:

- The payment to HBoS of \$7.8 million at 31 December 2006. The final consideration includes interest payable at 2% above the base lending rate as determined from time to time, compounded monthly, by HBoS from the acquisition date to 20 June 2007;
- IPO costs relating to the Offer amount to \$4.8 million. The after tax expense of these costs has been reflected as a decrease in issued capital of \$0.5 million and retained earnings of \$3.4 million, with an increase in deferred tax asset of \$0.9 million.
- Issue of 6.0 million Shares at \$2.15 to raise \$13 million. The balance of cash received after payment of the above amounts is \$0.4 million.
- The other pro forma adjustments arise from completion of previous provisional accounting on the RentSmart UK business combination at 1 December 2006, resulting in a reduction in value of intangible assets attributed to the distribution network of \$1.4 million, a reduction in deferred tax liability of \$0.4 million and an increase in goodwill of \$1.0 million.

# RISK FACTORS

8



# 8.

## RISK FACTORS

### 8.1. INTRODUCTION

An investment in ThinkSmart involves a number of risks which are specific to the Company and also of a general nature. This section describes the material risks that may affect the operating and financial performance of the Company and the value of an investment in the Company. It is a summary only and should not be considered exhaustive.

Some of these risks can be mitigated through the use of appropriate safeguards and actions, but some are outside the control of the Company and cannot be mitigated. As a consequence, the Company does not make any guarantee that it will achieve its stated objectives and there is no guarantee of a return of capital or of income.

Recipients of this Prospectus should carefully consider the following risks, as well as the other information contained in the Prospectus before making a decision to apply for Shares.

### 8.2. GENERAL RISK FACTORS

#### 8.2.1. Economic factors

The operating and financial performance of ThinkSmart is affected by a number of general economic factors which are outside the control of the Company such as inflation, currency fluctuation, interest rates, consumer and business spending and employment rates. Adverse movements in these economic factors may adversely affect the operating and financial performance of the Company.

#### 8.2.2. Government policy changes

Government policies are subject to review and changes from time to time. Such changes are likely to be beyond the control of ThinkSmart and may adversely affect its operating and financial performance. At present, the Company is not aware of any reviews or changes that would materially affect its business. However, there is the potential for government reviews and policy changes which may affect the Company's operations.

#### 8.2.3. Share market variations

There is currently no public market for the Shares and there can be no assurance that an active market in the Shares will develop or continue after the completion of the Offer.

The value of the Shares will be determined by the share market and will be influenced by a range of factors which are outside the control of ThinkSmart, including fluctuations in Australian and international share markets, domestic and international economic activity, and interest rate and exchange rate fluctuations. There may be relatively few or many potential buyers and sellers of Shares at any time which may impact the price of the Shares.

The Offer Price may not be indicative of prices that will prevail in the market following completion of the Offer. Investors may not be able to sell their Shares at prices which exceed the Offer Price.

#### 8.2.4. Exchange rates

A portion of ThinkSmart's revenue and costs will be denominated in Australian dollars, whereas other components of revenue and costs are in Great Britain pounds, or Euros. A rise in the value of the Australian dollar against the Great Britain pound or Euro will have an adverse impact on the Company's operating results.

The Company may develop hedging procedures to manage exchange rate risk but should the Company be unable to cover this risk there may be a material adverse effect on the Company's operating results and financial condition.

#### 8.2.5. Insurance

ThinkSmart may, where economically practicable and available, endeavour to mitigate some project and business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover.

While the Company will undertake all reasonable due diligence in assessing the creditworthiness of its insurance providers, there will remain the risk that an insurer may default in payment of a legitimate claim by the Company under an insurance policy.

### 8.3. SPECIFIC RISK FACTORS

#### 8.3.1. Reliance on retail partners to sell ThinkSmart's products

ThinkSmart is dependent on its retail partners and their salespeople in order to sell its products within the retail partners' stores. ThinkSmart has developed a sales and marketing strategy and training to ensure that ThinkSmart's products are offered to potential customers including signage at point of sale, training and incentives for salespeople. Notwithstanding this, ThinkSmart does not have control over the retailers' sales and marketing strategies or their staff on the floor. If retail partners' product offerings, pricing and marketing strategies do not remain competitive or their staff do not properly market ThinkSmart's products, this may adversely impact ThinkSmart's financial performance.

In addition, ThinkSmart has agreements with a number of retailers which have varying expiry dates and termination events, and some of which may be terminated for convenience. See Section 10.6 for further details. If retailer agreements are terminated or at the conclusion of the term of any retailer agreement ThinkSmart is unable to negotiate a new agreement on no less favourable terms, this may have a material adverse effect on ThinkSmart's operating and financial performance and prospects.

#### 8.3.2. Key retail partner reliance

DSG International plc (including PC World and PC City) is ThinkSmart's most important retail partner and accounts for approximately 66% of ThinkSmart's customer base. The relevant retailer agreements with PC World and PC City

(which are summarised in Sections 10.6.2 and 10.6.3) contain provisions permitting either party to terminate for convenience on six months notice on certain conditions. The agreements may also be terminated on the happening of termination events such as breach or insolvency. If either of the agreements with PC World or PC City were terminated, this would have a material adverse effect on ThinkSmart's performance and prospects.

### **8.3.3. Access to funding**

ThinkSmart's ability to generate business through customer contracts is dependent on its capacity to continue to source financing for its customers in order to finance their contracts for the purchase of the asset. If for any reason ThinkSmart is unable to secure the necessary funding it will be unable to enter new contracts, which will have an adverse impact on the operating and financial performance of ThinkSmart. Under the funding agreements, ThinkSmart's current Funders can suspend funding on the happening of certain events – for example, the termination of key retailer agreements or the non-performance by ThinkSmart of its obligations under the relevant agreement. The Funders may terminate the funding arrangements on the happening of certain events including ThinkSmart breaches or insolvency. In order to manage the risks associated with access to funding, ThinkSmart endeavours to have multiple funding sources in each jurisdiction in which it operates, although this is not always possible or commercially viable.

### **8.3.4. Credit environment conditions**

Whilst ThinkSmart is not directly exposed to credit risk (this is borne by the Funders), there is a risk that if the credit environment deteriorates and more customers default on their payments, Funders may increase ThinkSmart's cost of funds, which would make ThinkSmart's products less competitive and potentially erode ThinkSmart's margins. This may have a material adverse effect on the operating and financial performance of ThinkSmart as well as its prospects.

### **8.3.5. Retail price volatility of IT equipment**

IT equipment has demonstrated a downward trend in pricing in recent years. This trend, should it continue, may affect ThinkSmart's average transaction value and may reduce customer propensity to lease as opposed to purchase which may adversely affect ThinkSmart's operating and financial performance.

### **8.3.6. Changing regulatory landscape and compliance**

The industry in which ThinkSmart operates is subject to a range of legislation and regulations, the most significant of which are summarised in Sections 10.7 and 10.8. Although ThinkSmart employs a number of measures to ensure that its operations comply with all applicable laws, including obtaining appropriate advice and monitoring changes to laws, there is a risk that ThinkSmart may at some point fail to comply with all legislation and regulations. In this case, ThinkSmart may be exposed to

regulatory action and may be forced to adjust the way it operates its business or cease operating certain aspects of its business, which may have a material adverse impact on its operating and financial performance and prospects.

In addition, there is a risk that legislative or other regulatory changes may be made in the future which will require ThinkSmart to change the way it conducts business (such as increasing ThinkSmart's compliance burden and costs) or even cease offering certain products. For example, there may be changes to the laws regulating ThinkSmart's rental agreements which could require mandatory disclosure of the underlying financial elements of the proposed transaction under the agreements to customers prior to the agreement being entered. Such changes would also likely have a negative impact on ThinkSmart's performance.

### **8.3.7. Competition**

The industry in which ThinkSmart operates is competitive. The actions of current or new competitors could result in a reduction in the number of retailers with which ThinkSmart has distribution agreements, a decline in the number of contracts ThinkSmart enters as well as declining margins. However, given that ThinkSmart operates in the Nano-Ticket industry, it is to some extent insulated from competition from large financial institutions, which find it more difficult to process high volume, low value transactions. In addition, any new competitors would need to displace ThinkSmart from its exclusive distribution agreements before any loss of business materialises.

### **8.3.8. Brand management**

ThinkSmart has developed a number of brands for its product lines and ThinkSmart's ability to maintain and expand its customer base depends on customers and retailers associating the ThinkSmart brands with value and efficiency in transaction processing. ThinkSmart attempts to control its brands as far as possible through training of salespeople, but has no direct control over them. If for any reason the reputations of the ThinkSmart brands are negatively impacted, including through negative publicity regarding finance at point-of-sale, this may result in a reduction in the sale of ThinkSmart's products and have an adverse impact on ThinkSmart's operating and financial performance and prospects.

### **8.3.9. Use of information technology**

ThinkSmart relies on information technology to process new contracts and has developed proprietary software for this purpose. If these systems do not perform to specification this could cause significant disruption to ThinkSmart's business and may adversely affect ThinkSmart's financial performance.

### **8.3.10. Managing growth**

As discussed elsewhere in this Prospectus, a key aspect of ThinkSmart's growth strategy is the expansion of its existing products into other geographic markets. In addition, ThinkSmart is also developing other products. While ThinkSmart will investigate the areas into which it intends to expand, there

can be no guarantee that it will be possible to successfully enter a new territory. Similarly, there can be no guarantee that ThinkSmart will be able to bring its other proposed business to market successfully.

#### **8.3.11. Dependence on key personnel**

ThinkSmart's continued success depends on its ability to retain current key members of senior management with their experience and knowledge of the business. The loss of key senior executives would disrupt ThinkSmart's operations and may also have a material adverse effect on ThinkSmart's operating and financial performance and prospects. Further, ThinkSmart's Funder agreements with Adelaide Bank Limited permits Adelaide Bank to suspend funding if Mr Montarello ceases to be involved with ThinkSmart's management team without Adelaide Bank being satisfied with his replacement. (See Section 10.6.7 for further details.) While ThinkSmart has provided Employee Options to certain senior executives to align their interests with those of Shareholders, ThinkSmart cannot guarantee they will continue in their employment at ThinkSmart.

# INVESTIGATING ACCOUNTANT'S REPORT

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GPO Box A29  
Perth WA 6837  
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The Directors  
ThinkSmart Ltd  
Level 1, The West Centre  
1260 Hay Street  
West Perth, WA 6005  
Australia

10 May 2007

Dear Sir

## **Investigating Accountant's Report and Financial Services Guide**

### **Investigating Accountant's Report**

#### **Introduction**

KPMG Transaction Services (Australia) Pty Limited ("KPMG Transaction Services") has been engaged by ThinkSmart Limited ("ThinkSmart") to prepare this report for inclusion in the Prospectus to be dated on or about 10 May 2007, and to be issued by ThinkSmart, in respect of the proposed underwritten issue of shares in ThinkSmart.

Expressions defined in the Prospectus have the same meaning in this report.

#### **Financial information**

KPMG Transaction Services has been requested to prepare a report covering the Historical, Pro Forma Historical and Directors' Forecasts described below and disclosed in the Prospectus.

#### ***Historical Financial Information***

The Historical Financial Information comprises:

- the consolidated income statements of ThinkSmart for the years ended 31 December 2005 and 31 December 2006 as set out in the table headed "Pro forma adjustments to historical income statements of ThinkSmart Limited" in section 12.3.1 of the Prospectus;
- the consolidated statements of cash flows of ThinkSmart for the years ended 31 December 2005 and 31 December 2006 as set out in the table headed "Pro forma adjustments to historical cash flow statements of ThinkSmart Limited" in section 12.3.2 of the Prospectus;



- the consolidated balance sheet of ThinkSmart as at 31 December 2006, as set out in the table headed “Pro forma balance sheet” in section 7.11 of the Prospectus; and
- the notes thereto set out in Sections 12.1 and 12.2 of the Prospectus.

The Historical Financial Information has been extracted from the financial statements of ThinkSmart Limited for the years ended 31 December 2005 and 31 December 2006.

The financial statements of ThinkSmart for those years were audited by ThinkSmart’s external auditor in accordance with Australian Auditing Standards. The audit opinions issued to the members of ThinkSmart relating to those financial statements were unqualified.

The directors of ThinkSmart are responsible for the preparation and presentation of the Historical Financial Information.

The Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001 (“Corporations Act”).

### ***Pro forma Historical Financial Information***

The Pro Forma Historical Financial Information comprises the pro forma, unaudited:

- income statements of ThinkSmart for the years ended 31 December 2005 and 31 December 2006 as set out in the table headed “Pro forma income statement” in section 7.2 of the Prospectus;
- statements of cash flows of ThinkSmart for the years ended 31 December 2005 and 31 December 2006 as set out in section 7.8 of the Prospectus;
- consolidated balance sheet of ThinkSmart as at 31 December 2006 as set out in the table headed “Pro forma balance sheet” in section 7.11 of the Prospectus; and
- the notes thereto set out in Sections 12.1, 12.2 and 7.7.1 of the Prospectus..

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information after adjusting for the pro forma transactions and/or adjustments described in section 12.3 and section 7.11 of the Prospectus.

The directors of ThinkSmart are responsible for the preparation and presentation of the Pro Forma Historical Financial Information, including the determination of the pro forma transactions and/or adjustments.





The Pro Forma Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

### ***Directors' Forecasts***

The Directors' Forecasts include the Directors' Statutory Forecast and Directors' Pro Forma Forecast, comprising the:

- statutory forecast income statement and statement of cash flows set out in the table headed "Pro forma income statement" in section 7.2, and the table in section 7.8 of the Prospectus
- pro forma forecast income statement and statement of cash flows set out in section 12.4

of ThinkSmart for the years ending 31 December 2007 and 31 December 2008.

The directors of ThinkSmart are responsible for the preparation and presentation of the Directors' Forecasts, including the best-estimate assumptions on which the Directors' Forecasts are based and the sensitivity of the Directors' Forecasts to changes in key assumptions.

The Directors' Forecasts have been prepared by the directors to provide investors with a guide to ThinkSmart's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. The directors' best-estimate assumptions underlying the Directors' Forecasts are set out in section 7.4.5 of the Prospectus.

There is a considerable degree of judgement involved in the preparation of any forecast. Consequently, the actual results of ThinkSmart during the forecast period may vary materially from the Directors' Forecasts, and that variation may be materially positive or negative.

The sensitivity of the Directors' Forecasts to changes in key assumptions is set out in section 7.6 of the Prospectus and the risks to which the business of ThinkSmart is exposed are set out in section 8 of the Prospectus. Investors should consider the Directors' Forecasts in conjunction with the analysis in those sections.

The Directors' Forecasts are presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

### **Scope**

#### ***Review of Historical Financial Information***

We have reviewed the Historical Financial Information in order to report whether anything has come to our attention which causes us to believe that the Historical Financial Information, as set

out in sections 7.11 and 12.3 of the Prospectus, does not present fairly the historical financial position of ThinkSmart as at 31 December 2006, in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports”. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- analytical procedures on the Historical Financial Information;
- a review of work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus; and
- enquiry of directors, management and others.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### ***Review of Pro Forma Historical Financial Information***

We have reviewed the Pro Forma Historical Financial Information in order to report whether anything has come to our attention which causes us to believe that the Pro Forma Historical Financial Information, as set out in sections 7.2, 7.8 and 7.11 of the Prospectus, does not present fairly:

- the pro forma historical financial performance of ThinkSmart for the years ended 31 December 2005 and 31 December 2006
- the pro forma historical cash flows of ThinkSmart for the years ended 31 December 2005 and 31 December 2006; and
- the pro forma historical financial position of ThinkSmart as at 31 December 2006,

on the basis of the pro forma transactions and/or adjustments described in sections 12.3 and 7.11 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus.



Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports”. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- a review of the pro forma transactions and/or adjustments made to the Historical Financial Information;
- a review of work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus; and
- enquiry of directors, management and others.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### ***Review of Directors’ Forecasts and directors’ best-estimate assumptions***

We have reviewed the Directors’ Forecasts, set out in sections 7.2, 7.8 and 12.4 of the Prospectus, and the directors’ best-estimate assumptions underlying the Directors’ Forecasts, set out in section 7.4.5 of the Prospectus, in order to report whether anything has come to our attention which causes us to believe that:

- the directors’ best-estimate assumptions, when taken as a whole, do not provide reasonable grounds for the preparation of the Directors’ Forecasts;
- the Directors’ Forecasts are not properly compiled on the basis of the directors’ best-estimate assumptions or presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus; and consequently that
- the Directors’ Forecasts themselves is unreasonable.

Our review has been conducted in accordance with Australian Auditing Standard AUS 902 “Review of Financial Reports”. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary.

Our review of the Directors’ Forecasts and the directors’ best-estimate assumptions is substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Directors’ Forecasts or the directors’ best-estimate assumptions.

## **Review statements**

### ***Review statement on the Historical Financial Information***

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the Historical Financial Information, as set out in section 7.11 of the Prospectus, does not present fairly the historical financial position of ThinkSmart at 31 December 2006 in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus.

### ***Review statement on the Pro Forma Historical Financial Information***

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the Pro Forma Historical Financial Information, as set out in sections 7.2, 7.8 and 7.11 of the Prospectus, does not present fairly:

- the pro forma historical financial performance of ThinkSmart for the years ended 31 December 2005 and 31 December 2006;
- the pro forma historical cash flows of ThinkSmart for the years ended 31 December 2005 and 31 December 2006; and
- the pro forma historical financial position of ThinkSmart as at 31 December 2006,

on the basis of the pro forma transactions and/or adjustments described in sections 12.3 and 7.11 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus.

### ***Review statement on the Directors' Forecasts and the directors' best-estimate assumptions***

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions, set out in section 7.4.5 of the Prospectus, when taken as a whole, do not provide reasonable grounds for the preparation of the Directors' Forecasts;
- the Directors' Forecasts, set out in sections 7.2, 7.8 and 12.4 of the Prospectus, are not properly compiled on the basis of the directors' best-estimate assumptions or presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by ThinkSmart disclosed in section 12.1 of the Prospectus; and consequently that



- the Directors' Forecasts themselves are unreasonable.

The underlying assumptions are subject to significant uncertainties and contingencies, often outside the control of ThinkSmart. If events do not occur as assumed, actual results achieved by ThinkSmart may vary significantly from the Directors' Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Directors' Forecasts, as future events, by their very nature, are not capable of independent substantiation.

### **Independence**

KPMG Transaction Services does not have any interest in the outcome of this issue, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of RentSmart UK Limited and from time to time, KPMG (also) provides ThinkSmart with certain other professional services for which normal professional fees are received.

### **Responsibility**

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

### **General advice warning**

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Yours sincerely

Matthew Kelly  
Executive Director



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Australia

## Financial Services Guide

Dated 10 May 2007

### KPMG Transaction Services

**KPMG Transaction Services (Australia) Pty Limited ABN 65 003 891 718** (“KPMG Transaction Services” or “we” or “us” or “ours” as appropriate) holds an Australian Financial Services Licence (“AFSL”) issued by the Australian Securities and Investment Commission on 11 March 2004. Our AFSL number is 245402.

We have been engaged by ThinkSmart Limited to issue general financial product advice, about ThinkSmart Limited’s financial products, in the form of an Investigating Accountant’s Report to be provided to you. We are required to include this FSG in our Report because we have authorised the product issuer to include our Investigating Accountant’s Report in the Prospectus for ThinkSmart Limited’s financial products.

### Purpose of the FSG

The purpose of this FSG is to:

- **help you decide whether to consider the Investigating Accountant's Report;**
- **contain information about remuneration to be paid to us in relation to the Investigating Accountant's Report;**
- **contain information on the financial services we are authorised to provide under our AFSL; and**
- **contain information on how you can complain against us.**

### Financial services we are licensed to provide

Our AFSL authorises us to provide financial product advice in relation to interests in managed investment schemes (excluding investor directed portfolio services) and securities (such as shares and debentures) to wholesale and retail clients.

### General Financial Product Advice

In the Investigating Accountant's Report, we provide general financial product advice, not personal financial product advice. It has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on any advice contained in the Investigating Accountant's Report.



### **Fees, commissions and other benefits**

We charge fees for providing reports. These fees are agreed with, and paid by, the product issuer. Fees are agreed on either a fixed fee or a time cost basis. In this instance, ThinkSmart Limited has agreed to pay us in the range of \$550,000 to \$600,000 for providing the Investigating Accountant's Report.

Except for the fees referred to above, neither KPMG Transaction Services, nor its representative, or any of its employees, involved in the provision of the report, receive any pecuniary or other benefits, directly or indirectly, for or in connection with, the provision of the Investigating Accountant's Report.

All our employees receive a salary and our directors or employees may receive partnership distributions from KPMG or bonuses based on overall productivity, but not directly in connection with any engagement for the provision of a report.

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### **Associations and relationships**

Through a variety of corporate and trust structures, KPMG Transaction Services is ultimately wholly owned by, and operates as part of, KPMG's Australian professional advisory and accounting practice. Our directors may be partners in KPMG's Australian partnership. From time to time KPMG Transaction Services or KPMG and/or KPMG related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

### **Complaints**

If you have a complaint, please raise it with us. All complaints must be in writing, addressed to The Complaints Officer, KPMG Transaction Services, PO Box H67, Australia Square, Sydney NSW 1213. When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

If you are not satisfied with the outcome of the above process, or our determination, you have the right to refer the matter to the Financial Industry Complaints Service Limited ("FICS"). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry. Further details about FICS are available at the FICS website: [www.fics.asn.au](http://www.fics.asn.au). FICS can also be contacted by telephone on 1300 78 08 08.

### **Contact details**

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

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# ADDITIONAL INFORMATION

# 10



# 10.

## ADDITIONAL INFORMATION

### 10.1. INCORPORATION OF THINKSMART

ThinkSmart was registered as a public company in Western Australia under the Corporations Act on 4 April 2000.

### 10.2. TAX STATUS AND FINANCIAL YEAR

ThinkSmart will be taxed in Australia as a public company and has adopted a financial year end of 31 December.

### 10.3. CONSTITUTION AND RIGHTS ATTACHING TO SHARES

There is only one class of shares in ThinkSmart, fully paid ordinary shares.

The rights attaching to the Shares are:

- Set out in ThinkSmart's Constitution; and
- In certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law.

The principal rights, liabilities and obligations of Shareholders are summarised below.

#### 10.3.1. Voting

At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and every member present has one vote on a poll for each fully paid Share held (with adjusted voting rights for partly paid shares). Voting at any meeting of Shareholders is by a show of hands unless a poll is demanded. A poll may be demanded by at least five Shareholders entitled to vote on the resolution, Shareholders with at least 5% of the votes that may be cast on the resolution of the poll, or the chairperson. The chairperson has a casting vote on a show of hands or on a poll.

#### 10.3.2. Dividends

The profits of ThinkSmart, which the Directors may from time to time determine to distribute by way of dividend, are divisible amongst the members in proportion to the number of Shares held by them, subject to the rights attaching to the Shares with special dividend rights. No Shares with special dividend rights are currently on issue.

#### 10.3.3. Issue of further Shares

The Directors may (subject to the restrictions on the issue of Shares imposed by the Constitution, the Listing Rules and the Corporations Act) issue, grant Options in respect of, or otherwise dispose of further Shares on terms and conditions (including preferential, deferred or special rights, privileges or conditions, or restrictions) as they see fit.

#### 10.3.4. Variation of class rights

The procedure set out in sub-section 246B(2) of the Corporations Act must be followed for any variation of rights attached to the Shares. Under that sub-section, with the consent in writing

of the holders of at least three quarters of the issued Shares in the particular class, or the sanction of a special resolution passed at a meeting of the holders of Shares in that class, the rights attached to a class of Shares may be varied or cancelled. In either case, the holders of not less than 10% of the votes in the class of Shares whose rights have been varied or cancelled may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

#### 10.3.5. Transfer of Shares

Shareholders may transfer Shares by a written transfer instrument in the usual form or by a proper ASTC transfer. All transfers must comply with the Constitution, the Listing Rules, the ASTC Settlement Rules and the Corporations Act. The Directors may refuse to register a transfer of Shares in circumstances permitted by the Listing Rules of the ASX. The Directors must refuse to register a transfer of Shares where required to do so by the Listing Rules.

#### 10.3.6. General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of ThinkSmart and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution of the Company or the Corporations Act.

#### 10.3.7. Winding up

Subject to any special resolution or preferential rights attaching to any class or classes of Shares, members will be entitled on a winding up to a share in any surplus assets of ThinkSmart in proportion to the Shares held by them.

#### 10.3.8. Directors – appointment and removal

The minimum number of Directors is three and the maximum is fixed by the Directors but may not be more than 12 unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that one third of the Directors plus any Director who has held office for three or more years or three or more annual general meetings (excluding the Managing Director) retire at each annual general meeting of ThinkSmart. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of ThinkSmart.

#### 10.3.9. Directors – voting

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the Chairman of the Board has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

### 10.3.10. Directors – remuneration

The Directors, other than the Managing Director or an executive Director, shall be paid by way of fees for services the maximum aggregate sum as may be approved from time to time by ThinkSmart in general meeting. The current maximum aggregate annual sum approved by Shareholders at a general meeting is \$600,000. Any change to that aggregate annual sum needs to be approved by Shareholders. The Constitution also makes provision for ThinkSmart to pay all reasonable expenses of Directors in attending meetings and carrying out their duties.

### 10.3.11. Directors' and officers' indemnity

ThinkSmart, to the extent permitted by law, indemnifies each officer of ThinkSmart on a full indemnity basis against any liability (including costs and expenses) incurred by that person as an officer of the Company or a related body corporate of the Company.

The Company, to the extent permitted by law, may insure a Director, company secretary, or any officer of the Company or its subsidiaries against a liability incurred by such person in the person's relevant capacity, in the course of acting in connection with the affairs of the Company or a subsidiary or arising out of the person holding office, unless the liability arises out of conduct involving wilful breach of duty in relation to the Company or a contravention of certain provisions of the Corporations Act. The Company may also insure such person for costs and expenses incurred by that person in defending or resisting proceedings whatever the outcome.

The Company proposes to enter into deeds of access, indemnity and insurance with each Director which confirm the Director's right of access to Board papers and require the Company to indemnify the Director for liability incurred as a director of the Company or any subsidiary of the Company of which the Director is appointed as a director after the date of the deed, subject to the restrictions imposed by the Corporations Act and the Constitution. Under the deeds, the Company would also be required to use its best endeavours to maintain insurance cover for each Director (including for a run-off period), subject to the terms of the deeds.

### 10.3.12. Amendment

The Constitution may be amended only by a special resolution passed by at least three quarters of the votes cast by Shareholders entitled to vote on the resolution. At least 28 days written notice specifying the intention to propose the resolution must be given.

## 10.4. TERMS OF OPTIONS

As part of his remuneration for providing services to ThinkSmart, the Managing Director, Ned Montarello has been issued with a total of 6,800,000 Options on the following terms. This summary is not an exhaustive statement of the rights and liabilities of the Options.

The number, exercise price, vesting date and expiry date of the Options are set out below.

**Table 10.1 Options**

| Number    | Exercise price | Vesting date   | Expiry date    |
|-----------|----------------|----------------|----------------|
| 4,000,000 | \$1.13         | 28 August 2007 | 27 August 2008 |
| 1,400,000 | \$1.38         | 28 August 2008 | 27 August 2009 |
| 1,400,000 | \$1.63         | 28 August 2009 | 27 August 2010 |

The Options are issued on the same terms as the Employee Options as set out in Section 10.5. Each Option entitles the holder to subscribe for and be issued one Share at the relevant exercise price. The Options will not be quoted on the ASX and are transferable only to entities beneficially owned by the holder. The Options are only exercisable on or after the vesting date shown above.

All Shares issued on exercise of the Options will rank equally in all respects with all existing Shares on issue. ThinkSmart will apply for quotation on the ASX of all Shares issued upon exercise of the Options.

## 10.5. EXECUTIVE AND EMPLOYEE SHARE PLAN

The Company has established an employee share option plan ("ESOP"), called the "ThinkSmart Limited Employee Option Plan", under which it may issue options ("Employee Options") to eligible participants.

### 10.5.1. Eligibility

Under the ESOP, the Board may issue Employee Options to an eligible participant or their eligible nominee. Eligible participants are employees of or executive officers of the Company.

### 10.5.2. Terms and conditions of Employee Options

Employee Options issued under the ESOP may be issued with a corresponding exercise price and fee for grant of the Employee Options. The Board will determine the expiry date, conditions for exercise of the Options and other terms and conditions at the time of the grant. Employee Options may carry any condition precedent to their exercise as may be determined by the Board. Unless any such conditions are satisfied, the Company is not obliged to issue the Shares in respect of the Employee Options to the holder.

The Board, except where provided in the ESOP, has an absolute and unfettered discretion to act or refrain from acting in connection with the ESOP and in the exercise of any power or discretion under the ESOP.

### 10.5.3. Termination of right to exercise Options

Employee Options will lapse on the first to occur of:

- Their expiry date;
- The holder purporting to transfer Employee Options in a manner not in accordance with the ESOP;

- The Board determining that the participant has acted fraudulently, dishonestly or in breach of their obligations to the Company and therefore the Employee Options are taken to have lapsed;
- The participant ceasing to be an eligible participant, except where:
  - As a result of death, where no conditions have been placed on the exercise of the Employee Options or such conditions have been met, in which case the Employee Options held may be exercised by the participant’s legal personal representatives at any time prior to the Employee Options otherwise lapsing;
  - As a result of death, where a condition placed on the exercise of the Employee Options has not been met or in any other case, in which case the Employee Options held may be exercised by the participant’s legal personal representatives within one month of the date of death; or
  - As a result of cessation or employment for any reason, in which case the Employee Options held may be exercised within one month of the eligible participant ceasing to be an eligible participant;
- The Company becoming the target of a successful takeover bid of a kind specified in the ESOP, in which case the Employee Options will lapse after 30 days from the date of a notice given for this purpose by the Board;
- A failure to meet a condition placed on the exercise of Employee Options by the Board in the prescribed period; and
- The 10 year anniversary of the date of the grant of the Employee Options.

#### 10.5.4. No participation

If the Company issues new securities, including as part of a bonus or rights issue, subject to the Board’s discretion, holders of Employee Options are not entitled to participate in such issues by reason of their holding Employee Options.

#### 10.5.5. Employee Options on issue

As at the date of this Prospectus, the Company has issued a total of 3,320,000 Employee Options under the ESOP, with the following exercise prices, vesting dates and expiry dates:

| Number    | Exercise price | Vesting date  | Expiry date      |
|-----------|----------------|---|------------------|
| 840,000   | \$0.44         | 1 January 2008  | 31 December 2008 |
| 1,120,000 | \$0.63         | Equally on:<br>1 January 2008<br>1 January 2009<br>1 January 2010 | 31 December 2010 |
| 640,000   | \$1.38         | 1 January 2009  | 31 December 2011 |
| 720,000   | \$3.00         | 1 January 2009  | 31 December 2011 |

Each of the Employee Options set out above entitles the holder to subscribe for and be issued one Share at the relevant exercise price. The Employee Options will not be quoted on the ASX and are transferable only to entities beneficially owned by the holder. The Employee Options are only exercisable on or after the vesting date shown above.

All Shares issued on exercise of the Employee Options will rank equally in all respects with all existing Shares on issue. ThinkSmart will apply for quotation on the ASX of all Shares issued upon exercise of the Employee Options.

## 10.6. MATERIAL CONTRACTS

The Directors consider that there are a number of contracts which are significant or material to the Company or of such a nature that an investor may wish to have particulars of them when making an assessment of whether to apply for Shares. The main provisions of each such contract are summarised below. These summaries do not purport to be complete and are qualified in their entirety by reference to the text of the contracts themselves.

### 10.6.1. UK Joint Venture purchase agreements

There are a number of agreements providing for the purchase by ThinkSmart Europe Limited (“ThinkSmart Europe”) of HBoS’ 50% interest in the UK Joint Venture.

The main agreement is the Share Purchase Agreement dated 30 June 2006 (“SPA”) pursuant to which Uberior Investments plc (“Uberior”), a HBoS group company, agrees to sell, and ThinkSmart Europe agrees to buy, B ordinary and B preference shares in the capital of RentSmart UK.

All conditions precedent to the SPA have been satisfied and financial completion is scheduled for 20 June 2007.

Under the SPA, the following amounts are payable to Uberior:

- £250,000 payable by ThinkSmart for the cancellation of Uberior’s option over unissued shares in ThinkSmart. This has been paid by ThinkSmart; and
- £2,950,000 (together with interest due from the date of the SPA to the date of payment at the rate of 2% p.a. above the base lending rate of the Bank of Scotland) for the B ordinary and B preference shares in the capital of RentSmart UK. This amount is payable by ThinkSmart Europe by 29 June 2007 and will be funded from the proceeds of the Offer.

### 10.6.2. Retailer agreement with PC World (UK) Background

Under the agreement between RentSmart UK and PC World Business, a trading division of DSG (“DSG”), entered in 2002, DSG agrees to offer (via its stores, the PC World Catalogue, the PC World Call Centre and the PC World website), the RentSmart three or four year fixed term business rental package for computer and IT equipment.

### Exclusivity

DSG agrees that it will not market any products competitive with the RentSmart UK product to any renter under a current rental agreement or to any customers with 10 employees or less, during the term of the agreement or after its termination.

However, customers are permitted to take their own preferred leasing solution or a manufacturer's own leasing solution offered occasionally by DSG, but DSG must comply with certain conditions to preserve the position of the RentSmart UK product as the lead leasing solution offered by DSG.

RentSmart UK agrees that during the life of the agreement it will not enter into any agreements with any of DSG's competitors to supply the RentSmart UK product to business customers. This exclusivity in favour of DSG will cease if, during a period of 12 calendar months, the value of the rental agreements that have been entered into by customers is less than 70% of the number estimated in the target volumes of the parties.

### Term and termination

The agreement runs for a minimum term of eight years, to 4 May 2011. After 4 May 2011, the agreement continues until either party gives six months notice of termination.

RentSmart UK may terminate the agreement by giving six months notice at any time after 4 May 2004, in the event that the value of rental agreements entered into in the six months immediately prior to the date of such notice is less than 30% of the number estimated in the volume projections.

Either party may also terminate the agreement:

- For an unremedied material breach;
- For an insolvency event; or
- If the other party has withdrawn or is unable to obtain or renew any licence, approval or consent which is required for it to lawfully fulfil its obligations under the agreement.

### Payments

RentSmart UK must pay DSG, or procure payment to DSG, for the equipment sold (through the Funders) and also pay a rebate to DSG for each rental agreement entered into.

### 10.6.3. Umbrella agreement with PC City

#### Background

ThinkSmart Europe entered into an umbrella agreement with E I Systems Computer S.A. ("PC City") on 2 August 2004 to cooperate in the development of business rental and other business financing products to be offered by PC City to business customers in different jurisdictions in Europe.

This agreement positions ThinkSmart Europe as PC City's preferred B2B finance solution provider for its operations across Europe and provides a framework for ThinkSmart Europe to present its local market offerings to the PC City stores in different territories.

### Exclusivity

Each party agrees not to enter into any agreement with any competitor of the other, in respect of a similar product, for the term of the agreement. The exclusivity granted by ThinkSmart Europe ceases to apply in respect of a territory where PC City fails to maintain a certain number of stores in that territory. These provisions only apply to individual territories to the extent that the applicable territory confirmation (see below) specifies that this is the case.

### Term and termination

The agreement runs for a minimum term of seven years, to 1 August 2011.

After 1 August 2011, the agreement continues until either party gives six months notice of termination.

Either party may also terminate the agreement:

- For an unremedied material breach;
- For an insolvency event; or
- If the other party has withdrawn or is unable to obtain or renew any licence, approval or consent which is required for it to lawfully fulfil its obligations under the agreement.

### Territory confirmations

If PC City wishes to offer finance to business customers in new territories, then ThinkSmart Europe shall be offered the exclusive opportunity to provide its products to business customers in that territory.

ThinkSmart Europe and PC City will work together during a territory development period to develop a launch plan. Subject to acceptance of the plan by PC City, a territory confirmation agreement is signed as an addendum to the umbrella agreement. The territory confirmation constitutes an agreement between PC City and ThinkSmart Europe to develop, launch and operate the relevant product in the territory.

Each territory confirmation continues for a minimum period of three years, commencing on the date on which ThinkSmart Europe's product becomes first available to customers in that territory. After that minimum period, the territory confirmation will then continue unless either party gives six months notice of termination.

Each party may terminate a territory confirmation:

- For an unremedied material breach;
- For an insolvency event; or
- If the other party has withdrawn or is unable to obtain or renew any licence, approval or consent which is required for it to lawfully fulfil its obligations under the territory confirmation.

PC City may terminate a particular territory confirmation where ThinkSmart Europe implements either an increase in rates payable by customers or a material variation in the terms of any product offered by it to customers without the agreement of PC City where required.

### Spain

By executing the umbrella agreement, PC City notified ThinkSmart Europe of its intention to offer a finance product in Spain. The umbrella agreement includes Spanish store numbers and a launch plan.

### France

A territory confirmation for France was entered into on 6 February 2006, under which ThinkSmart France SARL (“ThinkSmart France”) provides B2B finance products to PC City France SA (“PCCF”) from

May 2006 for a term of five years. The exclusivity provisions of the umbrella agreement do not apply to this territory confirmation.

A funding agreement has also been entered into by ThinkSmart France and FranFinance Location SA (“SGEFF”), a member of the Societe Generale group, under which ThinkSmart France will arrange leasing transactions for IT products in which SGEFF acts as lessor.

ThinkSmart France, PCCF and SGEFF have also entered a Tripartite Cooperation Agreement to facilitate the offer of ThinkSmart’s product and the financing required.

As described elsewhere in this Prospectus, PC City has indicated that it is reviewing its operations in France. ThinkSmart is currently exploring opportunities with other retailers in France.

## 10.6.4. Key Australian retailer agreements

Under its agreements with the following Australian retailers RentSmart Pty Ltd has granted the retailers the right to offer ThinkSmart’s fixed term rental packages in the retail sale of office-based technology equipment, as shown in Table 10.3:

| Retailer   | Renter type           | Term   | Termination provisions  |
|--|-----------------------|--|---|
| Dick Smith (Dick Smith Electronics, Dick Smith Power House, Tandy Electronics) | Business              | To 31 December 2011<br>Dick Smith has an option to extend for a further four years to 31 December 2015 | Either party may terminate the agreement for unremedied breach or liquidation/insolvency and Dick Smith may terminate in certain circumstances relating to changes in the competitive landscape of the Dick Smith business.   |
| JB Hi-Fi   | Business and consumer | To 10 January 2011<br>Term may be extended by another two years by agreement, to 10 January 2013       | Either party may terminate the agreement for unremedied breach or for liquidation/insolvency.<br>Either party may terminate for convenience after the initial 24 months (i.e. after 10 January 2009), by giving 90 days notice.   |
| Next byte  | Business and consumer | To 30 June 2008<br>Next byte has an option to extend for a further two years to 30 June 2010           | Either party may terminate the agreement for unremedied breach or for liquidation/insolvency and Next byte may terminate in certain circumstances relating to changes in the competitive landscape of the Next byte business.<br>Either party may terminate by giving three calendar months notice. |

All of the agreements provide exclusivity to RentSmart Pty Ltd. That is, the retailers must not promote any other form of rental finance for office-based technology equipment in their stores.

Under the agreements, RentSmart Pty Ltd must pay the retailer for the equipment sold (through the Funders) through its rental packages and pay certain rebates to the retailers and contribute to the cost of promotions.

### 10.6.5. HBoS Funder agreement (UK)

#### Background

ThinkSmart's primary funding arrangement in the UK is with Capital Bank Leasing 9 Limited ("Capital 9"), a HBoS group company, under an agreement entered in 2003.

Capital 9 appointed RentSmart UK as its agent to arrange leasing transactions in which Capital 9 will participate as lessor with RentSmart UK's customers, being people who acquire goods through PC World in the UK.

#### Term and termination

The agreement expires on 31 May 2011, but may be extended with the agreement of the parties.

The agreement may be immediately terminated by Capital 9 if:

- There is an unremedied material breach of the agreement by RentSmart UK;
- An insolvency event occurs in respect of RentSmart UK;
- There is an adverse material change in RentSmart UK's financial condition;
- RentSmart UK's obligations under the agreement are unlawful;
- There are endemic problems with the enforceability of the standard rental agreements;
- There is an unremedied material breach of the guarantee given by ThinkSmart Europe to Capital 9 in respect of RentSmart UK's obligations under the agreement, or that guarantee ceases to have effect; or
- Any of the following events has occurred ("Suspension Events"):
  - Ned Montarello and his family members or family trusts cease to be the largest single shareholder of ThinkSmart or he ceases to have ongoing executive responsibility within ThinkSmart;
  - The retailer agreement with PC World is terminated;
  - PC World ceases to be a trading division or affiliate of DSG;
  - Any stamp duty becomes payable in connection with any sale or transfer of equipment from PC World to Capital 9; or
  - Any amount becomes payable by RentSmart UK under the tax protection clause,

and is continuing, 45 days for good faith discussions have expired and Capital 9 has not given written notice to RentSmart UK that it wants to continue on terms different from those which would otherwise apply.

As soon as a Suspension Event has occurred:

- The right of RentSmart UK to arrange hiring agreements as the agent of Capital 9;
- Capital 9's obligations to enter into hiring agreements and purchase equipment;

- RentSmart UK's obligation to perform its related obligations; and

Other related obligations of Capital 9, are suspended, unless Capital 9 gives written notice to RentSmart UK that it wants to continue on terms different from those which would otherwise apply as agreed by RentSmart UK in writing.

The agreement may be terminated by RentSmart UK immediately by written notice if:

- There is an unremedied material breach of the agreement by Capital 9;
- An insolvency event occurs in respect of Capital 9; or
- A Suspension Event has occurred and is continuing, 45 days for good faith discussions have expired and Capital 9 has not given written notice to RentSmart UK that it wants to continue on terms different from those which would otherwise apply.

The agreement may be terminated by either party if Capital 9's annual margin cannot be agreed. Notice of such termination must be given by the end of the calendar year and takes effect from the following 31 May.

#### Loss pool

There is a mechanism for sharing losses, which is referred to as the loss pool. At six monthly intervals, Capital 9 agrees to give RentSmart UK a rebate of interest charges if actual bad debts are less than an agreed upper limit. However, if actual bad debts exceed the agreed upper limit, RentSmart UK is required to pay Capital 9 additional amounts, save that RentSmart UK is not required to pay any monies to Capital in excess of the amounts previously paid to it by Capital 9.

#### Payments

For each rental agreement entered into, Capital 9 must pay PC World for the equipment and pay a transaction fee to RentSmart UK.

### 10.6.6. Banco Santander Funder agreement (Spain)

#### Background

The agreement is dated 4 February 2005 and is between ThinkSmart Finance Spain, S.L. ("ThinkSmart Spain") and Hispamer Renting, S.A. ("Hispamer"), a member of the Banco Santander group of companies.

Under the agreement, Hispamer and ThinkSmart Spain agree the terms and conditions under which Hispamer will provide finance to fund the offer of ThinkSmart's B2B rental finance product through distributors in Spain.

The limit of the facility is €50 million.

### Payments

For each rental agreement entered into, Hispamer must pay a fee to ThinkSmart Spain.

### Inertia

Once the initial fixed term of each rental agreement has ended, Hispamer must transfer to ThinkSmart Spain the relevant product/equipment for €1.

### Exclusivity

ThinkSmart Spain may commercialise its products and services freely through any distributor different from PC City with any other third party different from Hispamer.

If ThinkSmart Spain intends to commercialise products or services through PC City different to those which form the object of this agreement, then ThinkSmart Spain will inform Hispamer of the launch of the new products and their financial conditions, and Hispamer will enjoy preference for their commercialisation.

### Term and termination

The agreement runs for five years to 4 February 2010, after which it will continue automatically for successive periods of one year. Either party may terminate the agreement at the end of the initial term or the subsequent one year periods by giving six months notice before the end of the initial term or subsequent one year extended periods.

Either of the parties may terminate the agreement:

- For an unremedied breach;
- For an insolvency event; or
- If any of the parties' directors, employees or agents find themselves involved in a criminal proceeding which may affect the development of the agreement.

In addition, ThinkSmart Spain is entitled to terminate the agreement at any time with 90 days notice, but will be liable to make a compensation payment to Hispamer (to a maximum of €40,000, depending on when the agreement is terminated).

### Margin

Hispamer's agreed profit margin is fixed whilst the agreement is in force.

### Bad debt pooling

Hispamer receives a risk cost percentage for every rental agreement entered into, consisting of "Basic Risk Cost" and a "Complementary Risk Cost". The Basic Risk Cost is fixed whilst the agreement is in force. The Complementary Risk Cost is reviewed annually from the second anniversary of the agreement coming into force, but is capped at a specified level.

## 10.6.7. Adelaide Bank Limited Funder agreement (Australia)

### Background

ThinkSmart's primary funding arrangement in Australia is with Adelaide Bank under an agreement they entered into in 2003. Adelaide Bank provides a facility for RentSmart Pty Ltd to provide its rental finance product to customers, up to a limit of \$10 million or such higher amount as Adelaide Bank may otherwise agree.

### Relationship

In all rental agreements, Adelaide Bank will be the lessor and owner of the equipment and RentSmart Pty Ltd will act solely as Adelaide Bank's agent.

### Term

The agreement has an initial term to 24 July 2008. The agreement then continues until the earlier of:

- 24 July 2012; or
- When all outstanding rental agreements funded by Adelaide Bank have been paid out in full.

Adelaide Bank has no obligation to fund additional rental agreements after 24 July 2008.

### Suspension of obligation to fund

Adelaide Bank may elect not to fund any additional rental agreements if:

- There is a change in control of RentSmart Pty Ltd, other than a float of shares via an initial public offering or the establishment of a bona fide employee share scheme;
- Anything occurs which in Adelaide Bank's reasonable opinion may create a material adverse effect on a party's ability to perform any of its obligations under the agreement;
- Adelaide Bank is of the reasonable opinion, after inspection or audit, that RentSmart Pty Ltd has not fulfilled its management services obligations under the agreement;
- RentSmart Pty Ltd makes any material change to any of the operational documents (Operating Manual, rental terms and conditions, rental agreements/tax invoices, payment method etc) and uses them without Adelaide Bank's prior approval;
- Ned Montarello ceases to be involved in RentSmart Pty Ltd's management team without Adelaide Bank being given notice and being reasonably satisfied with a replacement person;
- After audit, RentSmart Pty Ltd has entered into one or more non-complying rental agreements and RentSmart fails within three business days of written demand by Adelaide Bank to repurchase them from Adelaide Bank; or
- The average loss or arrears ratios exceed specified parameters.



## Termination

Either party may terminate the agreement if:

- There is an unremedied or irremediable breach;
- There is a misleading representation or warranty that will or is likely to have a material adverse effect on the operation of the agreement;
- There is a change in law that will have a material adverse effect upon the operation of the agreement;
- Any part of the agreement is or becomes illegal, void, voidable or unenforceable;
- The other party ceases or threatens to cease to carry on business; or
- There is an insolvency/liquidation event.

Adelaide Bank may terminate the agreement if:

- RentSmart Pty Ltd fails to pay Adelaide Bank any money owing under the agreement;
- There is a default in any of RentSmart Pty Ltd's security arrangements;
- RentSmart Pty Ltd does, or purports to, sell any interest in any part of its business, which is in the opinion of Adelaide Bank, material to the continued and successful operation of the agreement;
- Any change occurs in RentSmart Pty Ltd's financial position which in Adelaide Bank's reasonable opinion may have a material adverse effect;
- If as a result of an inspection or audit by Adelaide Bank, a rental agreement funded by Adelaide Bank is found not to exist; or
- RentSmart Pty Ltd grants or otherwise creates a security interest over all or any of the financial agreements without Adelaide Bank's approval.

## Payments

At settlement of each rental agreement transaction, Adelaide Bank pays:

- A brokerage fee to RentSmart Pty Ltd;
- The retailer for the equipment; and
- The sinking fund component into the sinking fund.

## Margin

Adelaide Bank's minimum agreed margin remains fixed for the term of agreement.

## Inertia

At the end of the term of each rental agreement, RentSmart Pty Ltd has the option of purchasing the rental agreement, including the equipment, from Adelaide Bank for \$1. After exercising the option, any further rental payments and proceeds of sale of the equipment go to RentSmart Pty Ltd.

## Sinking fund

Adelaide Bank credits a specified percentage of the amount of each rental agreement entered, to a sinking fund controlled by Adelaide Bank. Adelaide Bank deducts the amount owing to it from the sinking fund when rental agreements are written off as bad debts.

The sinking fund is capped at a specified percentage of the total value of rental agreements financed by Adelaide Bank at any one time.

Interest earned on the sinking fund will be retained in the sinking fund. The balance outstanding in the sinking fund will be repaid to RentSmart Pty Ltd when there are no further monies owed to Adelaide Bank.

## 10.6.8. ANZ Funder agreement (Australia)

### Background

The funding agreement between ANZ and RentSmart Pty Ltd was terminated by notice as at 29 September 2006 by RentSmart Pty Ltd, but remains relevant because a number of still current rental agreements were entered into and funded by ANZ under the agreement and are managed in accordance with it.

### Relationship

In all rental agreements ANZ is the lessor and owner of the equipment and RentSmart Pty Ltd acts solely as ANZ's agent.

### Inertia

RentSmart Pty Ltd has an option to purchase the equipment for \$1 at the end of the term of the rental agreement. After exercising the option any further rental payments and proceeds of sale of the equipment are paid to RentSmart Pty Ltd.

### Sinking fund

A sinking fund is held by ANZ as security to be applied to any losses. A specified percentage of the value of each rental agreement was paid into the sinking fund, capped at a specified percentage of the total value of outstanding rental agreements.

Interest earned on the sinking fund will be retained in the sinking fund. The balance outstanding in the sinking fund will be repaid to RentSmart Pty Ltd when there are no further monies owed to ANZ.

## 10.6.9. RentSmart Protection Plan – VSC accidental damage and extended warranty program underwriting agreement

### Background

Under this agreement entered in late 2006, Virginia Surety Company, Inc ("VSC") agreed to underwrite RentSmart Pty Ltd's risk in offering insurance ("RentSmart Protection Plan") to renters. RentSmart Pty Ltd must pay a premium to VSC for each RentSmart Protection Plan entered into by a renter.

RentSmart Pty Ltd's relationship with VSC is on an exclusive basis and RentSmart Pty Ltd agrees to not offer any renter or retailer any other product similar to the RentSmart Protection Plan.

Under a separate agreement, The Warranty Group Pty Ltd ("Warranty Group") agrees to provide administration services to RentSmart Pty Ltd in connection with the RentSmart Protection Plan. The services agreement with The Warranty Group terminates on the date of termination of the agreement with VSC.

### Term

The term of the agreement is to 31 October 2009, after which the agreement will be mutually reviewed and renewed for subsequent periods of 12 months.

### Termination

The agreement can be terminated by either party giving 90 days notice on the third or any subsequent anniversary of 12 December 2006 by either party giving 90 days notice.

Either party can terminate the agreement immediately by giving notice if:

- There is any irremediable breach;
- There is an unremedied material breach;
- Adverse material irregularities are discovered that cannot be resolved;
- There is an insolvency event; or
- A party ceases, or threatens to cease, to carry on business.

RentSmart Pty Ltd is able to terminate the agreement by 30 days notice if:

- There is any irremediable breach;
- There is an unremedied material breach;
- Adverse material irregularities are discovered that cannot be resolved; or
- There is an insolvency event,

by The Warranty Group under the administration agreement with The Warranty Group referred to above.

### 10.6.10. UK equipment insurance program arrangements (UK)

RentSmart Limited requires renters of equipment to obtain and maintain equipment insurance and insurance is offered through an equipment insurance program. The main agreement providing for the program is the service agreement between Allianz Cornhill Insurance Plc ("Allianz"), RentSmart UK and Lease and Loan Insurance Services Limited ("LLISL").

Under the agreement, if a renter fails to take out equipment insurance RentSmart UK will procure that the equipment is insured and a policy issued by Allianz.

Under the service agreement, RentSmart UK agrees to collect insurance premiums from the renters and to provide certain reports to LLISL. Allianz agrees to pay commissions to RentSmart UK.

The initial term of the service agreement is three years and then until terminated by either party giving 90 days notice. Allianz or RentSmart UK may terminate:

- For a material breach or non-performance;
- For an insolvency event; or
- If the net premium payable is increased to a level unacceptable to RentSmart UK.

LLISL agrees to provide insurance administration services in relation to the equipment insurance program, in accordance with the Equipment Insurance Program Agreement and Insurance Mediation Services Agreement.

The service agreement will terminate automatically when the Equipment Insurance Program Agreement terminates.

These agreements will have effect until such time as ThinkSmart Europe becomes authorised by the FSA for the sale etc. of general insurance, at which time these agreements will be replaced or terminated as necessary.

### 10.6.11. Executive service agreement with Ned Montarello

Mr Montarello is employed as the managing director of ThinkSmart and RentSmart Pty Ltd.

#### Term and termination

Mr Montarello's employment will continue until 28 August 2009, subject to earlier termination only as provided in the agreement.

The agreement may be terminated by agreement between the parties. ThinkSmart or RentSmart Pty Ltd may terminate the agreement immediately in certain circumstances including misconduct or a material breach of the agreement.

In the event there is a change of control of ThinkSmart, Mr Montarello will be entitled to terminate his employment arrangements on the provision of three months notice. In the event this clause is triggered, Mr Montarello will not be entitled to any payment, property or other advantage as a result of such termination (including any payment in lieu of notice) except those payable from any applicable superannuation fund or those required by law to be made.

Mr Montarello is subject to a covenant restricting his ability to engage in activities that are competitive with those of ThinkSmart during his employment and for 12 months immediately following termination.

## Remuneration

Mr Montarello is entitled to a base salary of \$527,522 p.a. plus superannuation. Mr Montarello's total remuneration will be increased annually in accordance with CPI.

As part of his remuneration package, Mr Montarello has also been issued the 6,800,000 Options on the terms set out in Section 10.4.

### 10.6.12. Underwriting Agreement

The Company, the Vendor Shareholders (together the "Offeror") and the Underwriter entered into the Underwriting Agreement on 10 May 2007.

The Underwriter is appointed to, among other things, fully underwrite the Offer at the Offer Price of \$2.15 per share and to market the Offer. If there is a shortfall in the number of applications for Shares received ("Shortfall"), the Underwriter will subscribe or procure subscriptions for the Shortfall, provided that the Company complies with its obligations under the Underwriting Agreement and that the Underwriter has not terminated the Underwriting Agreement. The Underwriter may appoint sub-underwriters to sub-underwrite any Shortfall.

The obligation of the Underwriter to underwrite the Offer is subject to and conditional on fulfilment of the following conditions precedent:

- The Prospectus must have been lodged with ASIC in a form acceptable to the Underwriter by 10 May 2007;
- Before the Prospectus is lodged, the Underwriter must have been delivered a copy of the report of the Due Diligence Committee ("DDC") and other reports or opinions provided to the DDC in a form and substance acceptable to the Underwriter;
- Various certificates must have been delivered by the Offeror to the Underwriter confirming, among other things, that the Offeror has complied with all its obligations under the Underwriting Agreement and the Offer, that all representations made by Offeror in the Underwriting Agreement are true and that no events have occurred which would allow the Underwriter to terminate the Underwriting Agreement;
- If requested by the Underwriter, the ASX must have indicated that it will grant permission for official quotation of the Shares (subject to customary pre-quotation conditions and any other conditions acceptable to the Underwriter);
- The Underwriting Agreement not having been terminated; and
- All ASX and ASIC waivers necessary to enable the Offer to proceed must have been obtained before a specified date.

If these conditions are not met, the obligation to underwrite the Shares may be terminated. Each of the above conditions capable of being satisfied as at the date of this Prospectus has been satisfied and the Directors expect the remaining conditions to be satisfied in due course.

The Offeror gives various representations and warranties under the Underwriting Agreement, including that it has the power and authorisation required to enter the Underwriting Agreement, that the Shares are free from encumbrances and that it has complied and will comply in all material respects in relation to the Offer and the Prospectus with the Corporations Act and any other law applicable to it.

The Underwriting Agreement imposes various obligations on the Offeror, including requiring:

- The Company to apply, within 7 days of the lodgement of the Prospectus, to the ASX for official quotation of the Shares;
- The Offeror to comply with its Constitution, the Listing Rules and any other applicable law;
- The Company to keep and maintain accurate records of acceptances of the Offer (and related documentation) and to keep the Underwriter informed on the progress of the Offer and on any communication with a government agency;
- The Offeror to notify the Underwriter immediately on becoming aware of any breach of the Underwriting Agreement, any termination event or the non-fulfilment of any condition precedent;
- The Company to provide reasonable assistance and support to the Underwriter in marketing, promoting and advertising the Offer; and
- The Company to ensure that it carries on its business in the ordinary course and not to allow a new charge over any of its assets to come into existence without prior written approval of the Underwriter or in accordance with the Prospectus until after the obligations of the Underwriter are extinguished.

The Underwriter also provides a series of warranties, including its authority to enter the Underwriting Agreement and its capacity to perform its obligations under the Underwriting Agreement.

The Offeror agrees to indemnify the Underwriter (including its related bodies corporate, their directors, officers, employees and advisers)(the "Indemnified Parties") from and against all losses that an Indemnified Party must pay, suffer or incur as a result of:

- Losses (including reasonable legal costs on a full indemnity basis) directly or indirectly incurred by an Indemnified Party arising at any time out of the Prospectus and Offer documents, including:
  - Any misleading or deceptive or untrue statement in, or omission from, the Prospectus and Offer documents; and
  - Any settlement of any litigation or other dispute based on such a misleading or deceptive statement or omission, if the settlement is either reasonable in the circumstances or is done with the written consent of an Offeror;
- Any expenses whatsoever (including legal costs) reasonably incurred in investigating, preparing for or defending any litigation or other dispute based on such a misleading or

deceptive statement or omission, to the extent that the expense is not paid as required by the Underwriting Agreement;

- Any losses or claims whatsoever (including legal costs on a full indemnity basis) directly or indirectly incurred by an Indemnified Party relating to its appointment pursuant to the Underwriting Agreement, including:
  - An Offeror failing to perform or observe any of its obligations under the Underwriting Agreement;
  - Non-compliance with any statutory or government agency requirement concerning the Offer or the documents issued or published in respect of the Offer (including the Prospectus);
  - Any of the Offeror's representations, warranties or undertakings in the Underwriting Agreement proving to have been untrue or incorrect, or having been breached;
  - Any announcement, advertisement or publicity made by the Underwriter in relation to the Offer with the written approval of an Offeror; and
  - Any claim that an Indemnified Party has any liability under the Corporations Act or any other law in relation to the Offer.

Provided termination has not occurred, the Company must pay the Underwriter an underwriting fee of A\$3.0 million (i.e. fees totalling 3.5% of the underwritten amount of A\$85.6 million). The Company is also required to pay various costs, charges and expenses incidental to the Offer under the Underwriting Agreement.

The Underwriter may terminate its underwriting obligations if any one or more of the following events occurs:

- The ASX refuses or does not grant unconditional approval (or approval subject only to acceptable conditions) for the Company to be admitted to the ASX Official List and to have its shares quoted on the ASX before 31 May 2007.
- The timetable of the Underwriting Agreement is delayed for more than three business days, other than through intervention by ASIC extending the maximum exposure period of 14 days or because the Underwriter requires certain action to be taken by the Offerors.
- An Offeror withdraws the Prospectus.
- Any person, other than the Underwriter or its advisers, who consented to being named in the Prospectus or to the issue of the Prospectus and whose consent is required under the Corporations Act withdraws that consent.
- After the date of the Underwriting Agreement:
  - There is any material adverse change or a prior material adverse change is revealed; or
  - There is any act, omission or thing that could reasonably be expected to result in a material adverse change, in the financial position (including profitability or prospects) of the Company compared to the position described in the Prospectus.

- The Prospectus, or a statement, report, representation, matter or thing contained in the Prospectus, is or becomes misleading or deceptive (or there is an omission of information required to be included in the Prospectus).
- Any statement by the Company or Vendor Shareholders in the Prospectus which relates to future matters (including without limitation, financial forecasts) is or becomes incapable of being met or, in the reasonable opinion of the Underwriter, unlikely to be met in the forecast time.
- ASIC or another government agency gives notice of an intention to hold a hearing or investigation in relation to the Prospectus or an Offeror (or any of its directors or employees) relating to any financial, business or corporate matter, or to prosecute an Offeror (or any of its directors or employees) relating to any of those matters.
- ASIC or another government agency issues a stop order in relation to the Prospectus under the Corporations Act or gives notice that it is of the opinion that the Prospectus fails to comply with the Corporations Act or any other law.
- The Offeror does not produce certificates certifying that it has complied with all its obligations under the Underwriting Agreement and in respect of the Offer, that the Offeror's representations and warranties under the Underwriting Agreement are true, correct and unbreached and that none of the termination events have occurred.
- An Offeror breaches any undertaking, representation, warranty or other provision of the Underwriting Agreement that is not promptly remedied after notice of the breach is given.
- Subsection 724(1) of the Corporations Act applies to the Offer and an Offeror takes (or fails to take) any action under subsection 724(2) of the Corporations Act, where that action (or failure) is not acceptable to the Underwriter.
- A supplementary prospectus:
  - Must be lodged with ASIC and the Company fails to issue a supplementary prospectus that the Underwriter considers addresses the deficiency;
  - Is lodged with ASIC because a person gives notice to the Company under section 730 of the Corporations Act; or
  - The Company lodges a supplementary prospectus without the written consent of the Underwriter.
- The outbreak of hostilities not presently existing or the escalation of existing hostilities.
- Either:
  - A general moratorium is declared on commercial banking activities in Australia, the US or the UK or there is a material disruption in commercial banking, security settlement or clearance services in any of those countries; or
  - Trading in all securities quoted or listed on the ASX, LSE or NYSE is suspended or materially limited for one day or more.

- There is introduced into the Commonwealth or any State or Territory Parliament a law, or any new regulation is made under any law, or a government agency adopts a policy, or there is any official announcement on behalf of the Government, the Commonwealth, any State or Territory or a government agency that such a law or regulation will be introduced or policy adopted.
- Any Material Contract is terminated, rescinded, altered or amended in a material respect without the prior written consent of the Underwriter, or, if not signed by the required time, it is agreed that it will not be signed or will be signed in a manner materially different from the summary in the Prospectus.

The Underwriting Agreement contains other usual terms and conditions of an agreement of this type.

## 10.7. REGULATION – AUSTRALIA

### 10.7.1. Consumer credit legislation

ThinkSmart's consumer lease products are subject to the requirements of Part 10 of the Uniform Consumer Credit Code ("UCCC"). The UCCC and related legislation contain requirements relevant to the form and content of consumer leases (including disclosures), changes on account of hardship and unjust transactions, and enforcement procedures.

### 10.7.2. Trade practices legislation

The Trade Practices Act 1974 (Cth) ("TPA"), the ASIC Act 2001 (Cth) and the Fair Trading Act of each of the States and Territories prohibit misleading and deceptive conduct, unconscionable conduct, false representations and other forms of conduct which may be injurious to "consumers" (as defined in the relevant legislation), and small businesses (where applicable).

The abovementioned legislation also contains provisions concerning the supply of goods and services, including for example, implied warranties. ThinkSmart's leasing products in most instances fall within the ambit of the legislation.

The reach of the TPA is further extended in its application to "linked credit providers". In some instances ThinkSmart may be a linked credit provider as defined by the TPA. In simple terms, the TPA provides that linked credit providers are jointly and severally liable with suppliers of goods or services where a consumer suffers loss or damage as a result of a misrepresentation, breach of contract or as a result of a breach of a condition or warranty implied into the contract by the TPA. Linked credit providers may avoid liability in certain circumstances, including for example, where a linked credit provider has made due enquiry of a supplier before and after becoming a linked credit provider to them.

### 10.7.3. Unfair contracts

Unfair contracts legislation exists in both Victoria and New South Wales.

## Victoria

The relevant legislation in Victoria is the Fair Trading Act 1999. Under that legislation, an unfair term is one which "contrary to the requirements of good faith and in all the circumstances... causes a significant imbalance in the parties' rights and obligations arising under the contract to the detriment of the consumer". If a term in a contract is assessed as being "unfair", that term is deemed to be void.

At present, the unfair contract provisions of the Fair Trading Act 1999 do not apply to consumer leases that are regulated by the UCCC. This position may change in the future.

## New South Wales

In NSW, the relevant legislation is the Contracts Review Act. Under that act, a "consumer" may apply to a court for a range of orders in respect of a contract formed in NSW. Where a court finds that the contract is unjust – that is, one that is as one that is unconscionable, harsh or oppressive - the court may make a range of orders, including orders refusing to enforce any or all of the contract, vary the contract or declare the contract void.

### 10.7.4. Privacy and related matters

#### Privacy Act

ThinkSmart must comply with the Privacy Act concerning its handling of personal information in Australia. In simple terms, the Privacy Act, coupled with the National Privacy Principles, sets out how private sector organisations should collect, use, keep secure and disclose personal information.

In addition to the above, ThinkSmart must also comply with Part IIIA of the Privacy Act and the Credit Reporting Code of Conduct when it handles personal information relating to individuals' creditworthiness and credit history.

#### Do Not Call Register Act 2006 (Cth)

The Do Not Call Register Act 2006 (Cth) was passed by parliament in June 2006. In simple terms, the Act provides for the establishment and maintenance of a Do Not Call Register with the purpose of prohibiting unsolicited telemarketing calls. When the Do Not Call Register is established, any business that calls a number on the register, or arranges for a call to be made to a number on the register, may be in breach of the legislation and could face penalties. The Register launched in May 2007.

#### Telecommunications legislation

ThinkSmart must also comply with a range of telecommunications legislation, including legislation in respect of recording telephone conversations. Generally speaking, an organisation is required to advise its customers if a telephone conversation is to be recorded, as well as giving customers the option to be transferred to another line where monitoring or recording does not exist.

## 10.7.5. Other financial legislation

### Secret commissions

Each State and Territory has legislation dealing with the payment of secret commissions to agents and advisers. ThinkSmart must comply with that legislation.

### Financial Transaction Reports Act 1988 (Cth)

ThinkSmart has obligations under the Financial Transaction Reports Act (Cth), including the requirement to make reports of significant cash transactions over \$10,000 and suspect transactions to AUSTRAC and keeping relevant records.

### Anti-money laundering legislation 2006 (Cth)

The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("AML/CTF Act") received Royal Assent in December 2006.

The AML/CTF Act forms part of a legislative package that will implement the first tranche of reforms to Australia's AML/CTF regulatory regime.

It is foreseeable that ThinkSmart's products will fall within the new regime. ThinkSmart will be required to develop and implement a compliant AML/CTF program, including customer identification and verification of identity, record keeping, and ongoing customer due diligence, and reporting (including reporting suspicious matters).

## 10.8. REGULATION – EUROPE

### 10.8.1. UK

#### Financial Services and Markets Act 2000 ("FSMA")

The FSMA governs the regulation of certain financial products and related activities. Under the FSMA, a person must not carry on a regulated activity in the UK, or purport to do so, unless they are an authorised or exempt person. Breach of this general prohibition is a criminal offence and may result in unenforceable agreements.

Insurance mediation activity is a regulated activity under the FSMA. RentSmart UK is currently engaged in insurance mediation activity as an Appointed Representative of Capital Bank plc (a HBOS group company). Pending the buy-out of the UK Joint Venture ThinkSmart Europe has applied to be authorised by the Financial Services Authority ("FSA") under the FSMA to carry on insurance mediation activity, as an "Authorised Person".

As an Authorised Person, ThinkSmart Europe will be required to comply with certain provisions of the FSA Handbook which relate to insurance mediation including regular recording and reporting.

#### Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006) ("CCA")

The CCA governs the regulation of certain financial products and related activities.

The CCA applies to credit agreements and hire agreements with "individuals" under which the principal sum loaned or the value of the rentals do not exceed £25,000. Individuals are individual consumers, sole traders or partnerships of not more than three partners.

The CCA prescribes various rules concerning products and activities regulated by it ("Regulated Agreements" and "Regulated Activities", respectively). In addition, Regulations made under the CCA prescribe the form and content of Regulated Agreements.

RentSmart UK does not itself enter into Regulated Agreements. In the case of the Regulated Agreements administered by RentSmart UK, the owner in the case of the lease agreements is Capital 9 and the lender in the case of the credit agreements is Capital Bank plc. In addition, all of the Regulated Activities undertaken by RentSmart UK are undertaken as the agent of Capital 9 and Capital Bank plc (together "Capital").

The above being the case, the primary responsibility for compliance with the CCA and the Regulations made under it lies with Capital. However, RentSmart UK has undertaken to Capital that it will comply with all relevant legal and regulatory requirements.

#### Data Protection Act 1998 ("DPA")

The DPA governs the way in which information relating to individuals ("Personal Data") can be collected, kept, used and disclosed. A person who processes Personal Data is a "Data Controller", and the subject of that processing is a "Data Subject". RentSmart UK is a Data Controller in relation to customers who use its rental finance product.

The DPA prescribes various rules concerning processing Personal Data. A Data Controller is required to make a notification to the Information Commissioner's Office under the DPA in order to be able to process Personal Data.

Under the DPA, a Data Subject has the right to obtain copies of Personal Data held in relation to him or her. In certain circumstances, the Information Commissioner can take action against a Data Controller who processes Personal Data unlawfully, and, in certain limited circumstances, the courts can award compensation to Data Subjects.

#### Unfair Contract Terms Act 1974 ("UCTA")

The UCTA limits the use of exclusion clauses in contracts. A lessor leasing goods can only exclude liability for a breach of a business customer's rights under the Supply of Goods and Services Act 1982 to the extent that such exclusion is reasonable in all the circumstances. To the extent that the relevant exclusion is not reasonable, it is not enforceable.

In the case of rental agreements administered by RentSmart UK, the owner is Capital 9, so the primary responsibility for compliance with UCTA lies with Capital 9. However, RentSmart UK has undertaken to Capital that it will comply with all relevant legal and regulatory requirements.

### **Money Laundering Regulations 2003; Proceeds of Crime Act 2002 and Terrorism Act 2000 (together the “Anti-Money Laundering Legislation”)**

The Anti-Money Laundering Legislation concerns the prevention of money laundering. Under the Anti-Money Laundering Legislation, both civil and criminal penalties can be imposed.

The Anti-Money Laundering Legislation contains various measures designed to prevent money laundering, the principal measure being the requirement that businesses take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements, to counter the risk of financial crime, and to manage money laundering risk.

As with compliance with the DPA (see above), RentSmart UK adopts anti-money laundering processes and procedures on its own behalf and in accordance with arrangements made with Capital.

### **10.8.2. Spain**

#### **Consumer credit issues**

The Consumers Protection Act and Consumers Credit Act do not apply to ThinkSmart Spain’s rental activities because in Spain ThinkSmart’s products are only offered to businesses.

#### **General Terms and Conditions Act (“GTCA”)**

Under the GTCA, customers are entitled to ask for court intervention to declare general terms and conditions (which would include ThinkSmart Spain’s rental agreements) to be ineffective if they do not meet the legal requirements set out in the GTCA. These requirements include that the rental agreement must be expressly admitted and accepted by the customer, signed by both parties and must fulfil the requirements of transparency, clearness and concreteness.

#### **Fair Publicity Act**

The Fair Publicity Act includes some provisions which apply to advertising activities carried on in Spain. In particular, the Fair Publicity Act prohibits misleading publicity.

#### **Data Protection Act (“DP Act”)**

ThinkSmart Spain is required to comply with the DP Act concerning the collection and handling of the renters’ personal data.

Under the provisions of the DP Act, ThinkSmart Spain must inform renters of their rights and obtain their permission regarding the collection and handling of their personal data and register with the Data Protection Agency, all the private data files that it handles.

### **10.8.3. France**

#### **Rental issues**

Since the relevant Articles of the Civil Code do not specify conditions, ThinkSmart’s France’s rental agreements are subject to the common rules of contract law.

#### **Provision of information**

Subject to general rules of French civil law, the rental agreements entered by ThinkSmart customers must comply with an obligation of information. Under the Civil Code, intentional misinformation is considered fraud and would invalidate an affected rental agreement.

#### **Protection of personal data**

In France, any company collecting personal data must file with the CNIL (French Control Authority for the Protection of Personal Data).

Pursuant to the applicable legislation, the data controller or their representative must provide a data subject, from whom personal data is obtained, with certain information such as the identity of the data controller and the purposes of the processing for which the data are intended.

Subject to certain exceptions, any person who uses an electronic communications network must be informed in a clear and complete manner by the data controller regarding the purpose of any action intended to provide access, by means of an electronic transmission, to information stored in their connection terminal equipment, or to record information in their connection terminal equipment by the same means and the rights they have to object to such action.

## **10.9. ESCROW ARRANGEMENTS**

Certain of the Existing Shareholders (and their controllers) that are associated with the Directors have undertaken to the Company not to sell certain of their Shares (or controlling interests) until after the Company releases its 2008FY results.

The relevant Existing Shareholders and the number of Shares subject to the escrow arrangements are set out below.

**Table 10.4 Escrow arrangements**

| Shareholder                         | Associated Director | Number of restricted Shares |
|-------------------------------------|---------------------|-----------------------------|
| Manfam Pty Ltd                      | Peter Mansell       | 1,000,000                   |
| Mainwest Pty Ltd and Ned Montarello | Ned Montarello      | 13,742,732                  |
| Kelyna Margaret Penglis             | Steven Penglis      | 657,000                     |
| Darju Pty Ltd                       | David Griffiths     | 975,572                     |
| <b>Total</b>                        |                     | <b>16,375,304</b>           |

Note: This represents all of the Shares that will be held by Mainwest and Ned Montarello after the sale of the 21,000,000 Sale Shares by Mr Montarello under this Prospectus as referred to in Section 10.10.

During the escrow period, the holder (or controller) of the restricted Shares is not permitted to:

- Dispose of, or agree or offer to dispose of, the restricted Shares or controlling interests;
- Create, or agree to create, any security interest in the restricted Shares or controlling interests; or
- Do, or omit to do, any act if the act or omission would have the effect of transferring effective ownership or control of the restricted Shares or controlling interests.

The Company may release the restricted Shares from the above restrictions if either:

- A takeover bid is made to acquire all or some of the Shares and at least half of the Shareholders (other than the holders of the restricted Shares) have accepted the offers; or
- A scheme of arrangement between the Company and the Shareholders becomes effective under the Corporations Act.

## 10.10. INTERESTS OF DIRECTORS, ADVISERS AND PROMOTERS

Other than as stated in this section and elsewhere in this Prospectus:

- No amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to a Director, or proposed Director to induce them to become, or to qualify as, a director of the Company;
- None of the following persons:
  - A Director or proposed Director of the Company;
  - Each person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
  - A promoter of the Company; or
  - A stockbroker to the issue of the Shares,

holds or held at any time during the last two years an interest in:

- The formation or promotion of the Company;
- Property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of the Shares; or
- The Offer of the Shares, or was paid or given or agreed to be paid or given any amount or benefit for services provided by such persons in connection with the formation or promotion of the Company or the Offer of the Shares.

### 10.10.1. Interest of Directors

The Directors are not required to hold any Shares under the provisions of the Company's constitution.

Set out below are details of the interests of the Directors in Shares immediately before the lodgement of this Prospectus with ASIC

and the number of those Shares offered as Sale Shares under the Prospectus. Interests include those held directly or otherwise.

**Table 10.5 Interests of Directors**

| Director and associated entities <sup>1</sup> | Shares before lodgement | Options          |
|---|-------------------------|------------------|
| Peter Mansell                                 | 2,635,240               | –                |
| Ned Montarello                                | 34,742,732              | 6,800,000        |
| Steven Penglis                                | 1,314,000               | –                |
| David Griffiths                               | 1,951,148               | –                |
| <b>Total</b>                                  | <b>40,643,120</b>       | <b>6,800,000</b> |

Notes:

- 1 Certain of these Shares and Options are held through associated entities.

The Directors are entitled to apply for Shares under the Offer.

Mainwest Pty Ltd (an entity associated with Ned Montarello) is selling 21,000,000 Sale Shares under this Prospectus. The other directors are not selling any Shares under the Prospectus, but following listing those directors are free to sell those of their shares that are not subject to the escrow arrangements discussed in Section 10.9.

The constitution of the Company provides that the non-executive Directors of the Company are entitled to such remuneration, as determined by the Directors which remuneration must not exceed in aggregate the maximum annual amount determined by the Company in general meeting. Currently, it has been determined that such remuneration will not exceed \$600,000 p.a., to be apportioned among the non-executive Directors as they determine in their absolute discretion. The Directors acknowledge that as the Company grows, the demands on the Directors will increase and the Directors' fees will be increased commensurate with their responsibilities and workload, as determined by the Board and approved by the members.

For the current financial year, it has been approved that non-executive Directors' fees will be \$70,000 for the Chairman and \$50,000 for each other non-executive Director.

### 10.10.2. Interests of advisers

J.P. Morgan Australia Limited ("JPMorgan") has acted as Lead Manager and Underwriter in connection with the Offer. JPMorgan is entitled to be paid fees totalling 3.5% of the funds raised for corporate advisory, underwriting and management services and may be paid other amounts as referred to in the summary of the Underwriting Agreement in Section 10.6.12.

Ord Minnett Limited has acted as Co-Manager in connection with the Offer. Ord Minnett Limited is entitled to be paid a handling fee of 1.5% of the Application Payment out of the proceeds of the Offer in respect of the Shares allotted pursuant to stamped Application Forms from Ord Minnett clients, subject to the following conditions:



- The handling fee will be limited to A\$3,000 in respect of any one Application or aggregate of Applications if a single investor submits more than one Application; and
- No handling fee will be paid on any Application (or aggregate of Applications if a single investor submits more than one Application) on the amount of monies above A\$200,000.

Freehills has acted as Australian legal adviser to the Company in connection with the Offer and has performed work in relation to the Australian due diligence enquiries on legal matters. The Company has paid or agreed to pay \$350,000 for such services to the date of this Prospectus. Further amounts may be paid to Freehills in accordance with its time-based charge-out rates.

KPMG Transaction Services (Australia) Pty Limited has prepared the Investigating Accountant's report included in this Prospectus and has also performed due diligence enquiries in relation to financial accounting matters and provided taxation advice. The Company has paid or agreed to pay \$575,000 for such services to the date of this Prospectus. Further amounts may be paid to KPMG Transaction Services (Australia) Pty Limited in accordance with its time-based charge out rates.

Unless stated otherwise, all such payments have been paid or are payable in cash. The Company is also generally obligated to pay the out-of-pocket expenses of the advisers listed above which are included in the amounts stated.

### 10.11. CONSENTS OF ADVISERS AND DISCLAIMER OF LIABILITY

Each of the parties named as consenting parties below:

- Has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in the form and context in which it is named;
- Does not make and does not purport to make any statement, that is included in this Prospectus or on which a statement made in this Prospectus is based, other than specifically as mentioned below where a statement or report is included in this Prospectus with the consent of that party; and
- Has not caused or authorised the issue of the Prospectus and to the maximum extent permitted by law, expressly disclaims all liability in respect of, and makes no representation regarding, and takes no responsibility for any statements or material in, or omissions from, any part of this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that person as specified in the paragraph below.

KPMG Transaction Services (Australia) Pty Limited, has given, and not withdrawn prior to the lodgement of this Prospectus, its consent to the inclusion of its Investigating Accountant's report in Section 9 in the form and context in which it is included.

Deloitte Touche Tohmatsu has give, and has not withdrawn prior to the lodgement of this Prospectus, its consent to the inclusion of references to the Company's audited financial statements in this Prospectus, in the form and context in which they are included.

**Table 10.6 Advisers**

| Role                         | Consenting party                                  |
|------------------------------|---|
| Lead Manager and Underwriter | J.P. Morgan Australia Limited                     |
| Co-Manager                   | Ord Minnett Limited                               |
| Australian legal adviser     | Freehills   |
| Investigating Accountant     | KPMG Transaction Services (Australia) Pty Limited |
| Auditors (Australia)         | Deloitte Touche Tohmatsu                          |
| Auditors (Australia)         | KPMG  |
| Auditors (UK)                | KPMG Audit Plc                                    |
| Share Registry               | Computershare Investor Services Pty Limited       |

In the case of the Australian Auditors, Deloitte Touche Tohmatsu audited the Company's financial statements for FY2005 and FY2006. However, immediately prior to this Prospectus being issued, in order to align the Company's auditors internationally, Shareholders appointed KPMG as the Company's new auditors in Australia. KPMG in Australia has not audited any of the financial statements included in this Prospectus, but it is intended that it will conduct the Company's audit for future financial years.

### 10.12. TAXATION CONSIDERATIONS FOR INVESTORS

The acquisition and disposal of Shares may have tax consequences for investors which will differ depending, among other things, on the nature, residence and financial affairs of each investor. All investors should seek independent tax advice about the consequences of acquiring Shares.

The following is a general description of the Australian tax consequences for investors who acquire Shares. The following taxation summary addresses the tax implications to investors who are Australian residents for Australian tax purposes and who will hold Shares acquired through the Offer on capital account.

If you are not an Australian resident for tax purposes, the way you are taxed will depend on the nature and size of your shareholding and the terms of a double tax agreement (if any) between Australia and your country of residence. If you are not an Australian resident for tax purposes, you should obtain specific professional advice in this regard.

The Australian tax laws are complex. This taxation summary is not intended to be an authoritative or complete statement of the law applicable. If you are uncertain as to how the tax laws

apply to you in participating in the Offer, you should obtain independent professional advice before investing in Shares.

To the maximum extent permitted by law, ThinkSmart, the Vendor Shareholders and each of their respective officers and advisers accept no liability or responsibility with respect to the taxation consequences of applying for Shares under this Prospectus.

### **10.12.1. Taxation of dividends**

Any dividends paid by the Company to Australian resident Shareholders will be included in the assessable income of the Shareholder in Australia. To the extent that dividends are franked, a tax offset is likely to be available to offset the tax payable on the dividend. However, in order for a tax offset to be available, the Shareholder will generally have to satisfy “holding period” rules requiring the Shareholder to hold the Shares in respect of which a dividend has been paid, at risk, for a minimum period of 45 days. In general, if the rules are breached, franking credits attached to the dividend are not included in the Shareholder’s assessable income and the Shareholder is not entitled to claim a tax offset. The extent of the tax offset will depend on the extent to which the dividend is franked.

### **10.12.2. Disposal of Shares**

The Australian income tax legislation incorporates a capital gains tax (“CGT”) regime which may impose tax as a result of the acquisition or disposal of Shares.

For CGT purposes, you acquire your Shares on the date the Shares are transferred or issued or allotted to you. The cost base of any Share you acquire is generally the amount you paid for the Share and any associated costs (such as brokerage and stamp duty) that you may incur.

You make a capital gain if the capital proceeds you receive when you dispose of your Shares exceed the cost base of those Shares. If the capital proceeds you receive when you dispose of the Shares are less than the reduced cost base, you make a capital loss.

Capital gains you make are included in your assessable income and are taxed as income. Capital losses made in the same or prior years can be used to offset capital gains.

Some taxpayers will be entitled to a discount on any capital gains they derive where they have held the Shares as a CGT asset for 12 months or more. Broadly, if you are an individual or a trust, the capital gain is discounted by 50%. If you are a complying superannuation fund or a life insurance company holding the Shares as a CGT asset that is a virtual pooled superannuation trust asset, the capital gain is discounted by 33 1/3rd%.

The discount CGT provisions do not apply to companies.

Capital losses must be applied to reduce capital gains before applying the discount CGT provisions.

If you are a non-resident Shareholder, you will generally only be liable for Australian CGT on your Shares if 50% or more of the value of the Company is represented by Australian real property and you owned at least 10% of the Shares either at the time you sold the Shares or for at least 12 months during the 24 months before the Shares were sold.

### **10.12.3. Tax File Numbers**

You do not need to quote your Tax File Number (“TFN”) to the Company. However, if a Shareholder who is a resident of Australia does not quote a TFN or claim an exemption, tax is required to be deducted by the Company from certain distributions. The deduction is currently the highest marginal rate plus the Medicare levy (currently 46.5%).

### **10.13. ASIC RELIEF**

Pursuant to Class Order 00/44 ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the publication of notices referring to an electronic Prospectus, subject to compliance with certain provisions.

### **10.14. COSTS OF THE OFFER**

The expenses connected with the Offer, which are payable by the Company, are estimated to be approximately \$4.8 million. These expenses include but are not limited to the amounts set out in Section 10.10.

### **10.15. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Constitution, the full terms of the Employee Options and the consents referred to in Section 10.11 will be made available for inspection free of charge between 9.00am and 5.00pm AWST, Monday to Friday, at the Company’s registered office during the Offer Period.

### **10.16. MATERIAL LITIGATION AND CLAIMS**

So far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Company.

### 10.17. GOVERNING LAW

This Prospectus, the Offer and the contracts formed on acceptance of Applications are governed by the law applicable in Western Australia. Each applicant submits to the exclusive jurisdiction of the courts of Western Australia.

### 10.18. PRIVACY DISCLOSURE

By filling out the Application Form to apply for Shares, you are providing personal information to the Company through the Company's service provider, the Share Registry. The Company and the Share Registry on its behalf collect, hold and use that personal information in order to service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company which it considers may be of interest to you.

Your personal information may also be provided to the Company's agents and service providers on the basis that they deal with such information in accordance with the Company's privacy policy. The Company's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- The Share Registry for ongoing administration of the Shareholder register;
- Printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- Market research companies for the purpose of analysing the Company's Shareholder base and for product development and planning; and
- Legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by (or on behalf of) the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by telephoning or writing to the Share Registry as follows:

Computershare Investor Services Pty Limited  
Ph: +61 2 8234 5000  
Level 3  
60 Carrington Street  
Sydney NSW 2000  
AUSTRALIA.

### 10.19. STATEMENT OF DIRECTORS

The Directors report that after due enquiries by them, in their opinion, since the date of the financial statements in the financial information in Section 7, there have not been any circumstances that have arisen or that have materially affected or will materially affect the assets and liabilities, financial position, profits or losses or prospects of the Company, other than as disclosed in this Prospectus.

### 10.20. AUTHORISATION

This Prospectus is authorised by each director of the Company and by the Vendor Shareholders who consent to its lodgement with ASIC and its issue.

Signed by a director of the Company.

Dated: 10 May 2007



Ned Montarello, Director

**For and on behalf of ThinkSmart Limited**

# GLOSSARY

11



# 11.

## GLOSSARY

In this Prospectus the following terms and abbreviations have the meanings set out below:

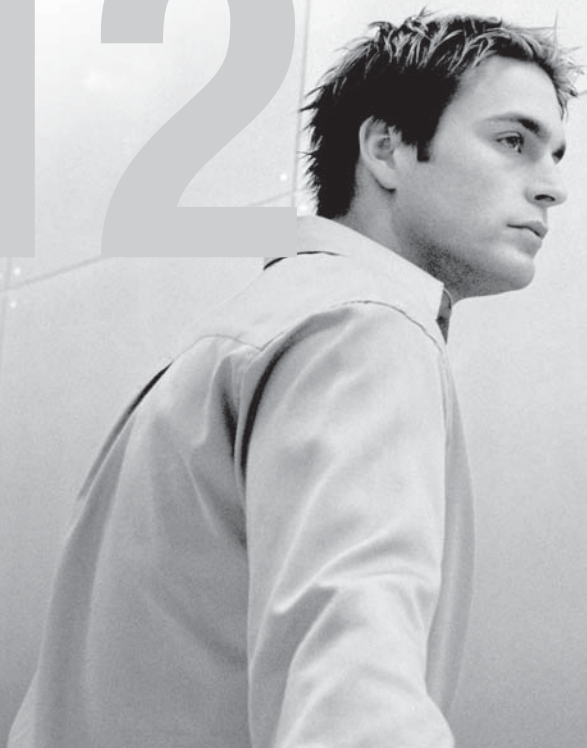
|                                     |   |
|-------------------------------------|---|
| <b>A\$, \$, AUD or cents</b>        | Australian currency unless otherwise specified  |
| <b>ABN</b>                          | Australian Business Number  |
| <b>ACN</b>                          | Australian Company Number   |
| <b>Adelaide Bank</b>                | Adelaide Bank Limited (ABN 54 061 461 550)  |
| <b>AEST</b>                         | Australian Eastern Standard Time  |
| <b>AIFRS</b>                        | Australian equivalents to International Financial Reporting Standards   |
| <b>ANZ</b>                          | Australia and New Zealand Banking Group Limited (ABN 11 005 357 522)  |
| <b>Applicant</b>                    | a person applying for Shares under this Prospectus  |
| <b>Application</b>                  | an application to acquire a specific number of Shares, made on the conditions set out in this Prospectus using an Application Form  |
| <b>Application Form</b>             | the form of application for Shares attached to this Prospectus  |
| <b>Application Payments</b>         | the monies payable on Application, calculated as the number of Shares applied for multiplied by the Offer Price   |
| <b>APR</b>                          | Annual Percentage Rate  |
| <b>ASIC</b>                         | Australian Securities and Investments Commission  |
| <b>ASTC</b>                         | ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532)  |
| <b>ASTC Settlement Rules</b>        | the settlement rules of ASTC  |
| <b>ASX</b>                          | ASX Limited (ABN 98 008 624 691)  |
| <b>ASX Listing Date</b>             | the first day on which the Shares trade on the ASX, anticipated to be 4 June 2007   |
| <b>ASX Listing Rules</b>            | the official listing rules of the ASX   |
| <b>ATV</b>                          | average transaction value   |
| <b>AWST</b>                         | Australian Western Standard Time  |
| <b>B2B</b>                          | business-to-business  |
| <b>Basic EPS</b>                    | Earnings per Share as defined by AASB 133   |
| <b>bn</b>                           | billion   |
| <b>Board of Directors or Board</b>  | the board of directors of the Company   |
| <b>Broker Firm</b>                  | ASX participating organisation  |
| <b>Broker Firm Applicant</b>        | Applicant under the Broker Firm Offer   |
| <b>Broker Firm Application Form</b> | the orange Application Form accompanying this Prospectus for investors to apply for Shares under the Broker Firm Offer  |
| <b>Broker Firm Offer</b>            | the offer of Shares open to Australian resident retail investors who have received a firm allocation from their Broker  |
| <b>CAGR</b>                         | compound annual growth rate   |
| <b>Chairman</b>                     | chairman of the Board of Directors  |
| <b>CHESS</b>                        | Clearing House Electronic Sub-register System operated by an associate of the ASX   |
| <b>Closing Date</b>                 | the last day on which Application Forms will be accepted, expected to be 31 May 2007 in relation to the Broker Firm Offer, and 28 May 2007 in relation to the Employee Offer, subject to the right of the Company, in consultation with the Underwriter, to close the Offer early |
| <b>Co-Manager</b>                   | Ord Minnett Limited (ABN 86 002 733 048) or other participating Broker  |
| <b>Company</b>                      | ThinkSmart Limited (ABN 24 092 319 698)   |
| <b>Constitution</b>                 | the constitution of ThinkSmart as summarised in Section 10.3  |
| <b>Corporations Act</b>             | Corporations Act 2001 (Cth)   |
| <b>CRM</b>                          | Customer Retention Management   |

|   |   |
|---|---|
| <b>David Jones</b>                      | David Jones Limited (ABN 75 000 074 573)  |
| <b>Dick Smith</b>                       | Dick Smith Electronics Pty Limited (ABN 34 000 908 716) including Dick Smith Electronics, Dick Smith Power House and Tandy Electronics stores   |
| <b>Directors</b>                        | directors of the Company  |
| <b>Directors' Forecasts</b>             | has the meaning given in Section 7.4  |
| <b>Directors' Pro Forma Forecast</b>    | has the meaning given in Section 7.4  |
| <b>Directors' Statutory Forecast</b>    | has the meaning given in Section 7.4  |
| <b>DSG International or DSG</b>         | DSG International plc   |
| <b>EBIT</b>                             | Earnings Before Interest and Taxes  |
| <b>EBITA</b>                            | Earnings Before Interest, Taxes and Amortisation  |
| <b>EBITDA</b>                           | Earnings Before Interest, Taxes, Depreciation and Amortisation  |
| <b>Eligible Employees</b>               | employees of the Company and its subsidiaries (who have a registered address in Australia) as at the Prospectus Date and remaining employed by the Company or its subsidiaries as at the Closing Date |
| <b>Employee Offer</b>                   | the offer of Shares open to Eligible Employees on the terms set out in this Prospectus  |
| <b>Employee Options</b>                 | the 3,320,000 Options to acquire Shares, granted to eligible participants under the ESOP, the terms of which are summarised in Section 10.5   |
| <b>ESOP</b>                             | Employee Share Option Plan  |
| <b>Established Markets</b>              | the UK, Australia and Spain   |
| <b>EUR or €</b>                         | Euro  |
| <b>Existing Shareholders</b>            | the Shareholders of the Company as at the date of this Prospectus, including Ned Montarello and ANZ Bank  |
| <b>FTE</b>                              | full-time equivalent  |
| <b>Funders</b>                          | financial institutions with which ThinkSmart has funding arrangements to finance the approved leasing contracts   |
| <b>FY2004A</b>                          | financial year ended 31 December 2004 (actual)  |
| <b>FY2005A</b>                          | financial year ended 31 December 2005 (actual)  |
| <b>FY2006A</b>                          | financial year ended 31 December 2006 (actual)  |
| <b>FY2007F, FY07 or FY2007</b>          | financial year ending 31 December 2007 (forecast)   |
| <b>FY2008F, FY08 or FY2008</b>          | financial year ending 31 December 2008 (forecast)   |
| <b>GBP or £</b>                         | British Pound   |
| <b>Group</b>                            | ThinkSmart and its related entities   |
| <b>HBoS</b>                             | Halifax Bank of Scotland  |
| <b>HBoS Payable</b>                     | the second instalment of £2.95 million, payable to HBoS as per the UK Joint Venture purchase agreements outlined in 10.6.1  |
| <b>Historical Financial Information</b> | has the meaning given in Section 7.3  |
| <b>Inertia or Inertia Income</b>        | income earned by ThinkSmart at the end of the rental contract term  |
| <b>Institutional Investor</b>           | an investor to whom offers or invitations in respect of securities can be made without the need for a lodged Prospectus under sections 708(8) and 708(11) of the Corporations Act                     |
| <b>Institutional Offer</b>              | offer of Shares open to Australian and certain international (non-US) institutions on the terms set out in this Prospectus  |
| <b>Investigating Accountant</b>         | KPMG Transaction Services in its capacity as preparer of the Investigating Accountant's report set out in Section 9   |
| <b>IT</b>                               | Information Technology  |
| <b>JB Hi-Fi</b>                         | JB Hi-Fi Limited (ABN 80 093 220 136)   |
| <b>JPMorgan</b>                         | J.P. Morgan Australia Limited (ABN 52 002 888 011)  |
| <b>KPMG Transaction Services</b>        | KPMG Transaction Advisory Services (Australia) Pty Limited (ABN 65 003 891 718)   |
| <b>Lead Manager</b>                     | JPMorgan  |
| <b>LFL</b>                              | like-for-like sales   |

|   |   |
|---|---|
| <b>m</b>  | million   |
| <b>Myer</b>                                       | Myer Pty Ltd (ABN 83 004 143 239)   |
| <b>Nano-Ticket</b>                                | transaction of A\$500 to A\$10,000  |
| <b>New Shares</b>                                 | new Shares to be issued under the Offer   |
| <b>Next Byte</b>                                  | Next Byte Pty Ltd (ABN 72 578 068 480)  |
| <b>NPAT</b>                                       | net profit after tax  |
| <b>Offer</b>                                      | the invitation by the Company and the Vendor Shareholders to apply for New Shares and Sale Shares under this Prospectus   |
| <b>Offer Period</b>                               | the period from the Opening Date to the Closing Date  |
| <b>Offer Price</b>                                | the price at which the Shares are being offered, being \$2.15 per Share   |
| <b>Official List</b>                              | official list of entities that the ASX has admitted and not removed   |
| <b>Opening Date</b>                               | the date on which the Offer opens, being 18 May 2007, or such other date determined by the Board  |
| <b>Options</b>                                    | the 6,800,000 options to acquire Shares in the Company which are currently on issue, the terms of which are summarised in Section 10.4  |
| <b>PC City</b>                                    | PC City Group, the European computer retail arm of DSG International  |
| <b>PC World</b>                                   | PC World, the UK computer retail arm of DSG International   |
| <b>Privacy Act</b>                                | Privacy Act 1988 (Cth)  |
| <b>Pro Forma Historical Financial Information</b> | has the meaning given in Section 7.1.1.2  |
| <b>Prospectus</b>                                 | this document relating to the Offer lodged with ASIC on the Prospectus Date   |
| <b>Prospectus Date</b>                            | 10 May 2007, being the date on which a copy of this Prospectus was lodged with ASIC   |
| <b>RentSmart</b>                                  | ThinkSmart's product brand name in Australia  |
| <b>RentSmart UK</b>                               | RentSmart Limited (Company Number 3689086), ThinkSmart's wholly owned UK subsidiary   |
| <b>Retail Investors</b>                           | Australian resident investors who are not Institutional Investors   |
| <b>Sale Shares</b>                                | Shares currently held by Vendor Shareholders and offered for sale under this Prospectus   |
| <b>Share Registry</b>                             | Computershare Investor Services Pty Limited (ABN 48 078 279 277)  |
| <b>Shareholder</b>                                | holder of Shares in the capital of ThinkSmart   |
| <b>Shares</b>                                     | fully paid ordinary shares in ThinkSmart  |
| <b>SmartCheck</b>                                 | ThinkSmart's proprietary credit processing and approval software  |
| <b>SmartPlan</b>                                  | ThinkSmart's product brand name in the UK and Europe  |
| <b>SME</b>  | Small and Medium Enterprise with 10 employees or less   |
| <b>ThinkSmart Europe</b>                          | ThinkSmart Europe Limited (Company Number 4610727), ThinkSmart's wholly owned UK subsidiary   |
| <b>ThinkSmart Limited or ThinkSmart</b>           | ThinkSmart Limited (ABN 24 092 319 698)   |
| <b>UK</b>   | United Kingdom  |
| <b>UK Joint Venture</b>                           | the joint venture between HBoS and ThinkSmart Europe, of which ThinkSmart Europe has acquired HBoS' interest with financial completion scheduled for 20 June 2007   |
| <b>Underwriter</b>                                | JPMorgan  |
| <b>Underwriting Agreement</b>                     | the underwriting agreement between the Lead Manager and ThinkSmart as summarised in Section 10.6.12   |
| <b>US</b>   | United States of America  |
| <b>US Securities Act</b>                          | Securities Act of 1933 (US) as amended  |
| <b>Vendor Shareholders</b>                        | those of the Existing Shareholders who are offering the Sale Shares for sale under this Prospectus being Mainwest Pty Ltd (ACN 073 240 856), ANZ, Rightway Capital Corporation, Goldpiper Pty Ltd (ABN 66 094 203 488), DigiSound Messages on Hold Pty Ltd (ABN 29 067 398 403) and JAWP Pty Ltd (ABN 99 105 537 577) |
| <b>Woolworths</b>                                 | Woolworths Limited (ABN 88 000 014 675)   |

# APPENDIX

12





# 12.

## APPENDIX

### 12.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 12.1.1. Summary of accounting policies

The significant policies which have been adopted in the presentation and preparation of the statutory historical and Pro Forma Historical Financial Information reported are shown below.

#### 12.1.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those adopted by other members of the Group. All intra-Group balances, transactions, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-Group transactions (“common control transactions”) are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differs from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

#### Joint ventures (“equity accounted investees”)

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method (“equity accounted investees”). The consolidated financial statements include the Group’s share of the income and expenses of equity accounted investees, after adjustments to align their accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### 12.1.3. Business combinations

Acquisitions of subsidiaries and business are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of the exchange) of assets, liabilities incurred or assumed, and equity

instruments issued by the Group in exchange for control of the acquiree, plus any costs attributable to the business combination. The acquiree’s identifiable assets liabilities and contingent liabilities that meet the conditions of recognition under AASB 3 ‘Business Combinations’ are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with AASB 5 ‘Non-Current Assets Held For Sale and Discontinued Operations’ which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. Any excess is measured in the profit and loss.

#### 12.1.4. Investments

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

#### 12.1.5. Loans and receivables

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

#### 12.1.6. Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (“CGU”) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss immediately, unless the relevant

asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **12.1.7. Intangible assets**

#### **Intellectual property**

Intangible assets (“intellectual property”) are recorded at cost of acquisition over the fair value of the identifiable net assets acquired and are amortised on a straight-line basis over 20 years.

#### **Inertia asset and distribution network contracts**

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

- Inertia represents the expected income streams from unexpired rental contracts in existence at 1 December 2006.
- The maximum term of unexpired contracts at 1 December 2006 is four years and the intangible asset is amortised over the expected income profile of this revenue stream.
- Distribution networks represents the value attributable to the retailer network from which rental contracts are originated. The intangible asset is amortised on a straight line basis until the expected expiry of the contract.

### **12.1.8. Goodwill**

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

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

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs)

and then to the other assets of the CGU or CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or CGUs). The impairment loss recognised for goodwill is recognised immediately in the profit or loss and is not reversed in the subsequent period.

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

### **12.1.9. Employee benefits**

Provision is made 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.

Provisions made in respect of wages and salaries, annual leave and other employee benefits, which are expected to be settled within 12 months, are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

Contributions to defined contribution superannuation plans are expensed when incurred.

### **12.1.10. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

#### **Funder income**

Commissions and insurance brokerage receivable from Funders is recognised at the time finance approval is given, adjusted for an allowance for loans not expected to proceed to a contract. A component of the income where material is deferred and recognised in line with the services provided. As at 31 December 2006, this deferred revenue was not considered material.

#### **Unguaranteed residual interest in equipment**

At the conclusion of the initial rental period, the Group is entitled to acquire the equipment from the Funders at a nominal value. The Group can immediately dispose of the equipment or continue to rent the asset to third parties.

#### **Ongoing rental income**

Where the asset acquired from the Funder is rented to third parties, the income from that rental is brought to account when the control of the right to receive this income is attained and can be reliably measured, usually on a monthly basis. No ongoing rental income is brought to account in respect of the unexpired rental contracts.

#### **Sale income**

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

### **12.1.11. Financial instruments issued by the company**

#### **Debt and equity instruments**

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### **Interest and dividends**

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

### **12.1.12. Income tax**

#### **Current tax**

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

#### **Deferred tax**

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

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

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

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

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

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

#### **Current and deferred tax for the period**

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

#### **Tax consolidation**

The Company and its wholly owned Australian entities have elected not to form a tax consolidated group.

### **12.1.13. Goods and services tax**

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

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

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

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

### **12.1.14. Foreign currency transactions**

#### **Functional and presentation currency**

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

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

## Transactions and balances

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

## Group companies and foreign operations

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

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

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

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

### 12.1.15. Share-based payment

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in

the financial statements in respect of the other equity-settled share-based payments.

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

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

### 12.1.16. Segment reporting

The Group conducts rental finance operations in its subsidiaries across geographical segments in Australia and Europe.

### 12.1.17. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

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

### 12.1.18. Critical judgements in applying the entity's accounting policies

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

- The factors used to determine the Company provisions for employee entitlements;
- Discount rate used in determining the present value of Inertia cash flows acquired in the business combination; and
- The valuation of options issued by the Company in the absence of a liquid market, and volatility factors used in binomial pricing models.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Recoverability of intangible assets. The value of “inertia assets” has been made using the Director’s best estimate of realisable value appropriately adjusted for risk. Market factors may affect the final realised value as these assets are yet to be realised. The value of “distribution networks” and amortisation thereof is based on the current distribution contract terms; and
- Impairment of goodwill. Further detail regarding the goodwill arising from the business combination is provided in Appendix 12.2.3.

## 12.2. NOTES TO THE FINANCIAL INFORMATION

### 12.2.1. Trade and other receivables

Table 12.1 Trade and other receivables

|                                    | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
|------------------------------------|---|---|
| Trade receivables                  | 4.8                                       | 4.8                                       |
| Less: Allowance for doubtful debts | –   | –   |
| <b>Trade receivables</b>           | <b>4.8</b>                                | <b>4.8</b>                                |

### 12.2.2. Intangibles

Table 12.2 Intangibles

|  | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
|--|---|---|
| Distribution network at gross carrying amount  | 2.1                                       | 0.7                                       |
| Less: Accumulated amortisation and impairment  | (0.1)                                     | (0.0)                                     |
|  | <b>2.0</b>                                | <b>0.7</b>                                |
| Intellectual property at gross carrying amount | 0.6                                       | 0.6                                       |
| Less: Accumulated amortisation and impairment  | (0.2)                                     | (0.2)                                     |
|  | <b>0.4</b>                                | <b>0.4</b>                                |
| Inertia contracts at gross carrying amount     | 4.7                                       | 4.7                                       |
| Less: Accumulated amortisation and impairment  | (0.1)                                     | (0.1)                                     |
|  | <b>4.6</b>                                | <b>4.6</b>                                |
| <b>Total intangible assets</b>                 | <b>7.1</b>                                | <b>5.7</b>                                |

### 12.2.3. Goodwill

Table 12.3 Goodwill

|  | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
|--|---|---|
| <b>Goodwill from business combinations</b> | <b>2.1</b>                                | <b>3.1</b>                                |

## 12.2.4. Trade and other payables

| Table 12.4 Trade and other payables |   |   |
|-------------------------------------|---|---|
|                                     | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
| Trade payables                      | 5.2                                       | 5.2                                       |
| Other payables <sup>1</sup>         | 7.8                                       | -   |
| GST payables                        | 0.1                                       | 0.1                                       |
| <b>Total payables</b>               | <b>13.1</b>                               | <b>5.3</b>                                |

- 1 Amount payable to HBoS on or before 20 June 2007 to complete the purchase of its 50% share in RentSmart Limited. The consideration includes interest payable at 2% above the base lending rate as determined from time to time, compounded monthly, by HBoS from the acquisition date to 20 June 2007. In the event of late payment, interest shall accrue at an additional 3% compounded daily on the 2% margin above the base lending rate.

## 12.2.5. Other financial liabilities (current and non-current)

| Table 12.5 Other financial liabilities   |   |   |
|--|---|---|
|  | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
| Bank overdraft <sup>1</sup>              | 0.8                                       | 0.8                                       |
| Term loans <sup>2</sup> - current        | 0.8                                       | 0.8                                       |
| Term loans <sup>2</sup> - non current    | 2.7                                       | 2.7                                       |
| <b>Total other financial liabilities</b> | <b>4.3</b>                                | <b>4.3</b>                                |

- 1 The £0.5m overdraft facility is redeemable on demand and has been negotiated on commercial terms at 2% above the base rate from HBoS. The loan is secured over the assets of RentSmart Limited.
- 2 The £1.4m fixed term loan is charged with interest in arrears at a margin of 2.5% over the HBoS base rate. The repayment terms are £0.1m at 30 September 2007, £0.2m at 31 December 2007, £0.3m at 31 March 2008, £0.4m at 30 June 2008 and £0.4m at 30 September 2008.

## 12.2.6. Provisions

| Table 12.6 Provisions   |   |   |
|-------------------------|---|---|
|                         | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
| Tax                     | 0.1                                       | 0.1                                       |
| Employee entitlements   | 0.3                                       | 0.3                                       |
| <b>Total provisions</b> | <b>0.4</b>                                | <b>0.4</b>                                |

### 12.2.7. Acquisition of business

On 1 December 2006, ThinkSmart gained control of the 50% of RentSmart Limited it did not already own. The book and fair values of the share of assets acquired are as follows:

**Table 12.7 Acquisition of business**

|   | Statutory<br>Historical<br>FY2006<br>A\$m | Pro Forma<br>Historical<br>FY2006<br>A\$m |
|---|---|---|
| Share of assets at book value             | 2.7                                       | 2.7                                       |
| Fair value adjustments                    |   |   |
| - Goodwill                                | 2.1                                       | 3.1                                       |
| - Other intangible assets                 | 6.8                                       | 5.4                                       |
| <b>Share of assets at fair value</b>      | <b>11.5</b>                               | <b>11.2</b>                               |
| Share of liabilities at book value        | (7.8)                                     | (7.8)                                     |
| Fair value adjustments                    |   |   |
| - Deferred tax liabilities                | (2.1)                                     | (1.7)                                     |
| <b>Share of liabilities at fair value</b> | <b>(9.9)</b>                              | <b>(9.5)</b>                              |
| <b>Fair value of net assets acquired</b>  | <b>1.7</b>                                | <b>1.7</b>                                |
| Consideration payable <sup>1</sup>        | 1.7                                       | 1.7                                       |

1 The consideration payable is that due for ordinary Shares.

The total consideration payable for preference Shares, accrued interest and ordinary shares at 31 December 2006 is \$7.8 million.

## 12.3. RECONCILIATION OF PRO FORMA HISTORICAL FINANCIAL INFORMATION TO UNDERLYING STATUTORY INFORMATION

### 12.3.1. Pro forma adjustments to historical income statements of ThinkSmart Limited

Pro forma adjustments have been made to show the results of ThinkSmart Limited as if it had acquired RentSmart Limited as at 1 January 2005.

ThinkSmart had a 50% interest in RentSmart Limited prior to 1 December 2006 when it acquired the remaining 50% interest resulting in it becoming a wholly owned subsidiary. It accounted for its interest on an equity accounting basis until 1 December 2006 and thereafter on a consolidated basis in the statutory financial statements. Equity accounting was suspended in FY2004 as the investment in RentSmart Limited had been fully offset by the Group's share of operating losses and no further losses had been recognised in FY2005 and FY2006.

In preparing the Pro Forma Historical Information from the statutory financial statements, the financial results of RentSmart Limited have been included on a consolidated basis for FY2005 and FY2006.

**Table 12.8 2005 reconciliation of the pro forma income statements**

|                             | Statutory Historical<br>ThinkSmart<br>A\$m | Pro Forma Adjustments                     |               | Pro Forma Historical<br>FY2005<br>A\$m |
|-----------------------------|--|---|---------------|--|
|                             |  | Statutory Historical<br>RentSmart<br>A\$m | Other<br>A\$m |  |
| Total Group revenue         | 11.9                                       | 9.7                                       | (0.2)         | 21.4                                   |
| Operating costs             | 10.2                                       | 10.1                                      | (0.2)         | 20.1                                   |
| Corporate development costs | 1.0  | -   | -             | 1.0                                    |
| EBITDA                      | 0.7  | (0.4)                                     | -             | 0.3                                    |
| Depreciation                | 0.3  | 0.7                                       | -             | 1.0                                    |
| EBITA                       | 0.4  | (1.1)                                     | -             | (0.7)                                  |
| Amortisation                | -  | -   | -             | -                                      |
| EBIT                        | 0.4  | (1.1)                                     | -             | (0.7)                                  |
| Net financing costs         | -  |   |               |  |
| Net profit before tax       | 0.4  |   |               |  |
| Income tax expense          | 0.2  |   |               |  |
| Net profit after tax        | 0.2  |   |               |  |

**Table 12.9 2006 reconciliation of the pro forma income statements**

|                             | Statutory Historical<br>ThinkSmart<br>A\$m | Pro Forma Adjustments                     |               | Pro Forma Historical<br>FY2006<br>A\$m |
|-----------------------------|--|---|---------------|--|
|                             |  | Statutory Historical<br>RentSmart<br>A\$m | Other<br>A\$m |  |
| Total Group revenue         | 16.4                                       | 12.8                                      | (2.4)         | 26.8                                   |
| Operating costs             | 13.6                                       | 12.0                                      | (2.0)         | 23.6                                   |
| Corporate development costs | 1.5  | -   | -             | 1.5                                    |
| EBITDA                      | 1.3  | 0.8                                       | (0.4)         | 1.7                                    |
| Depreciation                | 0.3  | 0.4                                       | (0.0)         | 0.7                                    |
| EBITA                       | 1.0  | 0.4                                       | (0.4)         | 1.0                                    |
| Amortisation                | 0.2  | -   | -             | 0.2                                    |
| EBIT                        | 0.8  | 0.4                                       | (0.4)         | 0.8                                    |
| Net financing costs         | 0.0  |   |               |  |
| Net profit before tax       | 0.8  |   |               |  |
| Income tax expense          | 0.7  |   |               |  |
| Net profit after tax        | 0.1  |   |               |  |

**Other pro forma adjustments**

- RentSmart Limited revenues and expenses from the date of acquisition on 1 December 2006 are included in the other pro forma adjustments recognising this period is already included in Statutory Historical RentSmart;
- Elimination of intercompany income and expenses between RentSmart and ThinkSmart prior to consolidation of \$0.7 million in 2006 and \$0.2 million in 2005.
- Reclassification of Australian Insurance premiums of \$0.7 million from revenue to expenses.



### 12.3.2. Pro forma adjustments to historical cash flow statements of ThinkSmart Limited

As a result of the adjustments noted above, certain consequential adjustments have been made to the audited statements of cash flows of RentSmart to derive the pro forma statements of cash flows presented in Section 7.8.

**Table 12.10 2005 reconciliation ThinkSmart Limited statutory statement of cash flows to pro forma summary statement of cash flows**

|  | Statutory historical ThinkSmart Limited A\$m | Pro Forma Adjustments                  |            | ThinkSmart Limited Pro Forma Historical A\$m |
|--|--|--|------------|--|
|  |  | Statutory historical RentSmart UK A\$m | Other A\$m |  |
| <b>EBIT</b>                                | <b>0.4</b>                                   | <b>(1.1)</b>                           | <b>-</b>   | <b>(0.7)</b>                                 |
| Depreciation and amortisation              | 0.3  | 0.7                                    | -          | 1.0  |
| <b>EBITDA</b>                              | <b>0.7</b>                                   | <b>(0.4)</b>                           | <b>-</b>   | <b>0.3</b>                                   |
| Non-cash and working capital movements     | <b>0.3</b>                                   | <b>0.3</b>                             | <b>-</b>   | <b>0.6</b>                                   |
| <b>Cash flows from operations</b>          | <b>1.0</b>                                   | <b>(0.1)</b>                           | <b>-</b>   | <b>0.9</b>                                   |
| Capital expenditure                        | (0.2)  | (0.2)                                  | -          | (0.4)  |
| <b>Cash flows before financing and tax</b> | <b>0.8</b>                                   | <b>(0.3)</b>                           | <b>-</b>   | <b>0.5</b>                                   |

**Table 12.11 2006 reconciliation ThinkSmart Limited statutory statement of cash flows to pro forma summary statement of cash flows**

|  | Statutory historical ThinkSmart Limited A\$m | Pro Forma Adjustments                  |              | ThinkSmart Limited Pro Forma Historical A\$m |
|--|--|--|--------------|--|
|  |  | Statutory historical RentSmart UK A\$m | Other A\$m   |  |
| <b>EBIT</b>                                | <b>0.8</b>                                   | <b>0.4</b>                             | <b>(0.4)</b> | <b>0.8</b>                                   |
| Depreciation and amortisation              | 0.5  | 0.4                                    | -            | 0.9  |
| <b>EBITDA</b>                              | <b>1.3</b>                                   | <b>0.8</b>                             | <b>(0.4)</b> | <b>1.7</b>                                   |
| Non-cash and working capital movements     | <b>(1.1)</b>                                 | <b>(2.6)</b>                           | <b>-</b>     | <b>(3.7)</b>                                 |
| <b>Cash flows from operations</b>          | <b>0.2</b>                                   | <b>(1.8)</b>                           | <b>(0.4)</b> | <b>(2.0)</b>                                 |
| Capital expenditure                        | (0.6)  | (0.2)                                  | -            | (0.8)  |
| <b>Cash flows before financing and tax</b> | <b>(0.4)</b>                                 | <b>(2.0)</b>                           | <b>(0.4)</b> | <b>(2.8)</b>                                 |

### 12.4. RECONCILIATION OF DIRECTORS' PRO FORMA FORECAST TO THE DIRECTORS' STATUTORY FORECAST

The Directors' Statutory Forecast comprises the summary statutory forecast income statements and the summary forecast statement of cash flows of ThinkSmart for FY2007 and FY2008 as set out in Sections 7.2 and 7.8.

The Directors' Statutory Forecast has been prepared and presented on the same basis as it is anticipated that the financial information will be included in ThinkSmart's statutory financial statements in its annual report for FY2007 and FY2008 will be prepared and presented.

This section provides reconciliations of the Directors' Pro Forma Forecast to the relevant Directors' Statutory Forecast in FY2007. There are no adjustments to the FY2008 Directors' Statutory Forecast.

**Table 12.12 2007 reconciliation of Directors' Pro Forma Forecast summary income statement to the Directors' Statutory Forecast summary income statement**

|                                  | Directors' Statutory Forecast A\$m | IPO costs adjustment <sup>1</sup> A\$m | HBoS interest adjustment <sup>2</sup> A\$m | Directors' Pro Forma Forecast A\$m |
|----------------------------------|------------------------------------|--|--|------------------------------------|
| Total Group revenue              | 35.9                               | -                                      | -  | 35.9                               |
| Operating costs                  | (29.1)                             | 4.1                                    | -  | (25.0)                             |
| Corporate development costs      | (2.8)                              | -                                      | -  | (2.8)                              |
| EBITDA                           | 4.0                                | 4.1                                    | -  | 8.1                                |
| Depreciation                     | (0.6)                              | -                                      | -  | (0.6)                              |
| EBITA                            | 3.4                                | 4.1                                    | -  | 7.5                                |
| Amortisation                     | (1.0)                              | -                                      | -  | (1.0)                              |
| EBIT                             | 2.4                                | 4.1                                    | -  | 6.5                                |
| Net interest and borrowing costs | (0.5)                              | -                                      | 0.3  | (0.2)                              |
| Tax                              | (1.3)                              | (0.7)                                  | -  | (2.0)                              |
| <b>NPAT</b>                      | <b>0.6</b>                         | <b>3.4</b>                             | <b>0.3</b>                                 | <b>4.3</b>                         |
| <b>NPAT (pre amortisation)</b>   | <b>1.3</b>                         |  |  | <b>5.0</b>                         |

Notes:

- 1 IPO cost: The Directors' Forecasts have been adjusted to add back the costs borne by the Company in relation to the IPO. Costs associated with the IPO as at the date of this Prospectus were A\$4.1 million.
- 2 HBoS interest: The Directors' Forecasts have been adjusted to add back the interest costs in relation to the HBoS Loan as this loan will be paid out with proceeds from the Offer. The HBoS interest costs are expected to be A\$0.3 million in 2007.

### **2007 Reconciliation of Directors' Pro Forma Forecast summary statement of cash flows to the Directors' Statutory Forecast summary statement of cash flows**

A reconciliation is not required as the IPO cost adjustment and the HBoS interest adjustment do not impact cash flows before financing and tax.

## CORPORATE DIRECTORY

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### Directors

Peter Mansell – Non-Executive Chairman  
  
Ned Montarello – Managing Director  
  
Steven Penglis – Non-Executive Director  
  
David Griffiths – Non-Executive Director

### Sole Lead Manager and Underwriter

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### Co-Manager

Ord Minnett Limited  
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### Investigating Accountant

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### Share Registry

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**THINKSMART**  
P R O S P E C T U S

ThinkSmart Limited ABN 24 092 319 698