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FlexiGroup Limited
Annual Report
2007



FlexiGroup Limited

ABN 75 122 574 583

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Timeline

1988

Berkman Capital Finance Pty Ltd commenced short-term rental and operating leases for photocopier and fax machines.



FlexiGroup is a leading provider of retail point-of-sale lease and rental finance for IT equipment and electrical appliances such as plasma TVs, audiovisual equipment and whitegoods to small business and individual customers.

FlexiGroup provides a range of lease and other finance products to customers across Australia and New Zealand, marketing its financial products under multiple brands.

1993

"Flexirenting" was created when the business introduced the first point-of-sale leasing facility for sub \$10,000 equipment rental.

1994

Name was changed to Flexirent Pty Ltd to reflect the underlying core product and the changed channel focus to computers.

1995

Harvey Norman Computers commenced a trial of Flexirent in three of their Brisbane stores. Its success enabled Flexirent to roll out to Harvey Norman stores nationally.

Our Mission

FlexiGroup's mission is to offer customers fast, easy and convenient financing for small ticket items that meet lifestyle needs, such as electrical appliances and IT equipment.

Our goal is to be recognised as the number one provider for financing point-of-sale small ticket goods in Australia and New Zealand.

In order to achieve this mission, we work closely with our retail partners and commit considerable resources to both train and motivate their salespeople. It is these salespeople who are ultimately our interface with customers.

As far as our own staff are concerned, it is our objective to be recognised as Employer of Choice, providing a motivating and enjoyable learning environment for our team.

Our Business Model

FlexiGroup's model differentiates itself from alternatives by establishing close relationships with both the retailer and the salesperson, with the objective of providing co-operative sales training and marketing support.

FlexiGroup encourages its retail partners to introduce its products at the point-of-sale. Customers then enter into contracts with FlexiGroup. By investing in understanding the needs of its customers, FlexiGroup has developed additional products and services that it cross-sells to existing and new customers.

FlexiGroup contacts customers towards the end of their lease contract term and offers a variety of options including the option to trade-up to the latest technology, make an offer to purchase the item or return it to FlexiGroup.

Over the last four years the business model has evolved with more focus on customer lifecycle management. By identifying other products and services that customers value, and then developing the capability to sell those products, Flexirent has been able to extend the customer lifecycle.

Marketing directly to customers creates value for both FlexiGroup and its retail partners by driving customers back to the original retailer both during and at the end of term.

Through its business model, FlexiGroup has built a valuable customer database of approximately 375,000 profiles. A focus on the customer experience has resulted in a customer satisfaction score in excess of 90% and ensured a base receptive to cross-selling initiatives.

Our Retail Partners

Key to our success are the longstanding relationships FlexiGroup has developed with a number of key retailers including the dominant retailers in Australia (Harvey Norman) and New Zealand (Harvey Norman and Noel Leeming). FlexiGroup has a distribution network of approximately 4,400 active retailers with a sales force of 11,000.

In addition to Harvey Norman and Noel Leeming, FlexiGroup has relationships with other retailers including Apple and A&R Computers.

Sales support and training provided by FlexiGroup helps develop the retailers' salesperson capability and assists with the development of quality staff. This in turn strengthens the relationship between FlexiGroup and its retail partners.

FlexiGroup uses mystery shopping and quality assurance programs to ensure training is targeted to address specific business outcomes and to test new product initiatives.

1997

Flexirent opened in New Zealand.

1998

A phone based, 10 minute application process was launched.

1998

Flexirent launched the first consumer lease product to broaden its market opportunities.

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Strategy and Growth

Since 2004, FlexiGroup has evolved from one product, distributed through one channel (IT equipment) to a diversified company offering a wide range of lease, rental finance and loan products through multiple retail partners covering numerous asset classes.

Since expanding into the electrical sector and increasing its potential target market, FlexiGroup has continued to develop new products and expand into new product categories. This year FlexiGroup successfully launched a business and personal loan offering which is performing in line with budget expectations and is well positioned for growth over the next few years.

Over the course of FY2008 we intend to focus on growth by:

- Continued emphasis on FlexiGroup's core rental products with existing retail partners
- Continuing to drive growth in the electrical channel
- Building on the early success of FlexiGroup's personal loan product with sustained marketing to existing FlexiGroup customers
- Optimising cross-sell competencies and opportunities
- Taking existing products into new markets by moving into new channels and new product categories.

In addition to growing the business, FlexiGroup is focused on maximising productivity and operational efficiency by investing in process improvement to enhance the customer experience and to build scalability.

2000

The Flexirent sales force was expanded to allow dedicated training time with salespeople.

2002

MiniLease product was launched in response to market demand for a fast and convenient finance lease for commercial and industrial equipment.

2003

Corporatisation process began with the appointment of a new Chief Executive Officer.

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2004

Senior Management Team is recruited, significant investment in infrastructure completed and diversification of funding sources achieved.

2004

A focus on cross-selling opportunities led to the development of new products and marketing initiatives to the existing customer base.

2005

Electrical channel identified as a market opportunity larger than IT – Ezyway product is successfully launched within the Harvey Norman Group. Other retailers followed suit under the Flexiway brand.

FY2007 Highlights

FlexiGroup has achieved:

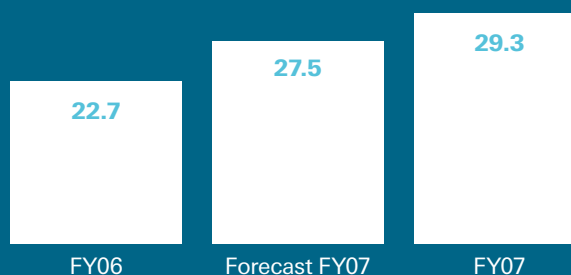
Strong debut

First day closing price 30% premium to offer price/listing price

Pro-forma Net Profit After Tax

of \$29.3 million, 6.5% up on prospectus forecast and 29.1% up on FY2006

Pro-forma Net Profit After Tax



Growth

without compromising credit quality

A final dividend

of 5.5 cents (fully franked) for the year

Earnings per Share

on Pro-forma results of 13.45 cents

Successful launch of Protect Platinum Product

Personal loans

Following a successful launch in February 2007, personal loans are performing well and tracking to forecasts

2006

A distribution agreement signed with Noel Leeming, a leading New Zealand retailer.

2006

In December FlexiGroup listed on the Australian Securities Exchange.

2007

Personal loan product was launched and marketed to existing customers.

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Chairman's Report



To my fellow Shareholders

I am pleased to present FlexiGroup's first Annual Report for the financial year ending 30 June 2007, a year in which we reported a solid pro-forma net profit after tax of \$29.3 million.

FlexiGroup is a high quality, well managed business with attractive growth opportunities in products, channels and geographies. The reported pro-forma Net Profit After Tax of \$29.3 million exceeded the forecasts disclosed in the FlexiGroup IPO Prospectus ("prospectus forecasts") by \$1.8 million or 6.5%. Pro-forma NPAT for the year was up 29.1% on the previous financial year.

In line with this result, your Directors have declared a final dividend of 5.5 cents per Share which is payable on 24 October 2007.

This outstanding result was achieved in an environment of increasing interest rates with the Reserve Bank of Australia (RBA) raising rates by a quarter of a percent both in August and again in November 2006.

Significant contributors to this result were the strength of the Company's core rental products which continue to underpin performance and strong growth in the electrical product.

It has been an excellent year for FlexiGroup. Since listing on the Australian Securities Exchange in December 2006, the Company has expanded its product offering with the launch of its personal loan product, which is predominantly sold to its existing customer base. The introduction of the personal loan product was a conscious effort to diversify our product range. The successful launch and execution of the personal loan product has been in line with expectations. FlexiGroup will continue to promote personal loans in FY2008 and will continue to grow the category.

FlexiGroup is committed to long-term growth and delivering returns to our Shareholders. The lease and rental finance market offers opportunities for significant growth and our Company is well positioned to capitalise on these opportunities both in Australia and abroad. FlexiGroup will continue to pursue our four-pillar growth strategy of:

- Taking existing products into new markets
- Building and leveraging our cross-selling competencies
- Increasing volumes with existing retailers
- Continuing to implement operational efficiencies.

The FlexiGroup management team and staff should be commended on their focus, the results achieved and for reaffirming the business as the leading provider of small ticket point-of-sale leasing in Australia and New Zealand.

Margaret Jackson
Chairman

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CEO's Report



The past 12 months have seen some significant milestones achieved by FlexiGroup. In FY2007 we affirmed our position as the leading provider of small ticket point-of-sale leasing in Australia and New Zealand and successfully transitioned from private ownership to a listed company.

Among our greatest successes was our ability to deliver on the strategy to grow the business by taking our business model into new categories and new products and by increasing sales within our existing distribution network of retail partners. The Company is well positioned to maintain its growth profile and the outlook through FY2008 is for strong growth.

Our move into the consumer electrical market has expanded FlexiGroup's potential target market for its point-of-sale leasing products. The retail performance of the electrical appliance market has been strong over the last 12 months and the Ezyway product has provided the avenue to leverage this opportunity. We will be focusing on this segment over the coming years by leveraging our successful relationships with our retail partners.

Growth opportunities in hi-tech products such as third generation games consoles, satellite navigation systems and smart phones has led FlexiGroup to appoint a dedicated segment manager. Promotions targeted at both retailers and consumers will continue to drive growth in this area.

The New Zealand operation continues to outperform. Growth has been driven by using our "best practice" experience gained in the Australian market. Growth is expected to continue with increased penetration in key retail channels and a full rollout of the business model across the country.

Having proven that the business model is transportable with our growth in the New Zealand and electrical markets. FlexiGroup will continue to look for opportunities to diversify into new product categories and channels.

Looking to leverage its cross-selling competency, in 2006 FlexiGroup tested a business loan product with encouraging results. In February 2007 the launch of our personal loan product was supported by an increase in marketing intensity. Results to date have been pleasing and have met management's forecasts. We intend to promote personal loans in FY2008 and will continue to predominantly market to our existing customer base.

Although our growth strategy is ambitious, we are committed to improving our operational efficiency through investment in process improvement to deliver scalability and an enhanced customer experience.

FlexiGroup is well placed to achieve solid growth in FY2008 through the successful execution of its strategies.

A handwritten signature in black ink, appearing to read 'John DeLano'. The signature is fluid and cursive, written over a light blue horizontal line.

John DeLano
Managing Director and CEO

Executive Management Team

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The Executive Management Team from left to right:

Neil Roberts
Head of Consumer Direct

Doc Klotz
Head of Operations

Mel Robinson
Head of Corporate Development

Paul McMahon
Chief Financial Officer

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John DeLano
Managing Director
and CEO

Grace Silvio
Head of Human
Resources

Frank Morberger
National Sales Manager

Ben Taylor
Chief Marketing Officer

Absent:

Russell Webber National Manager, New Zealand
Pearl Laughton Chief Information Officer

Operational Report

Summary of FlexiGroup Products

Product Category	Name of Product	Description	Target Customers	Term (Months)	Deal Size
IT leasing	Flexirent	Operating lease	Small business and consumer	12–48	\$500 to \$20,000
IT finance	FlexiOwn	Hire purchase	Small business and consumer in NZ	36–60	NZ\$500 to NZ\$20,000
Electrical leasing	Ezyway	Operating lease with “Keep” or “Swap” feature	Mainly consumer	24–60	\$500 to \$20,000
Lending	Personal loans	Secured and Unsecured loans	Small business and consumer	12–84	\$2,000 to \$50,000
IT leasing	Flexiline	Master lease drawdown facility	Small business	24–60	Over \$20,000
Other leasing	MiniLease	Finance lease	Small business	36–60	\$1,500 to \$20,000
Equipment protection	Protect	Provides protection of the leased asset	Small business and consumer	Equal to term of lease	% of monthly payment
	Protect Platinum	Asset protection plus debt waiver			

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IT Channel

FlexiGroup began offering point-of-sale rental finance via IT retailers in 1995. The IT sector continues to be the core market for FlexiGroup. The majority of IT equipment purchases are desktop computers and laptops. While the price of IT equipment continues to decline, the increase in the popularity of computers and laptops has seen the market continue to grow.

The increased uptake of FlexiGroup's products in the IT sector continues to underpin overall performance.

The increasing popularity of gaming with a broader population along with growth in demand for hi-tech products such as satellite navigation systems, smart phones and pocket PCs has helped to deliver improved returns in the IT leasing segment.

Electrical Channel

FlexiGroup expanded its rental finance offering into the electrical and domestic appliance market in 2005 to capitalise on significant growth in consumer spending on electrical goods such as plasma and LCD televisions and audio equipment. The size of the electrical market in Australia and New Zealand is larger than the IT market and is continuing to grow.

Through the Ezyway product FlexiGroup entered the electrical rental finance market within the Harvey Norman Group. In recognition of the contribution to their business and the value created, FlexiGroup won the Harvey Norman Electrical Supplier of the Year Award for accessories/ attachments/services.

The rise in technology related consumerism and the success of Ezyway has seen FlexiGroup develop rental finance products for other electrical retailers under the Flexiway brand.

The success of the Ezyway and Flexiway products has given the business scope to explore opportunities in other markets/channels. FlexiGroup is currently offering Flexiway to the sports and leisure market through a range of independent retailers. Growth in this area provides further confirmation of the transportability of the model.

The performance of the electrical market has been strong over the last 12 months and is viewed as a growth driver for FY2008.

History of FlexiGroup

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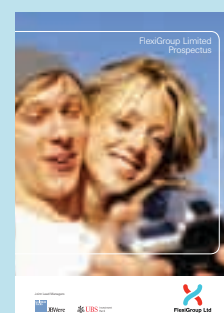
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Personal loan product was launched and marketed to existing customers.

Customer Direct Channel

By investing in understanding the needs of our customers, FlexiGroup has developed additional products and services that customers require.

“Protect” and “Protect Platinum” are offered through the call centre at the time a customer applies for a FlexiGroup lease product. Protect provides customers with a convenient and competitively priced alternative to equipment cover whilst Protect Platinum provides customers with additional debt waiver protection in circumstances where a customer’s ability to repay is impacted. Approximately 76% of lease customers choose to take up a Protect product.

The Customer Direct Division is responsible for the marketing and sale of products to existing customers who are:

- Upgrading their equipment, either during or at the end of their lease
- Choosing to lease additional assets
- Taking a business or personal loan product for a variety of reasons.

FlexiGroup’s personal loan product was successfully launched in February 2007. Personal loans are currently tracking to management’s forecasts.

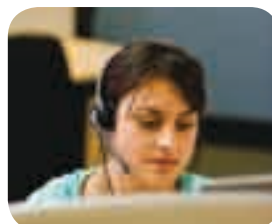
FlexiGroup has recruited an experienced management team to grow the loans business and customer surveys have indicated that there is a high level of demand amongst FlexiGroup customers for loan products. These products are predominantly offered to customers who have already demonstrated their credit quality to FlexiGroup and are not currently promoted outside of FlexiGroup’s existing customer base.

Focus for FY2008

The outlook for FlexiGroup in FY2008 continues to be promising. The rental finance products will continue to underpin performance with growth in the electrical channel.

Following the successful launch of the personal loan product in February 2007, FlexiGroup will continue to promote and drive growth of the new product. At the same time the Customer Direct Division will continue to maximise all add-on, cross-sell and end of term trade-up opportunities.

Over the course of FY2008, FlexiGroup will continue to invest in process improvement in order to improve operational efficiency, build scalability and enhance the customer experience.



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People

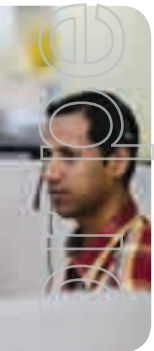
Attracting, engaging and retaining high performing employees is essential to the success of our business. FlexiGroup relies on a highly skilled and motivated workforce to provide customers with the best possible service experience. It is for this reason that FlexiGroup places such high importance on creating and maintaining a "high energy culture" where staff can grow and develop. With the appropriate leadership, communication, training, tools, systems and processes we aim to create an open, friendly and supportive atmosphere for all our employees.

In 2007, the Company launched a new Management and Leadership Development Program which targeted the top 20 managers in our business and was designed to enhance both management and leadership capabilities.

FlexiGroup is also focused on creating an environment where individuals have the opportunity to grow and develop new skills. Key initiatives being undertaken include employee career development and mentoring, talent management and succession planning. The Company continuously invests in its employees and values regular two-way communication and feedback to ensure the achievement of organisational and personal goals.



Using the industry standard for measurement of employee engagement, developed by Hewitt Associates, FlexiGroup is actively seeking to attract and retain quality people. Over the last three years we have seen a 90% lift in our Hewitt employee engagement score. By improving our understanding of what is on the minds of our employees and how best to respond, FlexiGroup is paving the way towards its goal of being recognised as an Employer of Choice.



Community

FlexiGroup people support many community and charity initiatives. Community involvement programs at FlexiGroup are driven by participation at all levels of the organisation and are not always corporate initiatives.

Ks for Country Kids

Ks for Country Kids is a charity event created by a handful of leading Queensland businesses (including Flexirent Queensland) to raise much needed funds for children from country areas who have been diagnosed with leukaemia, myeloma and other related blood disorders.

Now in its fifth year, Ks for Country Kids comprises two main components: a 243km bike ride through the towns of Dalby, Tara, Miles and Chinchilla on the Southern Darling Downs of Queensland and a corporate luncheon.

Since 2005, FlexiGroup has contributed to the Leukaemia Foundation through the Ks for Country Kids initiative. Individual participants are also sponsored by staff and friends. The money raised goes to provide accommodation for families of children visiting Brisbane for treatment.

Achieving a target of \$200,000 in 2007 will ensure the total raised by Ks for Country Kids over the last four years will exceed \$500,000.



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Gawad Kalinga

The Gawad Kalinga Community Development Foundation, is a Philippine-based charity, whose vision for the Philippines is a slum-free, squatter-free nation. GK actively works in poverty-stricken areas by helping local communities to rebuild their homes and become self sufficient. Gawad Kalinga, which translated in English means “to give care”, is an alternative solution to the problem of poverty.

Kris Alegrid, one of FlexiGroup’s talented graphic designers, spent three weeks with Gawad Kalinga in the Philippines. Kris spent his annual leave as a volunteer, supporting families whose homes had been destroyed by a typhoon. FlexiGroup supported Kris by providing a cash donation which was used to purchase raw materials to rebuild three houses.



The NRMA Variety Bash

In 2006, for the third year running, FlexiGroup took part in the annual Variety Bash. Every year car enthusiasts travel through outback towns in decorated pre-1970 cars to raise money for Variety, the children’s charity.

The annual Variety Bash is Australia’s most successful charity motoring event and is the focal point of fund-raising, with the money raised helping sick, disabled and disadvantaged children.

FlexiGroup supported the Variety Bash by purchasing one of the vehicles used in the Bash.

Other initiatives:

- **Australia’s Biggest Morning Tea** for the Cancer Council
- **Movember** which focuses on men’s health issues and raises money for the Prostate Cancer Foundation of Australia and Beyond Blue, the national depression initiative
- **Pink Ribbon Day** which raises funds for breast cancer research on behalf of the Cancer Council
- **Make a Wish Day** for the Make A Wish Foundation
- **Daffodil Day** for the Cancer Council

All funds raised by staff for every event are matched by FlexiGroup.

FlexiGroup also supports its local communities by regular donations of returned equipment to individuals or organisations in need.



Environment

Greening Australia

Everyday Australians and New Zealanders are demonstrating a strong environmental consciousness in relation to climate change. In May 2007 FlexiGroup established a pilot scheme in nine Harvey Norman stores to give customers the opportunity to sequester or offset the carbon emissions created in the manufacture of their FlexiGroup purchases and over the equipment's useful life.

In order to facilitate the offset of emissions, FlexiGroup has partnered with Greening Australia. The organisation uses donations for planting, protecting, restoring and managing vegetation across Australia's many landscapes and ecosystems.

During the course of the pilot approximately 38% of customers who purchased FlexiGroup products at the pilot stores made a voluntary contribution of \$10 to offset the emissions of their leased equipment.

If the trial continues to prove successful, FlexiGroup will include an option to offset emissions across all FlexiGroup products through all retail distribution partners during FY2008.



Financial Statements

as at 30 June 2007

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FlexiGroup Limited was incorporated on 14 November 2006 and acquired 100% of the share capital of Flexirent Holdings Pty Limited on 12 December 2006. Consolidated information presented in this report is for the financial year ended 30 June 2007 for the consolidated Group. Parent entity information for FlexiGroup Limited is for the period 14 November 2006 to 30 June 2007 unless otherwise stated.

Directors' Report

as at 30 June 2007

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of FlexiGroup Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

Directors

The following persons were Directors of FlexiGroup Limited from the date of incorporation and up to the date of this report:

Margaret Jackson	(appointed 20 November 2006)
John DeLano	(appointed 14 November 2006)
Andrew Abercrombie	(appointed 14 November 2006)
Rajeev Dhawan	(appointed 14 November 2006)
R John Skippen	(appointed 20 November 2006)

Company Secretary

Paul McMahon was appointed to the position of Company Secretary on 14 November 2006.

Principal activity

The principal activities during the year continued to be the provision of:

- lease and rental financing services for office, personal technology and related equipment
- personal and business loans.

No significant change in the nature of these activities occurred during the year.

Dividends

Dividends paid or declared for payment are as follows:

Since the end of the financial year, the Directors have recommended the payment of a fully franked final ordinary dividend of \$11,961,510 (5.5 cents per fully paid share) to be paid on 24 October 2007 out of retained profits at 30 June 2007.

Review of operations

The consolidated net profit after tax for the financial year increased by 6.1% from \$22.1 million to \$23.4 million. Revenue from operations increased by 17.6% to \$141.9 million (2006: \$120.6 million). Profit before tax increased by 19.3% over 2006.

FlexiGroup's core rental products continue to underpin performance and the IT channel performed above expectations. The increasing popularity of gaming along with increased demand for hi-tech products such as satellite navigation systems and hand held PCs helped to drive growth in the IT leasing segment.

While the overall retail performance of the electrical appliance market has been strong over the last 12 months, the Ezyway product continues to outperform the underlying category growth. The electrical leasing segment remains under-penetrated and provides significant opportunity for future growth.

In February 2007 FlexiGroup launched a personal loan product to existing customers. The launch proved successful and the product is currently tracking to forecasts. FlexiGroup has recruited an experienced management team to grow the loans business and will continue to promote the product to existing customers who have already demonstrated their credit quality to FlexiGroup.

At 30 June 2007 FlexiGroup had \$796 million of committed funding facilities including undrawn committed limits of \$272 million.

Significant changes in state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

On 12 December 2006, FlexiGroup Limited acquired 100% of the shares in Flexirent Holdings Pty Limited through its wholly owned subsidiary FlexiGroup Subco Pty Limited for a value of \$435 million.

The acquisition of Flexirent Holdings Pty Limited by FlexiGroup Limited was identified as a reverse acquisition and the consolidated financial statements have therefore been prepared as a continuation of the financial statements of the accounting acquirer, Flexirent Holdings Pty Limited. Accordingly, consolidated comparative information is provided for the balance sheet and related information as at 30 June 2006 and the income statement, cash flow statement, statement of changes in equity and related information for the year to 30 June 2006. Only current year figures covering the period from incorporation are shown for the parent entity, FlexiGroup Limited.

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Matters subsequent to end of the financial year

There were no subsequent events that impacted the 30 June 2007 financial statements.

Likely developments and expected results of operation

The outlook for FY2008 is positive and solid earnings growth is anticipated. The rental finance products will continue to underpin performance and strong growth is expected in both the electrical channel and loan products.

Over the course of FY2008, FlexiGroup will continue to invest in process improvement opportunities in order to improve operational efficiency, facilitate effective scalability and enhance the customer experience whilst continuing to improve penetration of FlexiGroup products within existing retail distribution partners and to expand distribution with new retail partners.

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.



Information on Directors

Margaret Jackson, AC (Age 54)

Chairman, Independent,
Non-Executive
BEc, MBA, Hon LLD (Monash),
FCA, FAICD

Experience

Margaret was appointed a Director of the Company in November 2006. Margaret is also Chairman of Qantas Airways Limited, a role she has held since 2000, and is a Director of Australia and New Zealand Banking Group Limited and Billabong International Limited.

Margaret is also Chairman of the Asia Pacific Business Coalition on HIV/AIDS, President of Australian Volunteers International, a member of the Foreign Affairs Council, a director of the Florey Neuroscience Institutes and a member of the Melbourne University Business School Association.

Before beginning her career as a full time company director in 1992, Margaret was a Partner of KPMG Peat Marwick's Management Consulting Division.

Other current directorships

Qantas Airways Limited
Australia and New Zealand Banking Group
Billabong International Limited

Former directorships in last 3 years

John Fairfax Holdings Ltd
4 February 2003 – 31 December 2004
Southcorp Limited
23 August 2004 – 26 May 2005

Special responsibilities

Member of Remuneration Committee, Nomination Committee, and Audit & Risk Committee.

Interests in Shares and Options

1,961,382 Ordinary Shares in FlexiGroup Limited

John DeLano (Age 47)

Non-Independent, Executive,
Chief Executive Officer
BA

Experience

John has been Chief Executive Officer of the Company since December 2006, and was appointed a Director of the Company in November 2006. John has been Chief Executive Officer of Flexirent Holdings Pty Limited since September 2003. John started his career with Avis Inc. in the United States before progressing to the position of Managing Director of Avis Australia. John was subsequently involved as Senior Vice President of operations with Travel Services International, a NASDAQ-listed company which successfully completed a roll-up of 23 leisure travel companies.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Chief Executive Officer.

Interests in Shares and Options

1,860,810 Ordinary Shares in FlexiGroup Limited held by John and Kylie DeLano as Trustees of the DeLano Family Investment Trust

340,000 Ordinary Shares in FlexiGroup Limited held by John DeLano as Trustee of the DeLano Superannuation Fund

680,000 Shares held by Afianzar Pty Ltd as Trustee of the KPP Superannuation Fund

5,437,500 Options issued under the FlexiGroup Long Term Incentive Plan held by Lakeview 1 Pty Ltd as Trustee of the DeLano Family Settlement

7,612,500 Options over Shares owned by Eighth SRJ Pty Limited and Viewlove Pty Limited held by Lakeview 1 Pty Ltd as Trustee of the DeLano Family Settlement



Andrew Abercrombie
(Age 51)

Non-Independent,
Non-Executive
BEc, LLB, MBA

Experience

Andrew became a director of the original Flexirent business in 1991. He was appointed a Director of the Company in November 2006. Andrew is an experienced commercial and tax lawyer and was a founding partner in a legal firm operating in both Sydney and Melbourne. Following several years in property investment and tax consulting, he became involved in the Flexirent business in 1991 and until 2003 was Chief Executive Officer.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Chair of Nomination Committee and Member of Remuneration Committee.

Interests in Shares and Options

65,228,250 Ordinary Shares in FlexiGroup Limited



Rajeev Dhawan
(Age 41)

Independent, Non-Executive
BCom, ACA, MBA

Experience

Rajeev represented Colonial First State Private Equity managed funds ("CFSPE") on the Board of Flexirent Holdings Pty Limited from February 2003 to December 2004. Upon CFSPE's exit from Flexirent Holdings in December 2004, Rajeev continued in an advisory capacity to the Flexirent business. Currently a partner of Equity Partners, Rajeev has 14 years venture capital and private equity experience and has been a director of a number of listed and unlisted portfolio companies.

Other current directorships

Snowball Group Limited

Former directorships in last 3 years

Traffic Technologies Limited

Special responsibilities

Chair of Remuneration Committee, Member of Audit & Risk Committee and Nomination Committee.

Interests in Shares and Options

732,564 Ordinary Shares in FlexiGroup Limited



R John Skippen
(Age 59)

Independent, Non-Executive
ACA

Experience

John was appointed a Director of the Company in November 2006. John was the Finance Director and Chief Financial Officer of Harvey Norman Holdings Limited for 12 years. John was involved in the establishment of the original agreement between Flexirent Holdings Pty Limited and Harvey Norman in 1995. John has over 30 years' experience as a chartered accountant.

Other current directorships

Briscoe Group Limited (NZ)

Former directorships in last 3 years

Harvey Norman Holdings Limited
Rebel Sport Limited
Pertama Holding Limited (Singapore)

Special responsibilities

Chair of Audit & Risk Committee, Member of Remuneration Committee and Nomination Committee.

Interests in Shares and Options

147,104 Ordinary Shares in FlexiGroup Limited

Meetings of Directors

FlexiGroup Limited										
	Scheduled Board Meetings		Unscheduled Board Meetings		Audit & Risk Committee		Nomination Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M Jackson	8	8	–	–	3	3	–	–	5	5
J DeLano**	10	10	–	–	+	+	+	+	+	+
A Abercrombie**	10	10	–	–	+	+	–	–	5	5
R Dhawan#	9	9	–	–	3	3	–	–	5	5
R J Skippen	8	8	–	–	3	3	–	–	5	5

* A subcommittee of the Board was appointed at the Board meeting on 13 December 2006 to deal with matters relating to the IPO.

A subcommittee of the Board was appointed on 11 December 2006 to deal with matters relating to the IPO.

+ Not a member of the relevant committee.

Company Secretary

The Company Secretary is Paul McMahon. Paul was appointed to the position of Company Secretary in November 2006. Paul has over 25 years' experience in the financial services industry.

Remuneration Report

The Group Remuneration Report for 2007, as presented below, has been prepared for consideration by Shareholders.

The remuneration report is set out under the following main headings:

- A** Principles used to determine the nature and amount of remuneration
- B** Details of remuneration
- C** Service agreements
- D** Share-based compensation – FlexiGroup Limited arrangements
- E** Share-based compensation – pre IPO arrangements of Flexirent Holdings Group
- F** Interest in Shares
- G** Additional information

The information provided under heading A-F includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. The disclosures have been transferred from the financial report and have been audited. The disclosures in Section G are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* and have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

The objective of the Group's executive reward framework is to ensure rewards for performance are competitive and appropriate for the results delivered. The framework aligns executive rewards with achievement of strategic objectives and the creation of value for Shareholders and conforms with market best practice for delivery of reward. The Board ensures that executive remuneration satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to Shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to Shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in Shareholder wealth as measured by growth in earnings per share and other financial and non-financial performance indicators
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in Shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short-and long-term incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on and the responsibilities of the Non-Executive Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Directors do not receive Share Options. Non-Executive Directors may opt each year to receive a percentage of their remuneration in FlexiGroup Limited Shares which would be acquired on-market. Shareholders approved this arrangement on 20 November 2006 but no Directors have as yet elected to participate in the arrangement.

Non-Executive Directors' fees

The current base remuneration was set when the Company listed on 12 December 2006. Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit of \$1.2m.

The following fee structure applied from 12 December 2006 (date of listing):

Base fees (per annum)

M Jackson (Chairman)	\$150,000
A Abercrombie	\$120,000
Other Non-Executive Directors	\$80,000

Additional fees (per annum)

Audit & Risk Committee – Chairman	\$10,000
Nomination Committee – Chairman	\$10,000
Remuneration Committee – Chairman	\$10,000

In addition to the above fees, Directors also receive superannuation contributions required under government legislation.

A Director is entitled to reimbursement for reasonable travelling, accommodation and other expenses in attending meetings and carrying out their duties.

Under Clause 10.11 of the Company's constitution, subject to the Listing Rules and Corporations Act, the Company may pay a former Director, or the personal representatives of a Director who dies in office, a retirement benefit in recognition of past services of an amount determined by the Directors. The Company may also enter into a contract with a Director providing for payment of the retiring benefit. No such contracts have been entered into to date. Despite having this clause in the Company's constitution, the Company does not intend to pay such benefits to Directors.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the FlexiGroup Long Term Incentive Plan
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Base pay

Executives are offered a competitive salary that comprises the components of base pay and benefits. Base pay for Senior Executives is reviewed annually by the Remuneration Committee to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Short-term performance incentives

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

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

All STI payments to Senior Executives are approved by the Remuneration Committee and are usually paid in late August or early September of the following financial year.

Using various profit performance targets and personal performance objectives assessed against KPIs, the Company ensures variable reward is only paid when value has been created for Shareholders.

For middle and lower level management, total STIs are linked to individual performance measures and also to the financial performance of the business.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Remuneration Committee.

The STI target annual payment is reviewed annually.

Long-term incentives

Long-term incentives to the Chief Executive Officer and certain senior employees are provided via the FlexiGroup Long Term Incentive Plan. Information on the plan is detailed on pages 26 to 31.

B Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the Directors and the Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of FlexiGroup Limited and its subsidiaries are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *Short-term performance incentives* above.

The Key Management Personnel of FlexiGroup Limited are the Directors and certain executives that report directly to the Chief Executive Officer. This includes the five Group executives who received the highest remuneration for the year ended 30 June 2007.

Key Management Personnel and other executives of the Group

The following amounts were paid to the Key Management Personnel during the year as part of their ongoing remuneration.

2007	Short-term employee benefits		Post- employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees \$	Cash bonus \$	Super- annuation \$	Long Service Leave \$	Options \$	Total \$
Non-Executive Directors of FlexiGroup Limited						
M Jackson (Chairman) ⁵	91,644	–	8,248	–	–	99,892
A Abercrombie ¹	160,083	–	17,598	–	–	177,681
R. Dhawan ⁶	54,986	–	4,949	–	–	59,935
RJ Skippen ⁷	54,986	–	4,949	–	–	59,935
Executives of FlexiGroup						
J DeLano Director and Chief Executive Officer	504,153	687,500	34,691	3,266	212,310	1,441,920
P McMahon ^{8,9} Chief Financial Officer	328,501	281,250	46,079	863	69,734	726,427
N Roberts ^{2,9} Head of Consumer Direct	261,800	179,000	17,636	–	64,581	523,017
P Laughton ^{3,9} Chief Information Officer	283,520	89,584	17,902	–	21,475	412,481
B Taylor ⁹ Chief Marketing Officer	223,486	63,036	20,114	519	8,414	315,569
D Berkman ⁴	131,923	–	11,873	–	–	143,796
	2,095,082	1,300,370	184,039	4,648	376,514	3,960,653

Notes:

- 1 Included in A Abercrombie's remuneration is \$98,096 which represents salary and superannuation paid to him while he was an employee of Flexirent Capital Pty Limited from 1 July 2006 to 8 December 2006.
- 2 N Roberts commenced employment on 15 August 2006.
- 3 P Laughton commenced employment on 1 August 2006.
- 4 D Berkman was a Director of Flexirent Holdings Pty Limited from 1 July 2006 to 8 December 2006. He did not receive any director's fees. The payment detailed above related to salary entitlements.
One-off remuneration amounts for Directors and Key Management Personnel either at the time of the IPO or were incurred prior to the IPO were as follows
- 5 At the time of the IPO, the former Shareholders of Flexirent Holdings Pty Limited agreed to procure that the Company issue 1,961,382 Shares at the issue price to M Jackson. This is a one-off charge to Share-based Payments Expense totalling \$3,922,764.
- 6 Included in R Dhawan's remuneration are:
 - Fees totalling \$929,203 paid to a Company related to R Dhawan representing fees for advice to Flexirent Holdings during the IPO and associated trade sale process.
 - At the time of the IPO, the former Shareholders of Flexirent Holdings Pty Limited agreed to procure that the Company issue 353,049 Shares at the issue price to R Dhawan. This is a one-off charge to Share-based Payments Expense totalling \$706,098.
 - Dhawan Trust (an entity associated with R Dhawan) had an equity participation entitlement in Flexirent Holdings Pty Limited. The Share-based Payment Expense in relation to the entitlement was \$35,661.
- 7 At the time of the IPO, the former Shareholders of Flexirent Holdings Pty Limited agreed to procure that the Company issue 147,104 Shares at the issue price to R J Skippen. This is a one-off charge to Share-based Payments Expense totalling \$294,208.
- 8 P McMahon received an incentive fee of \$100,000 relating to the IPO process.
- 9 P McMahon, N Roberts, P Laughton and B Taylor each received 500 Shares with a value of \$1,000 for nil consideration under the Employee Gift Offer made in December 2006.

Remuneration expense arising from Options issued to J DeLano and P McMahon by the former Shareholders of Flexirent Holdings Pty Limited was \$297,234 and \$42,462 respectively (refer to page 28 for further details of this arrangement).

As a result, the total Director and Key Management Personnel compensation is as follows:

	\$
Cash salary and fees	3,024,285
Cash Bonus	1,400,370
Post-Employment Benefits – Superannuation	184,039
Long Service Leave	4,648
Options	751,871
Share-based payments expense	4,927,070
	10,292,283

2006	Short-term employee benefits		Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Superannuation	Long Service Leave	Options	Total
Name	\$	\$	\$	\$	\$	\$
Directors of Flexirent Holdings Pty Limited						
A Abercrombie ¹	198,000	–	100,587	–	–	298,587
D Berkman ²	300,000	–	40,560	–	–	340,560
Executives of Flexirent Holdings Group						
J DeLano Chief Executive Officer	451,659	656,250	33,782	1,034	–	1,142,725
P McMahon Chief Financial Officer	304,129	183,486	27,062	496	5,973	521,146
B Taylor Chief Marketing Officer	203,364	96,000	18,303	299	605	318,571
	1,457,152	935,736	220,294	1,829	6,578	2,621,589

Notes:

- 1 A Abercrombie was a Director and employee of Flexirent Holdings Pty Limited during 2006. He received no director's fees.
- 2 D Berkman was a Director and employee of Flexirent Holdings Pty Limited during 2006. He received no director's fees.

The relative proportions of ongoing remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed Remuneration		At Risk – STI		At Risk – LTI	
	2007	2006	2007	2006	2007	2006
Executives of FlexiGroup						
A Abercrombie	100%	100%	–	–	–	–
J DeLano Chief Executive Officer	38%	43%	48%	57%	14%	–
P McMahon Chief Financial Officer	52%	64%	39%	35%	9%	1%
N Roberts Head of Consumer Direct	53%	–	34%	–	13%	–
P Laughton Chief Information Officer	73%	–	22%	–	5%	–
B Taylor Chief Marketing Officer	77%	70%	20%	30%	3%	–
D Berkman	100%	100%	–	–	–	–

C Service agreements (audited)

Remuneration and other terms of employment for the Chief Executive Officer and the other Key Management Personnel are formalised in service agreements. Each of these agreements can provide for the provision of short-term performance incentives, eligibility for the FlexiGroup Long Term Incentive Plan, other benefits including the use of a Company motor vehicle, tax advisory fees, payment of benefits forgone at a previous employer, relocation, living, tax equalisation, travel and accommodation expenses whilst an executive is required to live away from their normal place of residence.

All employment agreements are unlimited in term but capable of termination on up to three months' notice by either the Company or the executive. The Company can make a payment in lieu of notice.

In the event of retrenchment, the executives listed in the table on page 24 are entitled to the payment provided for in the service agreement. The employment of the executives may be terminated by the Company without notice by payment in lieu of notice.

The service agreements also contain confidentiality and restraint of trade clauses.

D Share-based compensation – FlexiGroup Limited arrangements (audited)

The FlexiGroup Long Term Incentive Plan ("LTIP") is part of FlexiGroup's remuneration strategy and is designed to align the interests of FlexiGroup management and Shareholders and assist FlexiGroup in the attraction, motivation and retention of executives. In particular, the LTIP is designed to provide relevant executives with an incentive for future performance, with conditions for the vesting and exercise of Options and Performance Rights under the LTIP encouraging those executives to remain with FlexiGroup and contribute to the future performance of the Company. The Company's founding Shareholders approved the terms, the implementation and the operation of the LTIP on 20 November 2006.

Under the LTIP, eligible persons participating in the LTIP may be granted Options and/or Performance Rights on terms and conditions determined by the Board from time to time. An Option and a Performance Right are both rights to acquire a Share, subject to the satisfaction of applicable vesting and/or exercise conditions. The main difference between an Option and a Performance Right is that an exercise price as determined by the Board is required to be paid to exercise a vested Option, whereas a Performance Right has a nil exercise price unless otherwise determined by the Board. Options and Performance Rights granted under the plan carry no dividend or voting rights.

The Board is responsible for administering the LTIP in accordance with the LTIP Rules and the terms and conditions of specific grants of Options and/or Performance Rights to participants in the LTIP.

The Board may determine which persons will be eligible to participate in the LTIP from time to time. Eligible persons may be invited to apply to participate in the LTIP. The Board may in its discretion accept such applications.

The terms and conditions of the Options and the Performance Rights are summarised below.

Details of the Options

Instrument	Each Option represents an entitlement to one ordinary Share.
Exercise Price	Determined at the time of invitation and payable by the Optionholder at the time of exercise.
Vesting Conditions	<p>Vesting to occur upon the satisfaction of the EPS and KPI performance conditions as summarised in this table and on page 28.</p> <p>Following the satisfaction of the performance hurdles described below, the Options comprising each Tranche will vest on, and become exercisable on or after the relevant Vesting Date.</p>
EPS Performance Target	<p>The basic EPS ("Basic EPS") for the purposes of the Options is equal to 13.0 cents per Share, being the pro forma forecast earnings per Share of FlexiGroup for FY2007 as calculated under Australian Accounting Standards Board ("AASB") 133, less the Share-based payment expense (as determined under AASB 2) relating to the grants of Options over Shares from Eighth SRJ Pty Limited and Viewlove Pty Limited (former Shareholders of Flexirent Holdings Pty Limited) to certain Senior Executives of the Group and adjusted for extraordinary items as determined by the Board.</p> <p>Performance testing ("Testing Date") against the EPS hurdle will take place on the date of announcement of the relevant annual financial results of FlexiGroup. For some but not all Tranches, retesting will occur at the retesting date in respect of the next financial year-end date immediately following the relevant initial Testing Date. Options that do not vest on retesting will be taken to have lapsed.</p> <p>The applicable EPS hurdle for each test period is measured on an annual compounding basis to the relevant performance test date, using the Basic EPS as the base line number. The Board has the discretion to vary at any time the EPS hurdle applicable to all or part of the Options.</p>
Why the EPS Performance Target was chosen	EPS was chosen as a performance condition as it is aligned to earnings growth and the generation of value to Shareholders.
KPI Performance Target	<p>The KPI hurdles may include any combination of operational, volume and product mix, cultural, financial and other measures as determined and modified by the Board from time to time.</p> <p>In the case of FY2007, the relevant KPI hurdles were determined by the Board. The KPI hurdles will be performance tested against these measures over each relevant financial year unless otherwise determined by the Board.</p> <p>In determining whether the KPI performance hurdles have been satisfied, a report is prepared for the Remuneration Committee detailing each KPI performance hurdle and the performance of the executive against that hurdle. The Remuneration Committee approves the rating for all KPI performance hurdles.</p>
Why the KPI Performance Target was chosen	KPI hurdles were included in the determination of awarding Options to ensure that financial and non-financial measures are aligned and drive Shareholder value.
Vesting Date	<p>Following the satisfaction of the performance hurdles applying to an Option, the Option vests on, and becomes exercisable on or after, a date predetermined by the Board ("Vesting Date").</p> <p>The Vesting Date is effectively the tenure condition. It means that an Optionholder may only exercise Options that vest following the satisfaction of the applicable performance hurdles on or after the Vesting Date provided that they remain employed by FlexiGroup as at the date.</p> <p>If an Optionholder ceases to be employed by FlexiGroup or any of its subsidiaries for any reason on or prior to the Vesting Date relating to a Tranche of Options, all Options in the Tranche will lapse immediately unless the Board makes a determination that those Options have vested.</p> <p>Following the Vesting Date or the accelerated vesting of an Option, the vested Option may be exercised by the executive subject to any exercise conditions and the payment of the Exercise Price (if any), and the executive will then be allocated or issued Shares on a one-for-one basis.</p>
Exercise Period	Vesting Date to Expiry Date.
Expiry Date	31 December 2011 or 31 December 2012 depending upon the Tranche.

Summary of performance targets for Options

EPS hurdle – % of Tranche Options vesting (applicable to 80% of each Tranche)							% of Tranche tied to KPI hurdle
Tranche	Equal to prospectus forecast EPS	5% or more than prospectus forecast EPS	Equal to 5% EPS growth	Equal to 10% EPS growth	Equal to 15% EPS growth	Equal to or more than 20% EPS growth	
1	60%	100%	–	–	–	–	20%
2	–	–	10%	33%	75%	100%	20%
3	–	–	10%	33%	75%	100%	20%
4	–	–	15%	50%	100%	–	20%

Not all Options have a Tranche 1. Where performance falls between target EPS thresholds (e.g. more than 5% EPS but less than 10% EPS) then pro-rata vesting will apply.

Options granted by former Shareholders of Flexirent Holdings Pty Limited to certain executives

Eighth SRJ Pty Limited as Trustee of the Philadelphia Trust and Viewlove Pty Limited as Trustee of David Berkman Family Trust, both former Shareholders of Flexirent Holdings Pty Limited, agreed at the time of the IPO to grant Options over Shares owned by them. The Options are over 6,995,034 Shares and 1,704,966 Shares respectively and are in favour of certain executives of the Company. These Options are subject to the same terms and conditions including achievement of performance hurdles and rights to exercise as the Options issued on 8 December 2006 to the Directors of the Company and Key Management Personnel.

A share-based payment expense relating to the Options granted by the former Shareholders is included in the statement of profit and loss and also in the remuneration tables on pages 24 and 25 for those executives who received the grant.

Details of the Performance Rights

This table sets out the details of the Performance Rights.

Instrument	Each Performance Right represents an entitlement to one ordinary Share.
Exercise Price	Nil
Vesting Conditions	<p>Vesting to occur on the achievement of one of the following conditions by June 2010:</p> <ul style="list-style-type: none"> • EPS of the Company for a financial year ending on or before 30 June 2010 is at least 24.6 cents per Share. The EPS target number may be adjusted as the Board reasonably determines. The actual EPS for a financial year will be that set out in the Company's annual audited accounts for the relevant financial year • The Company's market capitalisation is at least \$1.2 billion for a continuous period of six months based on the existing capital structure • A change of control of the Company occurring under a transaction that implies a market capitalisation value for the Company greater than \$1.2 billion based on the existing capital structure. <p>The Board will confirm in writing to the Performance Rights holders when any of the above conditions have been satisfied ("Confirmation Notice").</p>
Why Vesting Conditions were chosen	The Vesting Conditions were chosen as performance conditions as they reflect, at the date they were granted, the generation of significant Shareholder value.
Vesting Date	<p>Date the Company gives a Confirmation Notice.</p> <p>If one of the Vesting Conditions is met, the Performance Rights will vest. Should the Performance Rights holders cease to be employed on or prior to the Performance Rights vesting, all of the Performance Rights will lapse immediately unless the Board makes a determination that those Performance Rights have vested.</p> <p>Any Performance Rights that do not vest following the measurements of performance against the hurdles described above will lapse on the Expiry Date if not earlier.</p>
Exercise Period	Vesting Date to Expiry Date
Expiry Date	31 December 2011
Disposal Restriction	<ul style="list-style-type: none"> • 220,000 Performance Rights – six months from Vesting Date • 220,000 Performance Rights – 12 months from Vesting Date • 110,000 Performance Rights – 18 months from Vesting Date

The terms and conditions of each grant of Options to the Directors of the Company and Key Management Personnel of the Group that will affect remuneration in this or future reporting periods are as follows:

Options granted table

	Grant Date	Options granted by former Shareholders of Flexirent Holdings	Options granted under LTIP	Number of Options awarded (aggregate)
Directors of FlexiGroup Limited				
M Jackson	–	–	–	–
J DeLano	8 Dec 2006	7,612,500	5,437,500	13,050,000
A Abercrombie	–	–	–	–
R Dhawan	–	–	–	–
RJ Skippen	–	–	–	–
Executives of FlexiGroup				
P McMahon	8 Dec 2006	1,087,500	1,633,000	2,720,500
N Roberts	8 Dec 2006	–	1,654,000	1,654,000
P Laughton	8 Dec 2006	–	550,000	550,000
B Taylor	8 Dec 2006	–	200,000	200,000

Note:

1 The Exercise Price must be paid by the Optionholder to exercise the Option when the Option vests.

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Tranche number	Number of Options in each Tranche	Date vested	Date exercisable	Expiry Date	Exercise Price ¹	Fair value per Option at Grant Date
–	–	–	–	–	–	–
1	1,957,500	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
2	3,719,250	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
3	3,719,250	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
4	3,654,000	1 Jun 2011	1 Jun 2011	31 Dec 2012	\$2.00	41 cents
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
1	408,075	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
2	775,343	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
3	775,343	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
4	761,739	1 Jun 2011	1 Jun 2011	31 Dec 2012	\$2.00	41 cents
1	248,100	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
2	471,390	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
3	471,390	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
4	463,120	1 Jun 2011	1 Jun 2011	31 Dec 2012	\$2.00	41 cents
1	82,500	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
2	156,750	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
3	156,750	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
4	154,000	1 Jun 2011	1 Jun 2011	31 Dec 2012	\$2.00	41 cents
1	30,000	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
2	57,000	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
3	57,000	1 Sep 2010	1 Sep 2010	31 Dec 2011	\$2.00	40 cents
4	56,000	1 Jun 2011	1 Jun 2011	31 Dec 2012	\$2.00	41 cents

The Directors of the Company and Key Management Personnel of the consolidated entity were granted the following Options during the reporting period. No Performance Rights were issued to the Directors of the Company or Key Management Personnel of the consolidated entity during the reporting period.

Name	Number of Options awarded during the year ¹		Number of Options vested during the year	
	2007	2006	2007	2006
Directors of FlexiGroup Limited				
M Jackson	–	–	–	–
J DeLano	13,050,000	–	–	–
A Abercrombie	–	–	–	–
R Dhawan	–	–	–	–
RJ Skippen	–	–	–	–
Executives of FlexiGroup				
P McMahon	2,720,500	–	–	–
N Roberts	1,654,000	–	–	–
P Laughton	550,000	–	–	–
B Taylor	200,000	–	–	–

Note:

1 Included in the Options detailed in the table are the Options granted over 8,700,000 Shares owned by former Shareholders of Flexirent Holdings Pty Limited (refer to page 28 for further details).

The assessed fair value at Grant Date of Options granted to the individuals is allocated equally over the period from Grant Date to Vesting Date, and the amount is included in the remuneration table on page 24. Fair values at Grant Date are independently determined using a binomial tree option pricing methodology that takes into account the Exercise Price, the term of the Options, the impact of dilution, the Share Price at Grant Date and expected price volatility of the underlying Share, the expected dividend yield and the risk-free interest rate for the term of the Options.

The model inputs for Options granted during the year ended 30 June 2007 included:

- (a) Exercise Price: various per Options and Performance Rights granted
- (b) Grant Date: various per Options and Performance Rights granted
- (c) Expiry Date: various per Options and Performance Rights granted
- (d) Share Price at Grant Date: various per Options and Performance Rights granted
- (e) Expected price volatility of the Company's Shares: 26%–28% (2006 not applicable)
- (f) Expected dividend yield: 5%
- (g) Risk-free interest rate: various ranging from 5.73% to 6.14% (2006 not applicable).

Shares provided on exercise of remuneration Options

No ordinary Shares in the Company were issued as a result of the exercise of any remuneration Options.

Summary of performance criteria that must be met before Options vest

The Options issued on 8 December 2006 to the Directors of the Company and Key Management Personnel of the consolidated entity will be performance tested as follows:

Performance Targets

Performance Targets												% of Tranche tied to KPI hurdle
Tranche	Size (% of initial grant)	Testing Date	Vesting Date	EPS hurdle test period from date of grant to	Equal to forecast EPS %	5% or more than forecast EPS	EPS hurdle – % of Tranche Options vesting (applicable to 80% of each Tranche)				Equal to or more than 20% EPS growth	
							Equal to 5% EPS growth	Equal to 10% EPS growth	Equal to 15% EPS growth	Equal to 20% EPS growth		
1	15.0	30 Jun 2007	1 Sep 2010	30 Jun 2007	60	100	–	–	–	–	20	
2	28.5	30 Jun 2008	1 Sep 2010	30 Jun 2008	–	–	10	33	75	100	20	
3	28.5	30 Jun 2009	1 Sep 2010	30 Jun 2009	–	–	10	33	75	100	20	
4	28.0	30 Jun 2010	1 Jun 2011	30 Jun 2010	–	–	15	50	100	–	20	

EPS is measured on an annual compounding basis to the relevant performance Testing Date using the Basic EPS of 13.0 cents per Share detailed above as the base line number. Where performance falls between target EPS thresholds (e.g. more than 5% EPS but less than 10% EPS) then pro-rata vesting will apply.

Retesting of the EPS hurdle for any unvested Tranche 1 Options will not be permitted. Tranche 1 Options that do not vest on the measurement of the EPS hurdle will be taken to have lapsed under the LTIP rules.

Retesting of the EPS hurdle for any unvested Tranche 2, 3 and 4 Options will occur at the Testing Date in respect of the next financial year-end date immediately following the relevant initial Testing Date, with the measurement period taken from the date of grant of the Options to the relevant retesting date. Performance will be measured on a compounding basis. The Options that do not vest on retesting will be taken to have lapsed under the LTIP rules.

E Share-based compensation – pre IPO arrangements of Flexirent Holdings Group (audited)

At the time of the Initial Public Offering (“IPO”) of the Company, the previous Flexirent Holdings Group had entered into various share-based compensation arrangements with some of the Directors, executives and an adviser. These arrangements were dealt with at the time of the IPO as follows.

Cancellation of equity participation entitlement

Dhawan Trust (an entity associated with Rajeev Dhawan) had an equity participation entitlement in Flexirent Holdings Pty Limited (“Flexirent Holdings”). Dhawan Trust agreed with the Company, Flexirent Holdings, and the previous Shareholders to cancel this equity participation entitlement in return for a cash payment by the previous Shareholders. Dhawan Trust reinvested some of those proceeds and applied for 379,515 Shares at the offer price.

Cancellation of existing performance Options

Dhawan Trust and certain Senior Executives (“Flexirent Optionholders”) held Performance Options in Flexirent Holdings and Flexirent Capital Pty Limited (“Flexirent Capital”).

As part of the arrangement for the acquisition of Flexirent Holdings, the Company, Flexirent Holdings, and Flexirent Capital (and in respect of certain Flexirent Optionholders, also the previous Shareholders) entered into arrangements with the Flexirent Optionholders for the cancellation of their Options in return for cash payments of \$27.5 million in aggregate, some of which was funded by Flexirent Capital from existing cash reserves and the balance by the previous Shareholders. Four of the Flexirent Optionholders elected to reinvest all or part of the cash proceeds payable to them on cancellation of their Options and applied for Shares in the Company at the offer price. In total, 1,933,376 Shares were issued to the relevant Flexirent Optionholders in connection with these arrangements.

Certain existing Long Term Incentive Plan entitlements

Key Senior Executives and sales executives of the Flexirent Holdings Group were participants in Long Term Incentive Plans ("participants") established by Flexirent Capital. Under the terms of these Long Term Incentive Plans, the IPO triggered certain incentive entitlements becoming payable to the participants in three separate instalments, conditional broadly on the participants remaining employees of the Company at the time each instalment is payable.

The Company and Flexirent Capital entered into arrangements with the participants for the payment of their incentive entitlements as follows:

- the first instalment of their incentive payment (34% of the total amount) was payable on completion of the IPO and was satisfied by Flexirent Capital in the form of cash
- the obligations of Flexirent Capital in relation to the second and third instalments of their incentive payment (each 33% of the total amount) have been assumed by the Company and are included in the Options disclosed in this section
- Shares issued to participants are subject to escrow arrangements and are liable to be released or forfeited if the participant ceases to be an eligible employee of FlexiGroup (for the purpose of the terms of the Long Term Incentive Plans) within two years after the Shares are issued. If the participant ceases to be an eligible employee due to redundancy, the participant will become immediately entitled to all the Shares. If the participant ceases to be an eligible employee during a Tranche period due to a reason other than redundancy, summary dismissal or resignation, the participant will become immediately entitled to a proportion of the relevant Tranche of Shares relating to the Tranche period, pro-rata to length of time since the issue of the Shares or the prior anniversary date of the issue of the Shares (whichever is most recent). If the participant ceases to be an eligible employee for any other reason, the participant will forfeit all the Shares which have not been released from the escrow arrangements. If Shares are forfeited, the participant must procure, or permit the Company to procure, the on-market sale of the relevant number of Shares in the ordinary course of trading on ASX and pay the net proceeds of sale to the Company
- under the arrangements, a total of 2,416,942 Shares were issued to participants.

F Interest in Shares (audited)

As previous Shareholders, entities connected with A Abercrombie and J DeLano were issued 65,228,250 and 2,880,810 Shares respectively in connection with the Company's acquisition of Flexirent Holdings.

The previous Shareholders and Dhawan Trust agreed to procure that the Company issue 1,961,382 Shares to Margaret Jackson and 147,104 Shares to R John Skippen (or their associates) and 353,049 Shares to Dhawan Trust at the offer price, as part of the completion of the offer. Dhawan Trust was issued 379,515 Shares at the offer price through the reinvestment of part of the cash consideration payable on the cancellation of its equity participation entitlement described above.

The numbers of Shares in the Company held during the financial year by each Director of the Company and other Key Management Personnel of the Group, including their personally related parties, are following.

	Balance at the start of the year	Received from sale of Shares in Flexirent Holdings at IPO	Received from pre IPO share-based compensation arrangements ^{5,6}	Other changes during the year	Received at time of IPO	Balance at the end of the year
2007						
Directors of FlexiGroup Limited						
Ordinary Shares						
Margaret Jackson ¹	–	–	–	–	1,961,382	1,961,382
John DeLano ²	–	2,880,810	–	–	–	2,880,810
Andrew Abercrombie ³	–	65,228,250	–	–	–	65,228,250
R Dhawan ⁴	–	–	379,515	–	353,049	732,564
R John Skippen ¹	–	–	–	–	147,104	147,104
Executives of FlexiGroup						
Ordinary Shares						
P McMahon ⁷	–	–	440,044	–	500	440,544
N Roberts ⁸	–	–	–	–	500	500
P Laughton ⁹	–	–	297,000	1,000	500	298,500
B Taylor ¹⁰	–	–	395,999	25,000	500	421,499

Notes:

- 1 Shares issued at the direction of the previous Shareholders and Dhawan Trust as part of the acquisition of Flexirent Holdings Pty Limited.
- 2 1,860,810 Shares held by John and Kylie DeLano as Trustees of the DeLano Family Investment Trust, 680,000 Shares held by Afianzar Pty Ltd as Trustee of the KPP Superannuation Fund, 340,000 Shares held by John DeLano as Trustee of the DeLano Family Superannuation Fund and issued as consideration for the sale of Shares in Flexirent Holdings Pty Limited.
- 3 Shares held by Eighth SRJ Pty Limited as Trustee of the Philadelphia Trust and issued as consideration for the sale of Shares in Flexirent Holdings Pty Limited.
- 4 Shares held by B R Dhawan Trust comprising 732,564 Shares issued on the reinvestment of part of the cash proceeds from the cancellation of Dhawan Trust's equity participation entitlements and/or from the reinvestment of part of the cash consideration payable to Dhawan Trust on cancellation of its Performance Option and/or at the direction of existing Shareholders and Dhawan Trust.
- 5 In respect of the part cancellation of their Long Term Incentive Plan entitlement, cash payments were made to P Laughton of \$287,311 and B Taylor of \$383,081.
- 6 In respect of equity participation entitlements, cash payments were made to Dhawan Trust of \$5,305,405, DeLano Trust of \$14,396,235 and P McMahon of \$3,136,985.
- 7 Shares held by P McMahon. 440,044 Shares issued as part consideration on cancellation of his Performance Option and 500 Shares issued as part of the Employee Gift Offer at the time of the IPO.
- 8 Shares held by N Roberts. 500 Shares issued as part of the Employee Gift Offer at the time of the IPO.
- 9 Shares held by P Laughton. 297,000 Shares issued as part consideration on cancellation of her Long Term Incentive Plan entitlement, 500 Shares issued as part of the Employee Gift Offer at the time of the IPO and 1,000 Shares purchased at time of IPO.
- 10 Shares held by B Taylor. 395,999 Shares issued as part consideration on cancellation of his Long Term Incentive Plan entitlement. In addition, to the above Shares held by B Taylor, entities associated with B Taylor received 500 Shares as part of the Employee Gift Offer at the time of the IPO and 25,000 Shares were purchased at the time of the IPO.

All the shareholdings detailed above are subject to escrow arrangements as set out in the prospectus issued at the time of the IPO.

G Additional information – (unaudited)

Details of remuneration: cash bonuses and Options

For each cash bonus and grant of Options included in the tables on pages 24 and 25, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The Options vest in accordance with the vesting schedules detailed on page 33. No Options will vest if the conditions are not satisfied, hence the minimum value of the rights yet to vest is nil. The maximum value of the rights yet to vest has been determined as the amount of the fair value at Grant Date of the rights that are yet to be expensed.

2007	Cash Bonus			Options				
	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which Options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
Name								
Executive Directors of FlexiGroup Limited								
J DeLano (Chief Executive Officer)	100	Nil	2007	–	–	30 Jun 2011	NIL	3,064,903
Executives of FlexiGroup								
P McMahon	100	Nil	2007	–	–	30 Jun 2011	NIL	638,933
N Roberts	100	Nil	2007	–	–	30 Jun 2011	NIL	388,456
P Laughton	100	Nil	2007	–	–	30 Jun 2011	NIL	129,172
B Taylor	85	15	2007	–	–	30 Jun 2011	NIL	46,972

Share-based compensation: Options

Further details relating to Options are set out below.

2007	A	B	C	D	E
	Ongoing remuneration consisting of Options	Value at Grant Date \$	Value at Exercise Date \$	Value at Lapse Date \$	Total of columns B-D \$
Name					
Executive Directors of FlexiGroup Limited					
J DeLano (Chief Executive Officer)	14%	3,574,447	–	–	3,574,447
Executives of FlexiGroup					
P McMahon	9%	745,156	–	–	745,156
N Roberts	13%	453,037	–	–	453,037
P Laughton	5%	150,647	–	–	150,647
B Taylor	3%	54,781	–	–	54,781

A = The percentage of the value of remuneration consisting of Options, based on the value of Options expensed during the current year.

B = The value at Grant Date calculated in accordance with AASB 2 *Share-based Payment* of Options granted during the year as part of remuneration.

C = The value at Exercise Date of Options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the Options at that date.

D = The value at Lapse Date of Options that were granted as part of remuneration and that lapsed during the year. Lapsed Options refer to Options that vested but expired unexercised.

Shares under Options or Performance Rights

As at the date of this report, there were 16,829,500 unissued Ordinary Shares of FlexiGroup Limited subject to Options or Performance Rights. Of those unissued Ordinary Shares, 16,279,500 are subject to Options with possible Exercise Dates of 31 December 2011 or 31 December 2012 and Exercise Prices between \$2.00 and \$2.93 with a weighted average Exercise Price of \$2.17. The remaining 550,000 unissued ordinary Shares are the subject of Performance Rights with a possible Exercise Date of December 2011.

Options granted over 8,700,000 Shares by former Shareholders of Flexirent Holdings Pty Limited in favour of certain executives of the Company are not included in this calculation as the Shares have already been issued.

No Optionholder has any right under the Options to participate in any other Share issues of the Company or any other entity.

Directors' indemnification

During the year ended 30 June 2007, the Company paid insurance premiums in respect of a Directors' and Officers' Liability Insurance contract. Disclosure of the total amount of the premium and the nature of the liabilities in respect of such insurance is prohibited by the policy.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provisions of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principle relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related parties:

	Consolidated 2007 \$	2006 \$	Parent entity 2007 \$	2006 \$
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	491,110	255,000	–	–
Total remuneration for audit services	491,110	255,000	–	–
Other assurance services				
PricewaterhouseCoopers Australian firm:				
Agreed upon procedures	44,777	13,500	–	–
Controls assurance services	15,000	–	–	–
AI/FRS services	–	20,000	–	–
Related practices of PricewaterhouseCoopers Australian firm				
Due diligence and other services related to the IPO	1,894,974	530,000	–	–
Total remuneration for other assurance services	1,954,751	563,500	–	–
Total remuneration for assurance services	2,445,861	818,500	–	–
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	66,965	503,000	–	–
Tax advice on transactions	215,940	–	–	–
Total remuneration for taxation services	282,905	503,000	–	–

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and transaction advisory services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

Declaration of interests

Other than as disclosed in the financial report, no Director of the Company has received or become entitled to receive a benefit other than remuneration by reason of a contract made by the Company or a related corporation with a Director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest except that Flexirent Capital Pty Limited has rented premises in Melbourne and Sydney owned by a company associated with A Abercrombie. The lease is on standard market terms.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

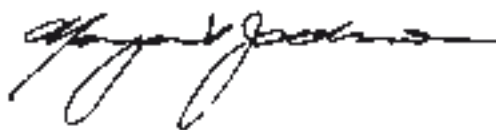
Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 40 and forms part of this report.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This Directors' Report is made in accordance with a resolution of the Directors.



Margaret Jackson

Chairman

Sydney

28 August 2007

Auditor's Independence Declaration



PricewaterhouseCoopers
 ABN 52 780 433 757
 Darling Park Tower 2
 201 Sussex Street
 GPO BOX 2650
 SYDNEY NSW 1171
 DX 77 Sydney
 Australia
www.pwc.com/au
 Telephone +61 2 8266 0000
 Facsimile +61 2 8266 9999

PricewaterhouseCoopers
 ABN 52 780 433 757

Darling Park Tower 2
 201 Sussex Street
 GPO BOX 2650
 SYDNEY NSW 1171
 DX 77 Sydney
 Australia
www.pwc.com/au
 Telephone +61 2 8266 0000
 Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the audit of FlexiGroup Limited and its controlled entities for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of FlexiGroup Limited and its controlled entities during the period.

PricewaterhouseCoopers

Victor Clarke
 Partner

Sydney
 28 August 2007

Corporate Governance

Composition of the Board

At the date of this statement, the Board comprises four Non-Executive Directors, three of whom are independent and one Executive Director (Chief Executive Officer). The names of the Directors, including details of their qualifications and experience, are set out in the Information on Directors section of the 2007 FlexiGroup Limited Annual Report.

Role of the Board

The role of the Board is to provide overall strategic guidance for the Company and effective oversight of management.

The primary responsibilities of the Board include:

- overseeing the development of the Company's corporate strategy including reviewing and approving strategic plans and performance objectives of the Company
- the appointment of the Chief Executive Officer and Senior Executives, monitoring senior management's performance and approving senior management remuneration policies and practices
- effective communication with Shareholders including reporting to Shareholders and ensuring that all regulatory requirements are met
- establishing and monitoring policies governing the Company's relationship with other stakeholders and the broader community, including establishing and maintaining environmental, employment, occupational, health and safety policies
- actively promoting ethical and responsible decision-making
- reviewing and approving annual and half-yearly financial reports, monitoring financial results on an ongoing basis, overseeing the Company's accounting and financial management systems, approving and monitoring major capital expenditure, capital management, major acquisitions, divestitures, restructures and determining dividend policy
- establishing and overseeing the Company's controls and systems for identifying, assessing, monitoring and reviewing material risks.

Independent professional advice

Following consultation with the chairperson, Directors may seek independent professional advice at the Company's expense. Generally, this advice will be available to all Directors.

Performance assessment

The Board undertakes an annual self-assessment of its collective performance, the performance of the Chairman and of its Committees. The Chairman meets privately with each Director to discuss individual and collective performance of Directors.

Re-election of Directors

At each Annual General Meeting of the Company there must be an election of Directors. The Directors who must retire from office (but are eligible to stand for re-election) at the Annual General Meeting are as follows:

- (a) each Director who has held office without re-election:
 - i. beyond the third Annual General Meeting following the Director's appointment or last election, or
 - ii. for at least three years, whichever is the longer period
- (b) each Director who was appointed by the Directors under article 10.7 of the constitution
- (c) if none of (a) or (b) is applicable, the Director who has served in office longest without re-election. If there are two or more such Directors who have been in office an equal length of time, then in default of agreement, the Director to retire will be determined by lot.

Conflicts of Interest

Directors are required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict may exist, the Director concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered. Additionally, Directors are required to advise the Board of any board or executive appointments to other companies and any related party transactions including financial transactions with the Group.

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Financial reporting

The CEO and CFO have certified to the Board that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards. The Board receives monthly reports from management on the financial and operational performance of the Group.

Board Committees

The Board may delegate responsibility to Committees to consider certain issues in further detail and then report back to and advise the Board.

Committees established by the Board have adopted charters setting out the authority, responsibilities, membership and operation of the Committee.

There are currently three Committees:

- Audit & Risk Committee
- Nomination Committee
- Remuneration Committee.

The Board Charter is available on the FlexiGroup website.

Audit & Risk Committee

The role of the Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including oversight of:

- (a) the integrity of the Company's external financial reporting and financial statements
- (b) the appointment, remuneration, independence and competence of the Company's external auditors
- (c) the performance of the external audit function and review of its audits
- (d) the effectiveness the Company's system of risk management and internal controls, and
- (e) the Company's systems and procedures for compliance with applicable legal and regulatory requirements

The Audit & Risk Committee provides advice to the Board and reports on the status and management of the risks to the Company. The purpose of the Committee's risk management process is to ensure that risks are identified, assessed and appropriately managed.

The Board has adopted a policy regarding the services that the Company may obtain from its external auditor. It is the policy of the Company that its:

- external auditing firm must be independent of the Company, the Directors and Senior Executives. To ensure this, the Group will require a formal confirmation of independence from its external auditor on an annual basis, and

- external auditor may not provide services to the Company that are perceived to be materially in conflict with the role of the external auditor. Services which involve the external auditor acting in a managerial or decision-making capacity, or processing or originating transactions, are not appropriate. However, the external auditor may be permitted to provide additional services, which are not perceived to be materially in conflict with the role of the external auditor if the Board or Audit & Risk Committee has approved those additional services or they fall within the terms of any approved policy. Such additional services may include financial audits, audits or reviews undertaken for regulatory purposes, completion audits, tax compliance, advice on accounting standards, and due diligence on certain acquisition or sale transactions.

The Committee must comprise at least three Directors, all of whom must be Non-Executive Directors and a majority of whom must be independent. The Chairman of the Committee must be an independent Non-Executive Director who is not the Chairman of the Board.

The Committee will meet as often as is required to undertake its role effectively. The Chief Executive Officer and Chief Financial Officer are expected to attend each scheduled meeting of the Committee and a standing invitation will be issued to the external auditors.

The Committee chairperson may also invite Directors who are not members of the Committee, other Senior managers and external advisers to attend meetings of the Committee. The Committee may request Management and/or others to provide such input and advice as is required. The Committee will regularly report to the Board about Committee activities, issues and related recommendations.

The Audit & Risk Committee Charter is available on the FlexiGroup website.

The Committee comprises R John Skippen (chair), Margaret Jackson and Rajeev Dhawan.

Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and policies related to the Directors, the Chief Executive Officer and Senior Executives and to ensure that the remuneration policies and practices are consistent with the Company's strategic goals, human resource objectives and comply with relevant legal requirements.

The Committee will consist of at least three members. The Company will endeavour to ensure that a majority of the members are independent, Non-Executive Directors.

The Committee will meet as often as is required to perform its functions.

The Remuneration Committee Charter is available on the FlexiGroup website.

The Committee comprises Rajeev Dhawan (chair), Margaret Jackson, R John Skippen and Andrew Abercrombie.

Nomination Committee

The Committee assists and advises the Board on:

- (a) Director selection and appointment practices
- (b) Director performance evaluation processes and criteria
- (c) Board composition, and
- (d) succession planning for the Board and senior management.

The Committee also ensures that the Board is of a size and composition conducive to making decisions expediently, with the benefit of a variety of perspectives and skills, and in the best interests of the Company as a whole.

The Committee will consist of at least three members. The Company will endeavour to ensure that a majority of the Committee members are independent, Non-Executive Directors.

The Nomination Committee Charter is available on the FlexiGroup website.

The Committee comprises Andrew Abercrombie (chair), Margaret Jackson, R John Skippen and Rajeev Dhawan.

Code of Conduct

The Company has adopted a Code of Conduct. The Code of Conduct ("Code") sets out the ethical standards and rules of the Company and provides a framework for how the Company will operate its business in a manner that will protect its stakeholders.

The Code applies to all Directors, officers, employees, contractors, consultants and associates of the Company.

The Code specifically covers: conflicts of interest, corporate opportunities and other benefits, confidentiality, privacy, fair dealing, discrimination, protection of and use of the Company's assets and property, compliance with laws and regulations, approach to disclosure and financial reporting, insider trading, whistleblower protection.

The Code of Conduct is available on the FlexiGroup website.

Communications with Shareholders

The Company communicates to Shareholders through the Company's annual reports, Annual General Meeting, half-year and full-year results and Company website. All announcements are made available on the website.

During periods of particular sensitivity, the Company's policy is to avoid any discussion with Shareholders, media, analysts or other market operators for 30 days prior to the close of the half- and full-year accounting

periods to the time of the half- and full-year profit announcements. This policy is subordinate to the ASX requirements of continuous disclosure.

Continuous disclosure

The Company Secretary has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, Shareholders, the media and the public. All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed following half-year and full-year results announcements, the material used in the presentations is released to the ASX prior to the commencement of the briefing. This information is also posted on the Company's website. The Company ensures that if any price-sensitive information is inadvertently disclosed, this information is also immediately released to the market. The Company is committed to ensuring that all stakeholders and the market are provided with relevant and accurate information regarding its activities in a timely manner.

Directors and senior management dealings in Company securities

The Company's constitution permits Directors to acquire securities in the Company. However, the Board has adopted a Trading Policy that prohibits Directors, senior management and staff from dealing in the Company's securities at any time whilst in possession of price-sensitive information which is not generally available to the marketplace.

The following approvals must also be obtained before a Director or designated person can deal in the Company's securities:

Person	Approval required from
Chairman	Chairman of the Audit & Risk Committee and Chief Executive Officer
Managing Director or Chief Executive Officer	Chairman
Directors (except Chairman)	Chairman
Chief Financial Officer or Company Secretary	Chief Executive Officer
Direct reports to Chief Executive Officer and other designated persons nominated by the Board	Chief Financial Officer

The share dealing policy also extends to dealing in a financial product which operates to limit the economic risk of a holding in the Company's securities. Dealing in those types of products is not permitted.

The granting of approval to deal in the Company's securities is coordinated by the Company Secretary who is also responsible for reporting all transactions by Directors, Senior Managers and designated persons to the Board.

In accordance with the provisions of the *Corporations Act 2001* and the Listing Rules of the Australian Securities Exchange ("ASX"), the Company advises the ASX of any transaction conducted by Directors in securities in the Company.

The share trading policy is made available to employees through the Company's internal compliance and governance intranet sites and is also included in the Offer of Employment to new employees.

The Trading Policy is on the FlexiGroup website.

External auditors

PricewaterhouseCoopers was appointed as the external auditors in 2005. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years. The performance of the external auditors is reviewed annually. An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in the notes to the Full Financial Report. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit & Risk Committee. The external auditors are required to attend the Annual General Meeting and be available to answer Shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

Loans to Directors and executives

Directors of FlexiGroup Limited or the specified executives of the consolidated entity, including their personally related entities, who had loans with the Company during the year are detailed in note 29 of the financial statements.

Indemnification

The constitution of the Company provides an indemnity (to the maximum extent permitted by law) in favour of current and past Directors, Company Secretaries, and all other past and present executive officers when acting in these capacities in respect of:

- (a) all liabilities to another person (other than the Company or related entities) if the relevant officers have acted in good faith, and
- (b) the costs and expenses of successfully defending legal proceedings.

Under Deeds of Access and Indemnity, the Company has agreed to indemnify each current Director and each Company Secretary for all liabilities that may arise as a result of the Director or Company Secretary acting in that capacity to the full extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including legal costs.

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Financial Report

as at 30 June 2007

FlexiGroup Limited and its controlled entities
Annual financial report – 30 June 2007
ACN 122 574 583

FlexiGroup Limited was incorporated on 14 November 2006 and acquired 100% of the share capital of Flexirent Holdings Pty Limited on 12 December 2006. Consolidated information presented in this report is for the financial year ended 30 June 2007 for the consolidated Group. Parent entity information for FlexiGroup Limited is for the period 14 November 2006 to 30 June 2007 unless otherwise stated.

This financial report covers both FlexiGroup Limited as an individual and the consolidated entity consisting of FlexiGroup Limited and its subsidiaries. The financial report is presented in Australian currency.

FlexiGroup Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8, The Forum
201 Pacific Highway
St Leonards NSW 2065

A description of the nature of the entity's operations and its principal activities is included in the review of operations and activities in the Directors' Report on page 18, both of which are not part of this financial report.

The financial report was authorised for issue by the Directors on 28 August 2007. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at Investor Information on our website: www.flexigroup.com.au

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Income Statements

for the period ended 30 June 2007

	Notes	Consolidated 2007 \$'000	2006 \$'000	Parent entity 2007 \$'000	2006 \$'000
Revenue from continuing operations	5	141,869	120,588	31	–
Borrowing costs		(38,459)	(34,419)	–	–
Employee benefits expense		(27,311)	(25,060)	–	–
Impairment losses on loans and receivables	6	(14,528)	(10,573)	–	–
Administration expenses		(8,972)	(9,426)	–	–
Share-based payments expense		(6,226)	(50)	(4,923)	–
Depreciation and amortisation expenses	6	(3,285)	(3,475)	–	–
Communications and MIS expenses		(2,218)	(1,672)	–	–
Marketing expenses		(2,956)	(4,233)	–	–
Travel expenses		(1,012)	(738)	–	–
Profit before income tax		36,902	30,942	(4,892)	–
Income tax expense	7	(13,473)	(8,863)	(9)	–
Profit for the period	27(b)	23,429	22,079	(4,901)	–

	Notes	Cents	Cents
Earnings per Share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per Share	37	17.4	67.9
Diluted earnings per Share	37	16.4	67.9

The above income statements should be read in conjunction with the accompanying notes.

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Balance Sheets

as at 30 June 2007

	Notes	Consolidated 2007 \$'000	2006 \$'000	Parent entity 2007 \$'000	2006 \$'000
Assets					
Current assets					
Cash and cash equivalents	8	56,677	36,880	–	–
Receivables	9	228,632	209,704	–	–
Loans	10	6,424	1,729	8,677	–
Rental equipment	11	2,966	2,659	–	–
Total current assets		294,699	250,972	8,677	–
Non-current assets					
Receivables	12	234,210	214,548	–	–
Loans	13	31,586	5,871	–	–
Plant and equipment	14	3,325	3,599	–	–
Deferred tax assets	15	6,100	3,930	2,028	–
Goodwill	16	50,159	50,159	–	–
Other intangible assets	17	5,446	4,084	–	–
Other financial assets	18	–	–	429,198	–
Total non-current assets		330,826	282,191	431,226	–
Total assets		625,525	533,163	439,903	–
Liabilities					
Current liabilities					
Payables	19	19,498	17,240	–	–
Borrowings	20	218,498	195,975	–	–
Current tax liability	21	9,325	9,083	8,179	–
Provisions	22	554	490	–	–
Total current liabilities		247,875	222,788	8,179	–
Non-current liabilities					
Borrowings	23	269,173	230,657	–	–
Deferred tax liabilities	24	24,335	21,730	–	–
Provisions	25	269	348	–	–
Total non-current liabilities		293,777	252,735	–	–
Total liabilities		541,652	475,523	8,179	–
Net assets		83,873	57,640	431,724	–
Equity					
Contributed equity	26	29,422	20,965	435,322	–
Reserves	27(a)	(5,212)	441	1,303	–
Retained profits	27(b)	59,663	36,234	(4,901)	–
Total equity		83,873	57,640	431,724	–

The above balance sheets should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the period ended 30 June 2007

	Notes	Consolidated 2007 \$'000	2006 \$'000	Parent entity 2007 \$'000	2006 \$'000
Total equity at the beginning of the financial period		57,640	35,850	–	–
Exchange differences on translation of foreign operation		544	(339)	–	–
Net income/(loss) recognised directly in equity	27(a)	544	(339)	–	–
Profit for the period		23,429	22,079	(4,901)	–
Total recognised income and expense for the period		23,973	21,740	(4,901)	–
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs		8,457	–	435,322	–
Movement in share-based payments reserve	27(a)	(6,197)	50	1,303	–
		2,260	50	436,625	–
Total equity at the end of the financial period		83,873	57,640	431,724	–

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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Cash Flow Statements

For the period ended 30 June 2007

	Notes	Consolidated 2007 \$'000	2006 \$'000	Parent entity 2007 \$'000	2006 \$'000
Cash flows from operating activities					
Lease rentals received		389,666	347,453	–	–
Loan repayments received		5,610	1,351	–	–
Bank interest received		4,348	2,785	–	–
Other portfolio income and rental asset disposal proceeds		46,934	27,965	–	–
Payment to suppliers and employees		(392,472)	(332,188)	–	–
Loans advanced		(36,503)	(9,088)	8,744	–
Borrowing costs		(38,459)	(34,419)	–	–
Net increase in borrowings		72,558	24,044	–	–
Loss reserve payments		(11,519)	(10,993)	–	–
Taxation paid		(10,265)	(606)	(2,571)	–
Net cash inflow provided from operating activities	31	29,898	16,304	6,173	–
Cash flows from investing activities					
Payments for purchase of plant and equipment	14	(857)	(362)	–	–
Payments for purchase of software	17	(2,666)	(2,269)	–	–
Proceeds from disposals of plant and equipment		123	2	–	–
Repayment of loans by related parties		500	–	–	–
Loans to Shareholder-related entities		–	(7)	(266,287)	–
Net cash (outflow)/inflow from investing activities		(2,900)	(2,636)	(266,287)	–
Cash flows from financing activities					
Share capital raised		–	–	260,114	–
Share-based payments paid	27(a)	(7,500)	–	–	–
Net cash (outflow)/inflow from financing activities		(7,500)	–	260,114	–
Net increase/(decrease) in cash and cash equivalents		19,498	13,668	–	–
Cash and cash equivalents at the beginning of the financial period		36,880	23,212	–	–
Effects of exchange rate changes on cash and cash equivalents		299	–	–	–
Cash and cash equivalents at end of period	8	56,677	36,880	–	–
Financing arrangements	23				

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for FlexiGroup Limited as an individual entity and the consolidated entity consisting of FlexiGroup Limited and its subsidiaries.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of FlexiGroup Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

b. Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of FlexiGroup Limited ("Company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. FlexiGroup Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition of Flexirent Holdings Pty Limited by FlexiGroup Limited was identified as a reverse acquisition and the consolidated financial statements have therefore been prepared as a continuation of the financial statements of the accounting acquirer, Flexirent Holdings Pty Limited. Accordingly, consolidated comparative information is provided for the balance sheet and related information as at 30 June 2006 and the income statement, cash flow statement, statement of changes in equity and related information for the year to 30 June 2006. Only current year figures covering the period from incorporation are shown for the parent entity, FlexiGroup Limited.

As a result:

- the retained earnings of the Group represent the retained earnings of Flexirent Holdings Pty Limited from the date of its incorporation, plus the results of other combining entities from the date of acquisition
- the consolidated balance sheet comprises the existing consolidated net assets of Flexirent Holdings Pty Limited and its controlled entities measured at their historical cost, plus the fair value of the net assets of the other combining entities
- the financial report includes comparatives for the Flexirent Holdings Pty Limited Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of FlexiGroup Limited.

c. Segment reporting

The Group operates predominantly in one business segment (financial services) and one geographical segment (Australasia).

d. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is FlexiGroup Limited's functional and presentation currency.

ii. 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, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investments in foreign operations.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

iii. Group companies

The results and financial position of all the Group entities (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 financial instruments designated as hedges of such investments, are taken to Shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

1 Summary of significant accounting policies (continued)

e. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

i. Lease finance interest revenue

Lease finance interest revenue is recognised by applying discount rates implicit in the leases to lease balances receivable at the beginning of each payment period.

Secondary lease income, including rental income on extended rental assets is recognised when it is due on an accrual basis. Proceeds from the sale of rental assets are recognised upon disposal of the relevant assets.

ii. Interest income and expense

Interest income on loans and cash balances is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

iii. Other revenue

The Company operates an equipment protection and debt waiver plan entitled Protect Plan. Protect Plan revenue is recognised in the month it is due on an accruals basis. A provision for outstanding expected claims is recognised in the statement of financial position for the cost of Protect Plan claims which have been incurred at year-end, but have not yet been notified to the Company, or which have been notified to the Company but not yet paid.

f. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

FlexiGroup Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, FlexiGroup Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity in the tax consolidation was a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, FlexiGroup Limited also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 7. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidation entities.

g. Lease receivables

The Group has classified its leases as finance leases for accounting purposes. Under a finance lease, substantially all the risks and benefits incidental to the ownership of the leased asset are transferred by the lessor to the lessee. The Group recognises at the beginning of the lease term an asset at an amount equal to the aggregate of the present value (discounted at the interest rate implicit in the lease) of the minimum lease payments and an estimate of the value of any unguaranteed residual value expected to accrue to the benefit of the Group at the end of the lease term.

i. Unearned interest

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

ii. Initial direct transaction costs

Initial direct costs (leases) or transaction costs (loans) incurred in origination of leases and loans are included as part of receivables in the statement of financial position and are amortised in the calculation of lease income and interest income.

h. Loan receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides loans to customers via products such as a Personal or Business Loan.

i. Allowance for losses

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

j. Leases – used by the group

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases; see note 30. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

k. Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1 Summary of significant accounting policies (continued)

I. Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short-term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Group had no assets in this category at 30 June 2007.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9, 10, 12 and 13).

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

The Group had no assets in this category at 30 June 2007.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The Group had no assets in this category at 30 June 2007.

Regular purchases and sales of investments are recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity specific inputs.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

m. Rental equipment

Rental equipment is carried at the lower of cost and net realisable value and comprises returned rental equipment and items remaining on rental after the end of the contractual rental period.

n. Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation is calculated using the diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Depreciable asset	Depreciation rate
Plant and equipment	20%–40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset disposed. These are included in the income statement.

o. Intangibles

i. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

ii. Software development

Costs incurred on software development projects (relating to the design and testing of new or improved software products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are recorded as an intangible asset and amortised from the point at which the asset is ready for use on a diminishing value basis over its useful life, which is assessed at 2.5 years.

iii. Contractual payments for access rights

Payments to dealers or dealer groups that result in the Group acquiring a preference to supply services are capitalised as intangible assets, and amortisation commences from the start of the supply service period. The carrying value is tested for impairment annually or more frequently if events or changes in circumstances indicate it might be impaired.

1 Summary of significant accounting policies (continued)

p. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

q. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

r. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

s. Borrowing costs

Borrowing costs are expensed.

t. Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events if it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

u. Employee benefits

i. Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating vesting sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

ii. Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

iii. Profit-sharing and bonus plans

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

iv. Share-based payments

Share-based compensation benefits are provided to certain employees. Information relating to these schemes is set out in note 38.

The fair value of such instruments is recognised as an expense with a corresponding increase in equity. The fair value is measured at Grant Date and recognised over the period during which the relevant party becomes unconditionally entitled to the instruments.

Fair values at Grant Date are independently determined using a binomial tree option pricing methodology that takes into account the Exercise Price, the term of the Options, the impact of dilution, the Share Price at Grant Date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Options.

The fair value of the instruments granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number and value of instruments that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of instruments that are expected to become exercisable. The share-based payment expense recognised each period takes into account the most recent estimate.

Upon the exercise of instruments, the balance of the share-based payments reserve relating to those instruments is transferred to share capital and the proceeds received (if any), net of any directly attributable transaction costs, are credited to share capital.

v. Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

w. Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

x. Earnings per share

i. Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

ii. Diluted earnings per share

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

1 Summary of significant accounting policies (continued)

y. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from taxation authorities. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

In the balance sheets receivables and payables are stated inclusive of the amount of GST receivable or payable, with the exception of lease receivables, which are shown net of GST on the rentals not yet due. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

z. Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

aa. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

ab. New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 7 Financial Instruments: Disclosures* and *AASB 2005-10 Amendments to Australian Accounting Standards* (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, and AASB 1038)

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007.

The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.

(ii) *AASB-I 10 Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to annual reporting commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

(iii) **Revised AASB 101 *Presentation of Financial Statements***

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standard early. Application of the revised standard will not have any impact on the Group's financial statements.

(iv) **AASB-I 11 AASB 2 *Group and Treasury Share Transactions* and AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11***

AASB-I 11 and AASB 2007-1 are effective for annual reporting periods commencing on or after 1 March 2007. AASB-I 11 addresses whether certain types of share-based payment transactions should be accounted for as equity-settled or as cash settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The Group will apply AASB-I 11 from 1 July 2007, but it is not expected to have any impact on the Group's financial statements.

(v) **Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 and 12)**

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. As the Group already capitalises its borrowing costs relating to qualifying assets, there will be no impact on the financial report when adopted.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (currency risk), credit risk, liquidity risk and interest rate risk.

The Group's overall risk management framework seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is primarily carried out by the treasury department and the credit and risk department.

a. Market risk

Foreign exchange risk

The Group is exposed to foreign exchange risk through its operations in New Zealand.

This risk is not considered material as loans extended by the Australian operations to its New Zealand subsidiary have been repaid (2006: A\$2.2million).

b. Credit risk

As the principal activities of the Group continue to be the provision of lease, loan and rental financing, the Group is exposed to credit risk.

This credit risk is mitigated through:

- formally documented credit policies and processes
- use of statistical-based credit scorecards.

The Group has no significant concentrations of credit risk.

c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available from a number of financial institutions and investing in highly liquid and rated money market investments.

d. Interest rate risk

The Group's potential interest rate risk arises from the spread between borrowings and interest earned from the receivable portfolio. The Group's receivable portfolio is comprised entirely of fixed rate loans. The Group manages its interest rate risk by funding its loan portfolio through predominantly borrowing from funders at a fixed rate of interest.

The Group has no interest rate hedging or derivative contracts outstanding.

3 Critical accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Estimation of unguaranteed residuals on leases

The Group estimates the value of unguaranteed lease residuals based on its prior experience for similar contracts.

ii. Allowance for losses

The Group estimates losses incurred on its loans and lease receivables in accordance with the policy set out in note 1(i).

iii. Resetting of the Group's tax cost base

As a result of the creation of a new tax consolidation group on 11 December 2006 following the acquisition of Flexirent Holdings Pty Limited by FlexiGroup SubCo Pty Limited, the Group is required to reset for taxation purposes the tax cost base of each of its assets. In order to complete this task, the Group is in the process of obtaining formal valuations of each asset, as well as tax advice on the process for resetting the tax cost base. It is possible that the Group will also seek a private ruling from the Australian Taxation Office before resetting its tax cost base.

At this time it is not possible to quantify the impact of resetting the tax base, however based on information currently available to the Directors, it is unlikely that a loss will arise, and it is possible that a one-off gain will arise for the Group. Any adjustment arising from the impact of resetting the tax cost base will be recognised when the Directors are satisfied that the adjustment is probable.

4 Segment information

The Group operates predominantly in one business segment (financial services) and one geographical segment (Australasia).

5 Revenue

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
From continuing operations				
Gross interest and finance lease income	126,207	112,687	–	–
Amortisation of initial direct transaction costs (note 1(g))	(26,505)	(23,248)	–	–
Interest on leases and loan receivables	99,702	89,439	–	–
Other portfolio income	37,252	28,196	–	–
Other revenue				
Interest income – Banks	4,348	2,785	31	–
Sundry income	567	168	–	–
	141,869	120,588	31	–

6 Expenses

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Profit before income tax includes the following specific expenses:				
Depreciation				
– Plant and Equipment	1,007	1,191	–	–
Amortisation				
– Software	2,278	2,284	–	–
Total depreciation and amortisation expenses	3,285	3,475	–	–
Bad debts written off	13,635	10,890	–	–
Movement in allowance for losses	893	(317)	–	–
Losses on loans and receivables	14,528	10,573	–	–

7 Income tax expense

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax	10,505	8,994	(496)	–
Deferred tax	2,968	419	505	–
Under/(over) provided in prior years	–	(550)	–	–
	13,473	8,863	9	–
Income tax expense is attributable to:				
Profit from continuing operations	13,473	8,863	9	–
Aggregate income tax expense	13,473	8,863	9	–
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets (note 15)	363	(746)	505	–
(Decrease)/increase in deferred tax liabilities (note 24)	2,605	1,165	–	–
	2,968	419	505	–
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax	36,902	30,942	(4,892)	–
Tax at the Australian tax rate of 30% (2006: 30%)	11,071	9,283	(1,468)	–
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Share-based payments	1,868	–	1,477	–
Sundry items	534	130	–	–
	13,473	9,413	9	–
Under/(over) provision in prior years	–	(550)	–	–
	13,473	8,863	9	–

7 Income tax expense (continued)

(c) Tax consolidation legislation

FlexiGroup Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation from December 2006. Previously Flexirent Holdings Pty Limited was the head entity of the tax consolidated group. The accounting policy on implementation of the legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, FlexiGroup Limited.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate FlexiGroup Limited for any current tax payable assumed and are compensated by FlexiGroup Limited for any current tax receivable and deferred tax assets relating to the unused tax losses or unused tax credits that are transferred to FlexiGroup Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity which is issued as soon as practicable after the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter-company receivables (note 10).

8 Cash and cash equivalents

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	56,677	36,880	–	–
Reconciliation to cash at the end of the period				
The above figures reconcile to cash at the end of the financial period, as shown in the statement of cash flows, as follows:				
Balances as above	56,677	36,880	–	–
Balances per statement of cash flows	56,677	36,880	–	–

The weighted average interest rate on this balance is 6.06%.

9 Current assets – Receivables

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Lease receivables				
Gross rental receivables	308,392	280,289	–	–
Guaranteed residuals	614	753	–	–
Unguaranteed residuals	8,946	8,439	–	–
Unearned income	(111,767)	(101,056)	–	–
Unamortised initial direct transaction costs	20,761	18,326	–	–
Net Lease receivables	226,946	206,751	–	–
Allowances for losses	(3,680)	(3,521)	–	–
	223,266	203,230	–	–
Other receivables				
Other debtors	5,366	5,974	–	–
Amounts receivable – Director-related entities	–	500	–	–
	5,366	6,474	–	–
	228,632	209,704	–	–

10 Current assets – Loans

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Loan receivables	6,529	1,762	–	–
Allowance for losses	(105)	(33)	–	–
	6,424	1,729	–	–
Inter-company loans	–	–	8,677	–
	6,424	1,729	8,677	–

11 Current assets – Rental equipment

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Returned rental equipment	80	89	–	–
Extended rental assets	2,886	2,570	–	–
	2,966	2,659	–	–

12 Non-current assets – Receivables

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Lease receivables				
Gross rental receivables	277,871	248,730	–	–
Guaranteed residuals	1,672	1,540	–	–
Unguaranteed residuals	17,912	18,449	–	–
Unearned income	(70,449)	(61,352)	–	–
Unamortised initial direct transaction costs	11,087	10,813	–	–
	238,093	218,180	–	–
Allowance for losses	(3,883)	(3,632)	–	–
	234,210	214,548	–	–

13 Non-current assets – Loans

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Loan receivables	32,101	5,975	–	–
Allowance for losses	(515)	(104)	–	–
	31,586	5,871	–	–

(a) Fair values

The fair values and carrying values of non-current receivables and loans of the Group approximate the carrying amount stated above based on the implicit rates of the underlying contracts.

(b) Rental and loan receivables (current and non-current) analysis and interest rate risk

Fixed interest rate						
	Rental receivables \$'000	Loan receivables \$'000	Loans to key management personnel \$'000	Other receivables \$'000	Total \$'000	Weighted average interest rate %
2007						
1 year or less	206,185	6,529	–	5,366	218,080	30.6
Over 1 to 2 years	146,073	6,646	–	–	152,719	30.2
Over 2 to 3 years	63,187	6,878	–	–	70,065	27.4
Over 3 to 4 years	13,994	6,758	–	–	20,752	24.0
Over 4 to 5 years	3,752	5,071	–	–	8,823	20.1
Over 5 years	–	6,748	–	–	6,748	17.8
Total	433,191	38,630	–	5,366	477,187	–
Add unamortised initial direct transaction costs	31,848	–	–	–	31,848	–
Deduct allowance for losses	(7,563)	(620)	–	–	(8,183)	–
Total	457,476	38,010	–	5,366	500,852	–

Fixed interest rate						
	Rental receivables \$'000	Loan receivables \$'000	Loans to key management personnel \$'000	Other receivables \$'000	Total \$'000	Weighted average interest rate %
2006						
1 year or less	188,425	1,762	500	5,974	196,661	30.5
Over 1 to 2 years	137,421	1,680	–	–	139,101	30.8
Over 2 to 3 years	57,896	1,538	–	–	59,434	29.5
Over 3 to 4 years	9,411	1,510	–	–	10,921	22.8
Over 4 to 5 years	2,639	1,247	–	–	3,886	22.8
Total	395,792	7,737	500	5,974	410,003	–
Add unamortised initial direct transaction costs	29,139	–	–	–	29,139	–
Deduct allowance for losses	(7,153)	(137)	–	–	(7,290)	–
Total	417,778	7,600	500	5,974	431,852	–

(c) Credit risk

The Group's exposure to credit risk is set out in note 2.

14 Non-current assets – Plant and equipment

	Consolidated \$'000	Parent entity \$'000
Plant and equipment		
Year ended 30 June 2006		
Opening net book amount	4,435	–
Additions	362	–
Disposals	(7)	–
Depreciation charge	(1,191)	–
Closing book amount	3,599	–
At 30 June 2006		
Cost	6,533	–
Accumulated depreciation	(2,934)	–
Net book amount	3,599	–
Year ended 30 June 2007		
Opening net book amount	3,599	–
Exchange differences	(16)	–
Additions	857	–
Disposals	(108)	–
Depreciation charge	(1,007)	–
Closing net book amount	3,325	–
At 30 June 2007		
Cost	7,233	–
Accumulated depreciation	(3,908)	–
Net book amount	3,325	–

15 Non-current assets – Deferred tax assets

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	2,133	2,025	–	–
Employee entitlements	1,332	1,365	–	–
Provisions	607	540	–	–
IPO expenses	2,028	–	2,028	–
Total deferred tax assets	6,100	3,930	2,028	–
Movements:				
Opening balance at 1 July	3,930	3,184	–	–
Credited/(charged) to the income statement	(363)	746	(505)	–
IPO expenses credited directly to equity	2,533	–	2,533	–
Closing balance at 30 June	6,100	3,930	2,028	–
Deferred tax assets to be recovered within 12 months	2,996	2,561	507	–
Deferred tax assets to be recovered after more than 12 months	3,104	1,369	1,521	–
	6,100	3,930	2,028	–

16 Non-current assets – Goodwill

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Intangibles				
Goodwill at 1 July	50,159	50,159	–	–
Balance at 30 June	50,159	50,159	–	–

17 Non-current assets – Intangible assets

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Software				
Balance at 1 July	4,084	4,067	–	–
Additions	2,666	2,269	–	–
Exchange differences	(26)	–	–	–
Amortisation charge	(2,278)	(2,252)	–	–
Balance at 30 June	4,446	4,084	–	–
Access Rights				
Balance at 1 July	–	–	–	–
Additions	1,000	–	–	–
Amortisation charge	–	–	–	–
Balance at 30 June	1,000	–	–	–
	5,446	4,084	–	–

18 Non-current assets – Other financial assets

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Shares in subsidiary (note 33)	–	–	429,198	–

These financial assets are carried at cost.

19 Current liabilities – Payables

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade payables	2,962	1,313	–	–
Other payables	16,536	15,927	–	–
	19,498	17,240	–	–

20 Current liabilities – Borrowings

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Secured				
Loan Advances – Secured	238,382	209,399	–	–
Total secured current borrowings	238,382	209,399	–	–
Loss Reserve	(19,884)	(13,424)	–	–
Total current borrowings	218,498	195,975	–	–

Assets pledged as security

The loans are secured by the respective funders by rentals and payments receivable in respect of the underlying lease and loan receivable contracts.

Under the terms of the funding arrangements, some of the funders retain a part of the gross amount funded as security against credit losses on the underlying leases. This amount is referred to as a loss reserve and represents a reduction in the amount borrowed.

21 Current liabilities – Current tax liabilities

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Income tax	9,325	9,083	8,179	–

22 Current liabilities – Provisions

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Protect plan provision				
Carrying amount at beginning of period	490	409	–	–
Provisions made during the period	64	81	–	–
Carrying amount at end of period	554	490	–	–

For a description of the nature of the provision refer to note 1(e(iii)).

23 Non-current liabilities – Borrowings

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Secured				
Loan Advances – secured	285,449	241,874	–	–
Total secured non-current borrowings	285,449	241,874	–	–
Loss Reserve	(16,276)	(11,217)	–	–
Total non-current borrowings	269,173	230,657	–	–

Refer to note 20 for detail on assets pledged as security.

Financing arrangements

Unrestricted access was available at balance date to the following lines of credit

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Total loan facilities available	795,476	690,000	–	–
Loan facilities used at balance date	523,831	451,273	–	–
Loan facilities unused at balance date	271,645	238,727	–	–

	Loan advances	Loss reserve	Net	Weighted
	\$'000	\$'000	borrowings	average
			\$'000	interest rate
				%
2007				
Floating rate	33,712	–	33,712	8.0
Fixed rate				
1 year or less	216,810	(19,884)	196,926	7.8
Over 1 to 2 years	170,585	(10,159)	160,426	7.8
Over 2 to 3 years	95,724	(5,700)	90,024	8.2
Over 3 to 4 years	6,189	(369)	5,820	8.1
Over 4 to 5 years	811	(48)	763	8.8
Total	523,831	(36,160)	487,671	–

	Loan advances	Loss reserve	Net	Weighted
	\$'000	\$'000	borrowings	average
			\$'000	interest rate
				%
2006				
Floating rate	–	–	–	N/A
Fixed rate				
1 year or less	209,399	(13,424)	195,975	7.5
Over 1 to 2 years	155,863	(8,241)	147,622	7.6
Over 2 to 3 years	82,107	(2,704)	79,403	7.5
Over 3 to 4 years	3,456	(241)	3,215	7.7
Over 4 to 5 years	448	(31)	417	7.7
Total	451,273	(24,641)	426,632	–

24 Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Difference between lease principal to be returned as assessable income and depreciation on leased assets to be claimed as a tax deduction	15,771	13,615	–	–
Initial direct transaction costs	8,564	8,115	–	–
	24,335	21,730	–	–
Movements:				
Opening balance at 1 July	21,730	20,565	–	–
Credited/(charged) to the income statement	2,605	1,165	–	–
Closing balance 30 June	24,335	21,730	–	–
Deferred tax liabilities	24,335	21,730	–	–
Deferred tax liabilities to be settled after more than 12 months	9,640	8,705	–	–
Deferred tax liabilities to be settled within 12 months	14,695	13,025	–	–
	24,335	21,730	–	–

25 Non-current liabilities – Provisions

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Employee benefits – long service leave	269	348	–	–

26 Contributed equity

	Parent entity 2007 Shares	Parent entity 2006 Shares	Parent entity 2007 \$'000	Parent entity 2006 \$'000
(a) Share capital				
Ordinary Shares – fully paid	217,482,000	–	435,322	–
			Consolidated entity 2007 \$'000	2006 \$'000
Ordinary Shares – fully paid			29,422	20,965
(b) Movement in Ordinary Share capital				
	Number of Shares parent entity '000	Consolidated entity \$'000	Parent entity \$'000	
1 July 2005	–	20,965	–	
30 June 2006	–	20,965	–	
1 July 2006	–	20,965	–	
14 November 2006 – Issues of Shares in FlexiGroup Limited at \$1 per Share	–*	–	–*	
12 December 2006 – Issues of Shares in FlexiGroup Limited at \$2 per Share	217,482	8,100	434,964	
		29,065	434,964	
Less: Transaction costs arising on Share issue		(8,449)	(8,449)	
Deferred tax credit recognised directly in equity		2,534	2,534	
		23,150	429,050	
Other equity contributions				
12 December 2006 – other equity contributed by previous Shareholders		6,272	6,272	
Total contributed equity at 30 June 2007		29,422	435,322	

* Amount less than 1,000.

(c) Ordinary Shares

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

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

(d) Options

Information relating to the FlexiGroup Employee Option Plan, including details of Options issued, exercised and lapsed during the financial year and Options outstanding at the end of the financial year is set out in note 38.

27 Reserves and retained profits

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
(a) Reserves				
Share-based payment reserve (note 1 u(iv))	(5,397)	800	1,303	–
Foreign currency translation reserve (note 1 d(ii))	185	(359)	–	–
	(5,212)	441	1,303	–
	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

Movements:**Share-based payments reserve**

Balance 1 July	800	750	–	–
Incentive plan and pre IPO Options paid during the year	(7,500)	–	–	–
Share-based payments expense for the period	1,303	50	1,303	–
Movement for the year	(6,197)	50	1,303	–
Balance 30 June	(5,397)	800	1,303	–

Movements:**Foreign currency translation reserve**

Balance 1 July	(359)	(20)	–	–
Currency translation differences arising during the period	544	(339)	–	–
Balance 30 June	185	(359)	–	–

(b) Retained profits

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Movements in retained profits were as follows:				
Balance 1 July	36,234	14,155	–	–
Net profit/(loss) for the year	23,429	22,079	(4,901)	–
Balance 30 June	59,663	36,234	(4,901)	–

(c) Nature and purpose of reserves**(i) Foreign currency translation reserve**

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Share-based payment reserve

The Share-based Payment Reserve is used to recognise:

- the fair value of Options and rights issued to Directors and employees but not exercised
- the fair value of Shares issued to Directors and employees
- other Share-based payment transactions.

28 Franking account/dividends

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2006: 30%)	18,295	8,094	–	–

The above amounts represent the balance of the Franking Account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

29 Key Management Personnel disclosures

a. Directors

The following persons were Directors of FlexiGroup Limited during the financial year:

Chairman – Non-Executive

M Jackson

Executive Director

J DeLano

Non-Executive Directors

A Abercrombie

R J Skippen

R Dhawan

b. Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group during the financial year.

J DeLano	Chief Executive Officer	Flexirent Capital Pty Ltd
P McMahon	Chief Financial Officer	Flexirent Capital Pty Ltd
N Roberts	Head of Consumer Direct	Flexirent Capital Pty Ltd
P Laughton	Chief Information Officer	Flexirent Capital Pty Ltd
B Taylor	Chief Marketing Officer	Flexirent Capital Pty Ltd

c. Key Management Personnel compensation

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short-term employee benefits	4,424,655	2,392,888	–	–
Post-employment benefits	184,039	220,294	–	–
Long-term benefits	4,648	1,829	–	–
Share-based payments	5,678,941	6,578	–	–
	10,292,283	2,621,589	–	–

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosure to the Directors' Report. The relevant information can be found in sections A–F of the remuneration report on pages 22 to 35.

29 Key Management Personnel disclosures (continued)**d. Equity instrument disclosures relating to Directors and Key Management Personnel****i. Options holdings**

Name	Balance at start of year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
2007							
J DeLano (Chief Executive Officer)	–	13,050,000	–	–	13,050,000	–	13,050,000
Other Key Management Personnel							
P McMahon	–	2,720,500	–	–	2,720,500	–	2,720,500
N Roberts	–	1,654,000	–	–	1,654,000	–	1,654,000
P Laughton	–	550,000	–	–	550,000	–	550,000
B Taylor	–	200,000	–	–	200,000	–	200,000

No Options were issued or outstanding in 2006.

ii. Share holdings

Name	Balance at start of year	Received during the year on the exercise of Options	Received from sale of Shares in Flexirent Holdings Pty Limited at IPO	Received from pre IPO share-based compensation arrangements	Other changes during the year	Received at time of IPO	Balance at end of year
2007							
Non-Executive Directors							
M Jackson (Chairman)	–	–	–	–	–	1,961,382	1,961,382
A Abercrombie	–	–	65,228,250	–	–	–	65,228,250
R Dhawan	–	–	–	379,515	–	353,049	732,564
RJ Skippen	–	–	–	–	–	147,104	147,104
Executive Director							
J DeLano (Chief Executive Officer)	–	–	2,880,810	–	–	–	2,880,810
Other Key Management Personnel							
P McMahon	–	–	–	440,044	–	500	440,544
N Roberts	–	–	–	–	–	500	500
P Laughton	–	–	–	297,000	1,000	500	298,500
B Taylor	–	–	–	395,999	25,000	500	421,499

Name	Shares held in Flexirent Holdings Pty Limited at start of year	Received during the year on the exercise of Options	Shares in Flexirent Holdings Pty Limited disposed of at time of IPO	Balance at end of year
2006				
Non-Executive Directors				
A Abercrombie	25,790,170	–	25,790,170	–
D Berkman	6,286,084	–	6,286,084	–
Other Key Management Personnel				
J DeLano	430,556	–	430,556	–

e. Loans to Key Management Personnel

Details of loans made to Directors of FlexiGroup Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below:

i. Aggregates for Key Management Personnel

Group	Balance at the start of the period \$	Interest paid and payable for the year \$	Interest not charged \$	Balance at the end of the period \$	Number in Group at the end of the period
2007	500,000	32,219	–	–	–
2006	500,000	–	–	500,000	1

ii. Individuals with loans above \$100,000 during the financial period

Group	Balance at the start of the period \$	Interest paid and payable for the period \$	Interest not charged \$	Balance at the end of the period \$	Highest indebtedness during the period
J DeLano	500,000	32,219	–	–	500,000
A Abercrombie*	–	–	–	–	500,000

* Prior to the IPO of Flexirent Holdings Pty Limited, an interest-free loan was advanced to Mr A Abercrombie. The loan was advanced on 7 November 2006 and repaid on 11 December 2006.

f. Other transactions with related parties

As part of the arrangements for the acquisition of Flexirent Holdings Pty Limited by FlexiGroup Limited, the Company, Flexirent Holdings and Flexirent Capital (and in respect of certain Flexirent Optionholders, also the previous Shareholders of Flexirent Holdings) entered into arrangements with the participants in the pre IPO Director and executive share-based payment arrangements (see note 38 (c)) for the cancellation of their Options in return for cash payments of \$26.5 million, some of which was funded by Flexirent Capital from existing cash reserves and the balance by the previous Shareholders. Four of the participants elected to reinvest all or part of the cash proceeds payable to them on cancellation of their Options and apply for Shares at the offer price.

Amounts payable to the participants were calculated in accordance with the terms of the pre IPO arrangements.

Key Management Personnel who participated in these arrangements were R Dhawan (Dhawan Trust), J DeLano (DeLano Trust), P McMahon, P Laughton and B Taylor. The total amount payable to these Key Management Personnel was \$26.5 million.

Flexirent Capital Pty Limited has rented premises in Melbourne and Sydney owned by entities associated with Mr A Abercrombie. The rental arrangements for the Melbourne premises are based on market terms and conditions and are renewable on the expiry of the lease in 2008. The agreement for the Sydney premises is on market terms.

	Consolidated		Parent entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Rental of Sydney and Melbourne premises	202,227	166,483	–	–

30 Capital and leasing commitments

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Operating lease commitments				
Non cancellable operating leases contracted for but not capitalised in the financial statements due:				
– within one year	1,592	1,326	–	–
– later than one year but not later than five years	622	1,276	–	–
	2,214	2,602	–	–

31 Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Profit/(loss) for the period	23,429	22,079	(4,901)	–
Share-based payments	6,226	50	4,923	–
Depreciation and amortisation	3,285	3,475	–	–
Other non-cash movements	584	(299)	–	–
Net cash inflow from operating activities before change in assets and liabilities	33,524	25,305	22	–
Change in operating assets and liabilities:				
(Increase)/Decrease in other receivables	1,108	2,129	–	–
(Increase)/Decrease in lease and loan receivables	(37,436)	(26,120)	–	–
(Increase)/Decrease in loans	(30,893)	(7,737)	–	–
(Increase)/Decrease in residuals	37	771	–	–
(Decrease)/Increase in funder loans	72,558	24,044	–	–
Decrease/(Increase) in loss reserve	(11,519)	(10,993)	–	–
(Decrease)/Increase in trade and other creditors	2,258	4,244	–	–
(Increase)/Decrease in rental equipment	(305)	260	–	–
Increase/(Decrease) in Protect Plan provision	64	81	–	–
(Increase)/Decrease in capitalised direct sales costs	(2,709)	(3,581)	–	–
(Decrease)/Increase in current tax	242	7,482	8,179	–
(Decrease)/Increase in deferred tax liabilities	2,605	1,165	–	–
Decrease/(Increase) in deferred tax assets that impact profit	364	(746)	(2,028)	–
Net cash inflow from operating activities	29,898	16,304	6,173	–

32 Events occurring after balance date

No significant events have occurred since the balance sheet date.

33 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

	Country of Incorporation	Percentage of Shares Held	
		2007	2006
FlexiGroup SubCo Pty Limited	Australia	100%	–
Flexirent Holdings Pty Limited	Australia	100%	–
Flexirent Capital Pty Limited	Australia	100%	100%
Flexirent SPV No 1 Pty Ltd	Australia	100%	100%
Flexirent SPV No 2 Pty Ltd	Australia	100%	100%
Flexirent SPV No 3 Pty Ltd	Australia	100%	100%
Flexirent SPV No 4 Pty Ltd	Australia	100%	100%
Flexicare Claims Management Pty Limited (formerly Flexirent SPV No 5 Pty Ltd)	Australia	100%	100%
Flexirent SPV No 6 Pty Ltd	Australia	100%	100%
Flexirent Capital (New Zealand) Limited	New Zealand	100%	100%
Flexecom Pty Limited	Australia	–	100%
Flexirent Private Pty Ltd	Australia	–	100%
A C N 103 556 510 Pty Limited	Australia	–	100%
Deltaland Limited	United Kingdom	–	100%

34 Related party transactions

a. Parent entity

The parent entity of the Group is FlexiGroup Limited.

b. Subsidiaries

Interests in subsidiaries are set out in note 33.

c. Key Management Personnel compensation

Disclosures relating to Key Management Personnel are set out in note 29.

d. Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Tax Consolidation Legalisation				
Current tax payable assumed from wholly owned tax consolidated entities	–	–	8,676,658	–

e. Outstanding balances arising from provision of services

The following balances are outstanding at the reporting date in relation to transactions with related parties.

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current receivables				
Subsidiaries	–	–	8,676,658	–

Related party loans are unsecured, interest free and have no agreed repayment schedules.

35 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related parties:

	Consolidated 2007 \$	2006 \$	Parent entity 2007 \$	2006 \$
a. Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	491,110	255,000	–	–
Total remuneration for audit services	491,110	255,000	–	–
Other assurance services				
PricewaterhouseCoopers Australian firm:				
Agreed upon procedures	44,777	13,500	–	–
Controls assurance services	15,000	–	–	–
AIFRS services	–	20,000	–	–
Related practices of PricewaterhouseCoopers Australian firm				
Due diligence and other services related to the IPO	1,894,974	530,000	–	–
Total remuneration for other assurance services	1,954,751	563,500	–	–
Total remuneration for assurance services	2,445,861	818,500	–	–
b. Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	66,965	503,000	–	–
Tax advice on transactions	215,940	–	–	–
Total remuneration for taxation services	282,905	503,000	–	–

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and transaction advisory services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

36 Contingencies

Contingent liabilities

There are no material contingent liabilities at the date of this report.

37 Earnings per share

	Consolidated 2007 Cents	2006 Cents
a. Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	17.4	67.9
Profit attributable to the ordinary equity holders of the Company	17.4	67.9

b. Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the Company	16.4	67.9
Profit attributable to the ordinary equity holders of the Company	16.4	67.9

The earnings per share has been calculated as the weighted average of the number of Ordinary Shares of Flexirent Holdings Pty Limited on issue for the period 1 July 2006 to 11 December 2006 and the number of Ordinary Shares of FlexiGroup Limited for the period 12 December 2006 to 30 June 2007. The comparative earnings per share has been calculated as the weighted average number of Ordinary Shares of Flexirent Holdings Pty Limited on issue for the year ended 30 June 2006.

As such the earnings per share as disclosed do not reflect the interest of the current Shareholders in the earnings of FlexiGroup and the 2007 earnings per share are not readily comparable to the 2006 earnings per share. This calculation of earnings per share results from the fact that the acquisition of Flexirent Holdings Pty Limited by FlexiGroup Limited has been accounted for as a reverse acquisition (see note 1(b)).

	Consolidated 2007 \$	2006 \$
c. Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Profit from continuing operations	23,429	22,079
Profit from continuing operations attributable to minority interests	–	–
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	23,429	22,079
Profit attributable to the ordinary equity Shareholders of the Company used in calculating basic earnings per share	23,429	22,079
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	23,429	22,079
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	23,429	22,079

	Consolidated 2007 Number	2006 Number
Weighted average number of Ordinary Shares used as the denominator in calculating basic earnings per share	134,369,860	32,506,810
Adjustments for calculation of diluted earnings per share:		
Options	8,170,492	–
Weighted average number of Ordinary Shares and potential Ordinary Shares used as the denominator in calculating diluted earnings per share	142,540,352	32,506,810

38 Share-based payments

a. Long Term Incentive Plan

The establishment of the FlexiGroup Long Term Incentive Plan ("LTIP") was approved by the founding Shareholders on 20 November 2006. The LTIP is designed to provide relevant employees with an incentive for future performance, with conditions for the vesting and exercise of Options and Performance Rights under the LTIP encouraging those executives to remain with FlexiGroup and contribute to the future performance of the Company. Under the plan, participants are granted either an Option or a right which only vests if certain performance standards are met.

The Board may determine which persons will be eligible to participate in the LTIP from time to time. Eligible persons may be invited to apply to participate in the LTIP. The Board may in its discretion accept such applications.

Summaries of Options and Performance Rights granted under the plan:

Grant Date	Expiry Date	Exercise Price	Balance at start of the period	Granted during the period	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested and exercisable at end of the period
			Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2007								
8/12/06	31/12/11 31/12/12	\$2.00	–	21,579,500	–	–	21,579,500	–
26/2/07	31/12/11 31/12/12	\$2.70	–	2,000,000	–	–	2,000,000	–
17/4/07	31/12/11	–	–	550,000	–	–	550,000	–
19/4/07	31/12/11 31/12/12	\$2.93	–	1,400,000	–	–	1,400,000	–
Total			–	25,529,500	–	–	25,529,500	–
Weighted average Exercise Price				\$2.06			\$2.06	

No Options were granted in 2006.

No Options have expired.

The weighted average Share Price at the date of exercise of Options exercised during the year ended 30 June 2007 was nil as no Options were exercised during the year (2006: not applicable).

The weighted average remaining contractual life of Share Options outstanding at the end of the period was 4.8 years (2006: not applicable).

Fair value of Options granted

Fair values at Grant Date are independently determined using a binomial tree option pricing methodology that takes into account the Exercise Price, the term of the Options, the impact of dilution, the Share Price at Grant Date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Options.

The model inputs for Options granted during the year ended 30 June 2007 included:

- (a) **Exercise Price:** various per Options and Performance Rights granted
- (b) **Grant Date:** various per Options and Performance Rights granted
- (c) **Expiry Date:** various per Options and Performance Rights granted
- (d) **Share price at Grant Date:** various per Options and Performance Rights granted
- (e) **Expected price volatility of the Company's shares:** 26%–28% (2006: not applicable)
- (f) **Expected dividend yield:** 5%
- (g) **Risk-free interest rate:** various ranging from 5.73% to 6.14% (2006: not applicable).

Shares provided on exercise of remuneration Options

No Ordinary Shares in the Company were issued as a result of the exercise of any remuneration Options.

b. Employee share plan

The Employee Share Acquisition (Tax Exempt) Plan ("ESAP") is a general employee share plan pursuant to which grants of shares may be offered to employees of FlexiGroup on terms and conditions as determined by the Board from time to time.

The Board is responsible for administering the ESAP in accordance with the ESAP Rules and the terms and conditions of specific grants of shares to participants in the ESAP. The ESAP Rules include the following provisions:

Eligibility

The Board may determine which persons will be eligible to be offered the opportunity to participate in the ESAP from time to time. The Board may make offers to eligible persons for participation in the ESAP.

Terms of offer

The Board has the discretion to determine the specific terms and conditions applying to each offer, provided that:

- The terms of the offer do not vary the disposal restrictions imposed on shares under the ESAP Rules under which shares acquired under the ESAP cannot be transferred, sold or otherwise disposed of until the earlier of:
 - The time when the participant is no longer employed by FlexiGroup or by the Company that was the employer of the participant as at the time the shares were acquired, or
 - The third anniversary of the date on which the shares were acquired, and
- The offer does not include any provisions for forfeiture of shares acquired under the ESAP in any circumstances.

It is intended that the ESAP will satisfy the requirements of Division 13A of the relevant Australian Tax Legislation.

Consideration for grant

The Board may determine the price at which the shares will be offered to an employee. Shares may be granted at no cost to the employee or the Board may determine that market value or some other price is appropriate.

Allocation of shares

Shares allocated under the ESAP may be existing shares or newly issued shares. Allocated shares must be held in the name of the employee. Any shares that are issued under the ESAP will rank equally with those traded on the ASX at the time of issue.

A participant under the ESAP is entitled to receive distributions/dividends made in respect of, and exercise voting rights attaching to, shares held under the ESAP (whether or not the shares are subject to disposal restrictions).

Restrictions on shares

Shares acquired under the ESAP will be subject to the disposal restrictions described above. FlexiGroup will implement such arrangements (including a holding lock) as it determines are necessary to enforce this restriction.

Once the restriction is removed, and subject to FlexiGroup's Trading Policy, shares acquired under the ESAP may be dealt with freely. Details of FlexiGroup's Share Trading Policy is on page 43 of the Corporate Governance Statement.

Employee Gift Offer

In December 2006, at the time of listing, all Eligible Employees of FlexiGroup were offered 500 shares totalling \$1,000 based on the list price of \$2. In total, 254 Eligible Employees took up this offer, resulting in an allocation of 127,000 shares.

	Consolidated		Parent entity	
	2007	2006	2007	2006
Shares issued under the plan to Eligible Employees	127,000	–	127,000	–
	127,000	–	127,000	–

38 Share-based payments (continued)**c. Pre IPO Flexirent Holdings Group arrangements**

At the time of the IPO of the Company, the previous Flexirent Holdings Group had entered into various share-based payment arrangements with some of its Directors and executives as well as a partner.

Details of the arrangements with the Directors and executives are included in the Directors' Report.

Full details of the arrangements with the partner were set out in the prospectus issued at the time of the IPO.

Under the arrangements, the partner received a payment of \$40 million from the two previous majority Shareholders in Flexirent Holdings. The Company has no ongoing obligations under those arrangements.

The majority of these arrangements were granted prior to 7 November 2002 and/or vested prior to 1 January 2005. As a result, for such arrangements, no expense was recognised in respect of such instruments. To the extent that these arrangements were entered into post those dates, they have been accounted for in accordance with the accounting policy set out in note 1(u)(iv) and are included in note (d) below.

In addition, a further payment of additional commission of \$1 million was made by the two previous majority Shareholders to the partner and has been accounted for as a share-based payment as it related to an amendment to the term of the partner agreement that was entered into post 1 January 2005 (see note 17).

d. Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated 2007 \$	2006 \$	Parent entity 2007 \$	2006 \$
Options and/or Performance Rights issued under LTIP excluding Options granted in favour of certain executives over Shares owned by the former Shareholders of Flexirent Holdings	659,204	–	–	–
Options over Shares owned by the former Shareholders of Flexirent Holdings	339,696	–	–	–
	998,900	–	–	–
Shares issued under Employee Share Scheme	254,000	–	–	–
Expenses under previous Flexirent Holdings Long Term Incentive Plans	50,000	50,000	–	–
	1,302,900	50,000	–	–
Shares issued to Directors at time of IPO (refer page 35) of Directors' Report	4,923,070	–	4,923,070	–
	6,225,970	50,000	4,923,070	–

Directors' Declaration

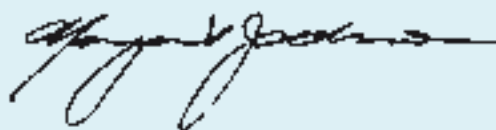
30 June 2007

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 45 to 82 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) the audited remuneration disclosures set out on pages 22 to 35 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and *Corporations Regulations 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Margaret Jackson

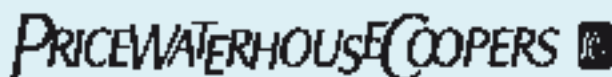
Chairman

Sydney

28 August 2007

Independent Auditor's Report

to the members of FlexiGroup Limited



Price WaterhouseCoopers
ABN 52 766 431 753

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1111
PO 13 Sydney
Australia
www.pwc.com.au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9494

Report on the financial report and the AASB 124 Remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of FlexiGroup Limited (the Company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both FlexiGroup Limited and the FlexiGroup Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the period's end or from time to time during the financial period.

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of Directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 22 to 35 of the Directors' Report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the Directors' Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The Directors of the Company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' Report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of FlexiGroup Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(a).

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the Directors' Report

In our opinion, the remuneration disclosures that are contained in pages 22 to 35 of the Directors' Report comply with Accounting Standard AASB 124.



PricewaterhouseCoopers



Victor Clarke

Partner

Sydney
28 August 2007

Shareholder Information

The Shareholder information set out below was applicable as at 31 July 2007.

A Distribution of equity securities

	Class of equity security			
	Ordinary Shares		Options	
	No. of holders	No. of Shares	No. of holders	No. of Options
1–1,000	371	213,667	–	–
1,001–5,000	515	1,706,325	–	–
5,001–10,000	410	3,540,537	3	30,000
10,001–100,000	338	9,632,340	21	800,000
100,001 and over	67	202,389,131	16	24,699,500
Total	1,701	217,482,000	40	25,529,500

There were eight holders of less than a marketable parcel of Ordinary Shares.

B Equity security holders

Twenty largest quoted equity security holders.

The names of the 20 largest holders of quoted equity securities are listed below:

Name	Ordinary Shares	
	Number held	Percentage of issued Shares %
Eighth SRJ Pty Limited (Philadelphia Trust A/C)	65,228,250	29.99
JPMorgan Nominees Australia Limited	24,512,568	11.27
National Nominees Limited	16,992,752	7.81
Citicorp Nominees Pty Limited (CFSIL CFS WS Small Comp A/C)	12,771,748	5.87
HSBC Custody Nominees (Australia) Limited	12,466,190	5.73
UBS Wealth Management Australia Nominees Pty Ltd	12,099,260	5.56
ANZ Nominees Limited (Cash Income A/C)	9,060,514	4.17
Queensland Investment Corporation C/- National Nominees Limited	8,467,789	3.89
UBS Nominees Pty Ltd	7,459,227	3.43
Suncorp Custodian Services Pty Limited (AET)	5,512,824	2.53
John DeLano & Kylie DeLano (DeLano Trust A/C)	2,880,810	1.32
Citicorp Nominees Pty Limited	2,656,991	1.22
M F Custodians Ltd	2,127,000	0.98
Margaret Jackson	1,961,382	0.90
Bond Street Custodians Limited (Macquarie Smaller Co's A/C)	1,200,000	0.55
Cogent Nominees Pty Limited	860,751	0.40
Suncorp General Insurance Limited	847,500	0.39
Suncorp Custodian Services (IPT)	810,200	0.37
Suncorp Custodian Services Pty Limited (Aria)	714,300	0.34
B R Dhawan Pty Ltd (B R Dhawan Trust A/C)	732,564	0.34
Total	189,362,620	87.06

B Equity security holders (continued)

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the FlexiGroup Limited Long Term Incentive Plan to take up Ordinary Shares	16,829,500	38

The Company has no other unquoted equity securities.

C Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage %
Eighth SRJ Pty Limited (Philadelphia Trust A/C)	65,228,250	29.99
JPMorgan Nominees Australia Limited	24,512,568	11.27
National Nominees Limited	16,992,752	7.81
Citicorp Nominees Pty Limited (CFSIL CFWS WS Small Comp A/C)	12,771,748	5.87
HSBC Custody Nominees (Australia) Limited	12,466,190	5.73
UBS Wealth Management (Australia Nominees Pty Ltd)	12,099,260	5.56
Total	144,070,768	66.23

D Voting rights

The voting rights attaching to equity securities are set out below:

a) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each Share shall have one vote.

b) Options

No voting rights.

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Corporate Directory

Directors

Margaret Jackson (Chairman)
Andrew Abercrombie
John DeLano (Chief Executive Officer)
Rajeev Dhawan
R John Skippen

Secretary

Paul McMahon

Notice of Annual General Meeting

The Annual General Meeting of FlexiGroup Limited will be held at Sofitel Wentworth Sydney, 61 Phillip Street, Sydney at 4.00pm on 29 November 2007

Principal registered office in Australia

Level 8, The Forum
201 Pacific Highway
St Leonards NSW 2065
Australia

Share register

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Australia

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171
Australia

Solicitors

Mallesons Stephen Jaques
Level 60, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

Bankers

Commonwealth Banking Corporation

Securities exchange listing

FlexiGroup Limited Shares are listed on the Australian Securities Exchange

Website address

www.flexigroup.com.au

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