





Welcome to Smartpay's annual report for the year ending 31 March 2018

Smartpay designs, develops and implements innovative payment solutions for customers in New Zealand and Australia. Smartpay offers a variety of advanced payment and data management solutions for retail, business payment and transactional processing requirements.

Contents

Reports from the Board and Management

Chairman's Report	4
Chief Executive's Review	6
Board of Directors	8
Corporate Governance Statement	10

Financial Statements

Directors' Responsibility Statement	24
Statement of Comprehensive Income	25
Statement of Changes in Equity	26
Statement of Financial Position	27
Statement of Cash Flows	28
Notes to the Financial Statements	29
Audit Report	64
Statutory Information	68
Security Holder Information	72
Directory	74

Chairman's Report

Smartpay Annual Report – 2018

This has been another year of progress for Smartpay which saw the ongoing execution of our growth strategies as we continue to consolidate and expand in New Zealand and Australia.

Whilst New Zealand may be considered as a mature payments market in which Smartpay is a leading player, we continue to look to exploit new opportunities. One of the strengths of the company is our demonstrated ability to use technology to innovate to stay ahead of the field. Our work around product innovation and "payments to the cloud" has meant we have been able to provide new services and product offerings, Alipay being a good example of this.

In Australia the objective to provide an acquiring capability has now been achieved. The Chief Executive's report highlights detail around this and we are now seeing genuine growth arising from this in Australia which provides further scope to grow our terminal base. This represents a true vertical integration for the business with the potential for an increased rate of margin. From a sound and established position in both the New Zealand and Australian markets, the Company now has scope to expand further in both countries.

Smartpay is fortunate to have developed a quality Senior Management team with excellent staff that contribute to the success of the Company. Smartpay operates with a small board of five directors, three independent and two executive, which we feel encourages a more visible and effective decision-making process. We will look to further expand the Board and we expect to recruit at least one additional director over the coming months which we are hopeful will further enhance the diversity of the Board.

We look forward to this coming year with a definite optimism and are excited by the opportunities in front of us. With consistent performance in the New Zealand terminal business and with the full effect of the acquiring capability coming on stream in Australia this year, the Directors expect that the Company will deliver further improvement in the financial result for this coming year. We have continued to reduce our debt and are constantly reviewing our capital structure to ensure it is commensurate with our growth aspirations.

I would also like to acknowledge the on-going support from our shareholders. We are grateful for your belief in the Company and we are committed to continue to work tirelessly to repay the faith that you have shown in the business of Smartpay. We look forward to seeing as many of you as possible at our Annual General Meeting this year.



Greg Barclay
Chairman



Chief Executive's Review

The 2018 financial year represents a point of inflection for our business as we mark the beginning of our transition from a technology vendor to a fully transactional financial services business.

This is a journey we embarked upon a couple of years ago and it is therefore pleasing to finally bring our Australian acquiring products to market and to see the results from our initial group of self acquired terminals generating a substantial increase in revenue and profit per unit beyond our original expectations.

In addition to the launch of our Australian acquiring products, we were also pleased to launch Alipay in the NZ market which represents our first foray into facilitating transactional acquiring revenue in our NZ business.

Operating Results

The business achieved a 15% increase in NPAT and a 14% increase in EPS for the period.

As foreshadowed in our interim results, the slightly lower revenue in the period reflects:

- lower revenue from external software development (billed to customers) as the focus of our internal development team has focused on internal projects such as our acquiring product, our SmartConnect cloud payments platform and Alipay, none of which generated significant revenue in the current period but all of which are driving revenue growth in the current financial year; and
- slightly lower revenue in our NZ business, mainly from our corporate customers, noting however this represents a relatively small segment of Smartpay's customer base.

We were also expecting to complete a large terminal order pre March 18 which we now expect within the 2019 financial year.

The business achieved an increase in operating cashflow for the period which was applied as follows:

- Significantly higher investment in technical development than the prior period as we utilised a larger proportion of our internal cashflow to develop the systems and products necessary for the launch of our Australian acquiring, Alipay acquiring and our SmartConnect cloud-based payments products;
- Terminal capex, which included the remainder of the payments for the large NZ terminal upgrade completed in the previous period and current period growth capex. Importantly with the upgrade behind us this line item will be predominantly revenue accretive growth capex in the current and next few years; and
- Net debt reduction to \$23m from \$24.9m at September 2017.

With the payments for the NZ terminal upgrade capex now behind us and with increasing revenue contribution from our new acquiring products coming on stream, we expect our net debt position to continue to improve in the current year and beyond, subject to capital requirements for new growth opportunities.

Review of Operations

Our core focus during the period was readying the business for the transformation from a predominantly fixed rental revenue business towards a financial services transactional revenue based business.

- Australian Acquiring

The first step in this journey was the launch of our Australian acquiring capability which went live at the end of October 2017, with our first directly acquired merchants on-boarded in November 2017.

Given the magnitude of this change in our business model, and the fact that for the first time in the Company's history we are providing the equivalent of a bank/financial transaction service, including carrying significant amounts of our customers' money through our systems, we held to a limited initial group of merchants over the holiday season to ensure robustness of

our systems. There was therefore little contribution of this new revenue line in the period under review.

With our initial acquiring products now in general release, we are pleased to report that early indications support a substantial increase in revenue and margin per unit in our Australian business. While the initial sample set is small making it difficult to infer future revenue and profit outcomes, we are however comfortable that these early results provide a useful illustration of the benefits of the new transactional business model.

While we are only at the very preliminary stages of offering these products to the market, we are already seeing the broader benefits of being able to offer a complete end-to-end EFTPOS solution without the limitations of our previous reliance on third party pricing for the core acquiring component of our EFTPOS market offering. In addition to margin accretion, being one of a very limited number of providers who have both a technical engineering capability combined with a financial acquiring capability, we are able to offer end-to-end tailored solutions which is translating into an expansion in the number of channel partners we deal with which is further growing our terminal sales volumes.

Overall, we are extremely pleased with the early outcomes we are experiencing from our new acquiring business which supports the strategic direction we have adopted for our Australian business.

- Alipay Acquiring

We announced in March 2018 that we had signed an agreement with Alipay, China's largest online and mobile payments provider, to directly acquire Alipay transactions, giving our merchants access to the rapidly growing Chinese tourist spend across Australia & New Zealand.

Using our proprietary SmartConnect cloud-based payments platform, we developed a market leading payments product which allows Smartpay customers to seamlessly process Alipay payments on the same terminal as their EFTPOS and credit card payments.

As the direct acquirer of these transactions, Smartpay earns a share of the total transaction value which we expect will contribute to both terminal growth numbers and higher margin per Alipay enabled terminal. Importantly as this product is currently being deployed in New Zealand (with Australia to follow shortly), this is our first foray into extracting transactional acquiring revenue in our NZ business. While it's too early in the product's launch phase to determine average margins, the additional transaction revenue observed from the initial transactions is encouraging.

Summary and Outlook

The period under review has been a period of substantial investment, both financial and team effort, in the development of new products and capabilities required to deliver on our key strategic focus areas. Indeed, the numbers reported for the year under review belie the transformational progress achieved in the period. Our Australian business is transforming into a fully transactional financial services provider with early signs supporting the prospect of substantial increases in volume and margin. The addition of new products such as Alipay direct acquiring is providing tangible evidence of our ability to deliver increasing value from our large established base in New Zealand and we are increasingly confident of delivering material growth in revenue, profits and cashflow in the current period and beyond.



Bradley Gerdis
Chief Executive

Board of Directors



Gregor John Barclay

Chairman and Independent Director – LLB, Dip. Bus

Greg joined the board of Smartpay in 2010 and was appointed Chairman in 2016. He is an experienced company director having held various directorships and advisory roles across a number of New Zealand and off-shore entities. Currently he is also chairman of the Pacific Forest Products group (an international log export and marketing company), Franchised Businesses Limited (by number the largest franchise company in New Zealand) and Boffa Miskell Limited. He is an approved Chartered Member of the NZ Institute of Directors.

Having graduated from Canterbury University in 1985 Greg practises as a commercial lawyer. He was a founder partner of Claymore Partners in 1997 and still continues to act as a consultant to the firm at present. His practice area includes mergers/acquisitions, project commercialisation, new ventures and structured financing.

Greg has also had an extensive involvement in the business of sport as an advisor to sports entities and as an owner of a national sports event and management company. He is currently the chairman of New Zealand Cricket, a member of the board of the International Cricket Council and was a board member of Cricket World Cup 2015 Limited.

In addition to being on the Board, Greg serves on the Board's Remuneration and Nominations Committee and Audit and Finance Committee.



Bruce Andrew Mansfield

Independent Director – BCom

Bruce joined the Board in October 2017 bringing more than 25 years of experience in the Australian, New Zealand and global payments industry to the Board.

Bruce held the position of Managing Director and CEO of eftpos Payments Australia Limited ('eftpos') overseeing the eftpos business in Australia from May 2010 until he stepped down in August 2017 after completing the successful transformation of the business to include chip, contactless, mobile and centralised processing services. Prior to joining eftpos, Bruce held a number of senior executive positions across the globe for Visa Inc. where he worked for 18 years, including EVP for the Australian, New Zealand and Pacific businesses, together with the Emerging Products & Technology businesses across Asia Pacific and International regions.

In addition to Smartpay, Bruce holds non-executive director positions on Lifeline Australia Limited (and subsidiary) boards, together with an executive position at the Minderoo Foundation leading the global Eliminate Cancer Initiative. Bruce was previously a Director of Save the Children Australia and resides in Sydney Australia.

In addition to being on the Board, Bruce serves on the Board's Audit and Finance Committee and the Board's Remuneration and Nominations Committee.



Matthew George Turnbull

Independent Director – BCom, CA

Matt joined the Board of Smartpay in April 2013, he is a Chartered Accountant and is a member of Chartered Accountants Australia and New Zealand. He commenced his career with PWC (then Price Waterhouse) and has over 20 years experience providing accounting and corporate advisory services. Matt has a detailed understanding of Smartpay, having assisted the company in the 2012 recapitalisation and restructure, and the acquisition of Viaduct Limited.

Matt resides in Auckland, New Zealand.

In addition to being on the Board, Matt serves on the Board's Remuneration and Nominations Committee and is the Chair of the Audit and Finance Committee.



Bradley Gavin Gerdis

Managing Director B.Bus (Hons), MCom

Bradley joined Smartpay in December 2011 bringing to the company expertise and experience in managing high growth payments businesses. He joined the Smartpay Board in July 2012.

Prior to joining Smartpay, Bradley was a founding executive of Customers Ltd, an ASX listed ATM and payments company which grew from start-up to become Australia's largest ATM operator during his time with the business. Bradley also played a leading role as a founding director in the development of Strategic Payments Services Pty Ltd, a payments processing business in joint venture with Customers Limited, Bendigo Bank Ltd and MasterCard International. Bradley's experience includes direct investment roles with ANZ Private Equity and Gresham Private Equity.

He has held executive and non-executive director positions in both publicly listed and private companies. Bradley ordinarily resides in Sydney, Australia.



Martyn Richard Pomeroy

Executive Director

Marty joined Smartpay in January 2013 post the acquisition of Viaduct Limited. Marty joined the Smartpay Board in April 2014.

Prior to joining Smartpay Marty was one of the two founding Directors of Viaduct Limited. Marty was instrumental in the development and success of the Viaduct business from a startup in 2001, through a period of growth to it becoming the third largest provider of EFTPOS terminals in New Zealand with an annual turnover of \$7 million and employing 36 staff. Prior to Viaduct Marty held managerial roles in sales and service with EFTPOS New Zealand. He brings over 13 years of experience in the NZ Payments industry to the Board.

Marty has a detailed understanding of the operational, sales and commercial elements of the Smartpay business and is also involved in the strategy and build of the opportunity in Australia.

Marty resides in Auckland, New Zealand.

Corporate Governance

Smartpay is committed to maintaining high standards of ethical behaviour, social and environmental responsibility throughout the organisation; at the heart of our business are our values:

- **One Team** – we will work together to create an inspiring company that we are all proud to work for
- **Fearless** – in our approach and our focus on the customer
- **We deliver** – by listening, engaging and being held accountable

Our Governance Framework sets out our accountabilities to our stakeholders, how we expect to conduct our business, communicate, and manage risks. The Framework and the individual policies are reviewed on a regular basis. The key documents can be found on our investor website smartpayinvestor.com. A commentary on our Framework is contained in the pages that follow.

A key responsibility for our Audit and Finance Committee is the oversight and management of the Governance Framework as set out in its Terms of Reference.

Following the introduction of the NZX Corporate Governance Code we reviewed our governance framework with reference to the new code and believe that in most respects our framework complies with the new code and with Appendix 18 of the NZSX Listing Rules, exceptions are identified in the narrative that follows.

This Corporate Governance Statement was approved by the Board on 29 June 2018.

Ethical behaviour

Our values of teamwork, focus on the customer, delivery and accountability are at the heart of what we do and how we do it. Our Board has established a formal Ethics and Code of Conduct policy which sets the standards of behaviour required of all members of the Smartpay team when they represent us.

The Policy covers the conduct expected and deals with:

- responsibilities of all individuals;
- standards of personal behaviour;
- unacceptable behaviours;
- equal employment opportunities;
- discrimination, harassment and bullying;
- unauthorised removal of property;
- responsibilities to shareholders and the financial community; and
- reporting of incidents

It is one of our key documents that can be found on our website smartpayinvestor.com.

The Policy includes our approach to equal opportunities and diversity, protection of our assets, securities trading, diversity and inclusion, conflicts, interests and related parties and reporting of incidents.

Many of these are covered in more detail in additional supporting policies such as our Securities Trading Policy, which can also be found on our website. Our Staff Handbook, which is issued to all members of the Smartpay team contains specifically those values and standards expected of employees including confidentiality, protected disclosures, and equal opportunities.

The implementation and management of the Policy is undertaken by our management team and any breaches dealt with as appropriate through our disciplinary process.

Board Composition and Performance

Our Board is committed to ensuring that it has the skills, knowledge and experience to effectively govern and direct the Smartpay group recognising that it has the overall responsibility for our strategy, culture, health and safety, governance, performance and the management of risk.

Our Performance Management Policy, available on our website smartpayinvestor.com, is reviewed annually and applies to all staff, senior executives, individual Directors, the Board as a whole and its Committees. The Board has recently conducted annual performance reviews for itself and its Committees, this year utilising our internal processes.

The Board comprises three Independent Directors and two Executive Directors, independence being defined in our Board Charter, also available on our website. An outline of each Director's skills and experience can be found on our website and in our Annual Report. Details of their ownership of shares in our Company are set out in the Annual Report on page 70.

The induction process established for new Directors ensures that any new Director appointed to the board receives the information he/she needs to be able to contribute to board proceedings when they join the Board.

The process includes the requirement for written agreements to be entered into which outline the expectations and terms of appointment.

To ensure Directors' ongoing effectiveness our Directors are encouraged to undertake training and we are corporate members of the Institute of Directors which provides our Directors with access to training and development opportunities, information and reference material.

The full board meets at least six times a year, the record of attendance at both Board and Committee meetings by Directors is detailed below:

	Status	Board	Audit & Finance Committee	Remuneration & Nominations Committee
Meetings Held/Attended		8	6	3
Greg Barclay	Independent Chairman	8	5	3
Bradley Gerdis#	Managing Director	8	4	n/a
Marty Pomeroy	Executive Director	8	n/a	n/a
Matt Turnbull	Independent Director	8	6	3
Bruce Mansfield*	Independent Director	4	2	0

* Bruce Mansfield was appointed to the Board on 1 October 2017 and has been present at all full board meetings held since his appointment. He was appointed to the Audit and Finance Committee on 28 November 2017 and has been present at all the Audit and Finance Committee meetings since his appointment. He was appointed to the Remuneration and Nominations Committee on 6 May 2018, there have been no committee meetings since his appointment.

Bradley Gerdis stepped down from the Audit and Finance Committee on 28 November 2017, he was present at all Audit and Finance Committee meetings prior to that.

The Board Papers provided by Management before each meeting provide comprehensive information on operations, financial and risk aspects of the business and Directors have unrestricted access to any other information or records. Reporting to the Board is structured to require reporting by Management against the Board's identified strategic goals.

Where Directors are unable to participate in a meeting they are encouraged to forward their views to another Director in advance of the meeting. Senior Management are available at the Board's request to address queries and to assist in developing the Board's understanding of issues facing us and the performance of our business.

Committees

The Board will use Committees where this enhances its effectiveness in key areas while still retaining Board responsibility.

The Board has constituted two Committees which report to the Board:

- Audit and Finance Committee
- Remuneration and Nominations Committee

These Committees focus on specific responsibilities in greater detail and operate under written terms of reference.

Given the size of our business the Board has determined that the roles and functions of Remuneration and

Nominations Committees can be effectively dealt with by one Committee and the Terms of Reference for its Remuneration and Nominations Committee include the roles and functions for nomination and remuneration of Directors, Senior Managers and policies for the company as a whole. The Board Charter recognises that the ultimate responsibility for Board appointments and remuneration rests with the Board.

The Board appoints the committee members, current membership is as follows:

	Audit & Finance Committee		Remuneration & Nominations Committee	
Name	Appointed	Position	Appointed	Position
Matt Turnbull	1 April 2013	Chair	5 June 2013	Member
Greg Barclay	24 May 2010	Member	24 May 2010	Chair
Bruce Mansfield	28 November 2017	Member	6 May 2018	Member

The Board reviews its Board Charter at least annually and as part of the formal review considers the benefits of constituting additional committees. It has elected not to establish a takeover committee or protocols setting out

the procedure to be followed in the event of a takeover offer. Given the small size of the Board it has determined that it can effectively, efficiently and independently manage any additional issues as a whole Board.

Reporting and Disclosure

We are committed to the promotion of investor confidence by taking steps within our power to ensure that trade in our securities takes place in an effective and informed market. To this end we are committed to providing timely, orderly and credible information consistent with legal and regulatory requirements.

The key policy documents within our Governance Framework are available on our website at smartpayinvestor.com and include our:

- Board Charter
- Audit and Finance Committee Terms of Reference
- Remuneration and Nominations Committee Terms of Reference
- Disclosure and Communication Policy
- Audit Independence Policy
- Fraud Risk Management Policy
- Diversity and Inclusion Policy
- Performance Management Policy
- Health and Safety Policy
- Risk Management Policy
- Disclosure and Communication Policy
- Ethics and Code of Conduct
- Remuneration Policy
- Securities Trading Policy
- Stakeholder Communication Policy

While the ultimate responsibility to ensure the integrity of our financial reporting rests with our Board, we have in place a structure of review and authorisation designed to ensure truthful and factual presentation of our financial position. This includes an appropriately resourced Audit and Finance Committee operating under written terms of reference which require it to review and consider the accounts and preliminary releases of results to the market. We have an Audit Independence Policy which requires that our external auditor remains independent and identifies that the appointment of the auditor is reviewed regularly by the Audit and Finance Committee.

We also have a Fraud Risk Management Policy designed with three objectives:

- **Prevent:** reduce the risk of fraud and misconduct occurring
- **Detect:** Discover fraud and misconduct when it occurs
- **Respond:** Take corrective action and remedy the harm caused by fraud or misconduct.

The Board has required rigorous processes to ensure that it can reasonably rely on the information provided to it by our Management team. All financial reporting provided to the Board goes through a tiered review process and is accompanied by management sign-offs.

The Board and Auditors review information contained in our Financial Statements to ensure its compliance with GAAP.

Our Board is committed to the promotion of investor confidence by taking steps within its power to ensure that trade in our securities takes place in an effective and

informed market. To this end it is committed to providing timely, orderly and credible information consistent with legal and regulatory requirements and has adopted a Disclosures and Communication Policy which can be found on our website at smartpayinvestor.com, it reinforces our commitment to the continuous disclosure obligations imposed by the NZX, ensures timely and accurate information is provided equally to all shareholders and market participants and provides guidance on the process to ensure compliance. This Policy, together with our procedures relating to disclosure, is designed to ensure accountability at a Senior Management level and compliance with our disclosure obligations under the NZSX Listing Rules and New Zealand law such that all investors have equal and timely access to material information concerning our company, our financial position, performance and governance and that Company announcements are factual and are presented in a clear and balanced way.

The Board has appointed our Managing Director as our Market Disclosure Officer who is responsible for monitoring our business to ensure we meet our disclosure obligations. He is supported by the Company Secretary and, when necessary, will consult professional legal advisers.

In addition, a key role of the Audit and Finance Committee is to monitor legislative and regulatory compliance.

We report non-financial information about the business through-out our Annual Report, and specifically in respect of our key stakeholders at the end of this Corporate Governance Section.

Remuneration

Our Board has identified one of its strategic goals is to attract and retain the best people and to be recognised as the preferred employer in the payments industry. To this end we are committed to providing structures in our performance management and remuneration that enables us to recognise each individual's contribution to the business and to attract, reward and retain staff by providing a remuneration environment that rewards activities that are aligned with the values and strategic goals of the business.

Our Remuneration Policy can be found on our website and applies to Executive and Non-Executive Directors, Senior Management and all employees at Smartpay.

Performance and Remuneration are key responsibilities of our Remuneration and Nominations Committee, the terms of reference for whom can also be found on our website.

Directors Remuneration

Our Non-Executive Directors are paid a basic fee as ordinary remuneration for their appointment as a Director of Smartpay, in addition they may be paid extra remuneration for their membership of Board appointed committees and/or in consideration for

their appointment as Chairman or Deputy Chairman. They receive no retirement or other benefits. The level of remuneration to be paid is reviewed annually by the Remuneration and Nominations Committee who considers the skills, performance, experience and level of responsibility of the individual. In the event that the total remuneration of the Directors exceeds the current limit approved by shareholders no changes can be made until shareholder approval is obtained.

Executive Directors and Officers

Our Executive Directors are paid as employees of Smartpay and remuneration payable to them and our officers is made up of three components:

1. Fixed Remuneration
2. At risk/variable remuneration to reward performance in the form of a bonus scheme which is linked to key performance indicators set and reviewed by the Remuneration and Nominations Committee annually.
3. Long term incentive plans. We do not currently have a long-term incentive plan in place except as negotiated with individuals. These currently take the form of share options and Directors' interests in share options are detailed in the Statutory Information section of our Annual Report on page 70.

The remuneration of individual Executive Directors and Officers of the Company is reviewed annually by the Remuneration and Nominations Committee, part of this review includes a review of the appropriateness of long term incentive plans. We have no pre-determined weighting for the balance of each remuneration element to be awarded, this is contemplated in the context of our strategic plans and budget process to ensure that remuneration packages remain closely aligned with our values, vision and strategy whilst ensuring that high caliber individuals are appropriately incentivised.

The detail of the remuneration payments to directors of Smartpay Holdings Limited are included in the related party note to the Financial Statement on page 59 and their individual shareholdings are detailed in the Statutory Information section of the Annual Report on page 70. The subsidiary companies' directorships are detailed in the Statutory Information section on page 68, the majority of subsidiary company Directors are also Directors of Smartpay Holdings Limited, they receive no additional fees for being Directors of subsidiary companies.

Chief Executive Officer

	Base Salary	Other benefits including superannuation contributions	Subtotal	At Risk Incentive STI*	% STI against maximum	Total Remuneration
FY18	418,100	19,900	438,000	125,000	62.5%	563,000
FY17	418,350	19,400	437,750	131,250	75%	569,000

*STI (Short Term Incentive) is based on payments made in the period but relates to assessment of performance in the prior period.

The review and approval of the Chief Executive's remuneration is the responsibility of the Remuneration and Nominations Committee.

External benchmarking and advice is sought by the Remuneration and Nominations Committee and external advice was last obtained in May 2016.

The Chief Executive's remuneration currently comprises a base salary plus an at risk short term incentive payable

annually. There is no long-term incentive plan currently in place. The at-risk incentives are paid against targets which are agreed with the Chief Executive annually and are based on financial measures, including earnings targets and progress against objectives relating to the strategic plan and other personal objectives.

The figures above are shown in AU\$ as the Chief Executive is based in Australia and receives his remuneration in Australia.

Employees

Our Remuneration Policy applies to all employees, whether they are based in our New Zealand or our Australia offices. As part of our salary review process we benchmark our salaries against the appropriate regional market, this is an exercise we undertake annually for the whole business and when employees join the business or change roles. In July last year we also reviewed our New Zealand salaries cognisant of the recognised “Living Wage” in New Zealand, which, at the time was \$20.20 per hour. We have made great steps to achieving this and it remains work in progress which we will be addressing in 2018 and hope to be able to report that we pay a minimum of “Living Wage” by FY20.

During the year the number of employees, not being Directors of the company received remuneration and other benefits that exceeded NZ\$100,000 (overseas amounts are converted into NZ \$ for these purposes):

Remuneration Range \$	Number of Employees
290,000 – 299,000	1
230,000 – 239,000	2
220,000 – 229,000	1
200,000 – 209,000	2
150,000 – 159,000	2
140,000 – 149,000	2
130,000 – 139,000	3
120,000 – 129,000	3
110,000 – 119,000	2
100,000 – 109,000	5

Risk Management

Risk Management is a critical business discipline that reduces uncertainty and strengthens and complements other corporate governance initiatives. We actively manage all material risks in order to conduct business as usual and to accept an appropriate level of commercial, financial, compliance and strategic risk consistent with desired profitability.

There are three main policies which make up our Risk Management Framework:

- Risk Management Policy
- Health and Safety Policy
- Fraud Risk Management Policy

Each of these policies can be found on our website. Supporting each policy are detailed management frameworks which ensure the comprehensive management and reporting of risk in our business.

Our Risk Management Policy and Risk Register was established based on The Committee of Sponsoring Organisations (COSO) Enterprise Risk Management (ERM) framework. Each risk identified is evaluated in terms of impact and likelihood, and then re-evaluated post the mitigating factors identified and implemented by our Management team.

A comprehensive Risk Register is maintained which identifies the risks facing the business, potential consequences of those risks and the mitigating factors management have identified to minimise or remove any impact of such risks to our business. Risks are categorised as operational, financial, compliance and strategic risks and enable the Board to easily identify risks that may require additional investment and/or processes in order to mitigate further. The review of the

Register is a standing agenda item for our regular Senior Management meetings and Management review the Risk Register in response to new business initiatives, and notably has recently included in our risk register our new product offerings including acquiring. In addition, our Management team reviews the Risk Register prior to each board meeting and provides the board with reporting as to risks, mitigating factors that may have changed, a summary report of changes. The full Risk Register is included in the board pack for each Board meeting.

Our internal control systems support our risk management and include processes which enable the identification, quantification and monitoring of significant risks, the development of risk mitigation strategies, the monitoring of compliance and the review of systems and records.

Whilst we don't have sufficient scale to have a dedicated internal audit function we do have an active Compliance Team which comprises stakeholders from each part of our business covering acquiring, operations, governance, financial, sales and product. We recognise the value an internal audit process adds, and we place emphasis on the systems and policies in place. This includes the Delegation of Authorities Manual and other processes which ensure the separation of duties in relation to the authorisation of, and commitment to, expenses and obligations and that such decisions are made at the appropriate level. We are continually looking to further improve our systems and processes to ensure good controls are in place.

Health, Safety and Wellness

We are committed to maintaining a safe and healthy working environment for anyone working on Smartpay premises and to a culture of ensuring the wellbeing of our staff.

We believe that no business activity should take priority over Health and Safety and are committed to protecting all people from injury or illness as a result of our operations, so they can go home safe to their families at the end of each day.

Our Board has the ultimate responsibility for Health and Safety and is closely involved with the review of our Health and Safety management system receiving the full health and safety risk register in its board packs and considering Health and Safety issues as a standing agenda item of its board meetings. It obtains external advice from specialists in the field when necessary.

Management and each person in our business has an important role to play by being involved, engaged and accountable, ensuring that Health and Safety remains a priority.

Our Board sets annual Health and Safety objectives for management. For FY18 this included the automation of our existing induction process which has been implemented and ensures the efficient and timely induction of all individuals working on Smartpay premises. During FY18 there were no Health and Safety serious

harm incidents reported, and no accidents or incidents occurring in the workplace which resulted in sick leave being taken. We have utilised our rehabilitation policy for individuals suffering illness or injured outside of the work place to enable their smooth transition back to the workplace.

True to our "One Team" value we have an active Wellness Committee whose responsibilities cover Health and Safety and premises issues. In addition, they run various 'wellness' initiatives such as yoga and exercise classes, sporting competitions, financial wellness seminars, flu vaccinations and blood donations to name but a few.

We recognise that when life works better, business works better; life is not always stress or crises free and if left unattended these may in turn lead to time off, increased risk of accidents, high levels of stress and possible health issues. As part of our commitment to promoting a healthy workplace and caring for our team we have an Employee Assistance Programme in place which is facilitated by an external expert organisation. This enables employees to access specialist assistance on an anonymous and confidential basis.

Auditors

The ultimate responsibility to ensure the quality and independence of the external audit process rests with our Board.

The framework in place to enable our Board to discharge this responsibility includes:

- an appropriately resourced Audit and Finance Committee operating under written terms of reference
- Audit Independence Policy defining the services that may or may not normally be performed by Smartpay's external auditors

Both these documents can be found on our website. Following a review process KPMG became auditors to the company for the FY13 year end and Malcolm Downes was the lead audit partner for Smartpay. In accordance with our Audit Independence policy he stepped down as lead audit partner following the completion of the FY17 audit and Lauder Erasmus was appointed as the lead audit partner for the FY18 audit.

Our Auditors are invited to Audit and Finance committee meetings leading up to and during the audit and work

closely with the Chairman of the Audit and Finance Committee during this time. We promote good dialogue and encourage a supportive relationship, and the Audit team has unfettered access to our Senior Executive team and Finance team members at all times.

Smartpay engages other external advisors to assist with such matters as taxation to support the business in its tax dealings to ensure a true separation of duties. Where there are overlaps with audit work KPMG are engaged to provide only additional audit related advice.

KPMG conducted no non-audit work during FY18.

KPMG have confirmed their independence in relation to the audit and that there have been no contraventions of any applicable code of professional conduct in relation to the audit.

The fee paid to the auditors is detailed on page 42.

Stakeholder rights and relations



We recognise that our key stakeholders are our shareholders and the investment community. We also acknowledge that we have other, no less important, stakeholders both externally and internally to the organisation. For us, sustainability means building a long-term business through relationships with all who we interact with.

We are committed to using our best endeavours to familiarise ourselves with the issues of concern to all stakeholders, including shareholders, customers, staff, the payments industry and the communities in and around

our Company. We seek to ensure that we maintain good relationships with all stakeholders, to develop brand awareness and to clearly communicate our goals strategies and performance.

Our Shareholders

We are committed to adding value for our shareholders and our strategic plan is structured with this target in our sights.

Goal/Challenge	Progress	Areas of Focus/Measurement
Build a profitable and diversified payments business		<ul style="list-style-type: none"> Maintain and grow the market in NZ through the introduction of new products Australia – Organic Growth
Deliver increasing value to shareholders		<ul style="list-style-type: none"> Product innovation Implementation of acquiring capability in Australia

 Achieved  Work in progress

More detail on our progress as a business can be found in our Chief Executive’s report on page 6 of our Annual Report.

In September 2017 we held our Annual Meeting in Australia, recognising that the majority of our shareholders in terms of holdings of shares are held by Australian investors and wanting to make the meeting as accessible as possible to our investors.

We were also pleased to be able to offer any shareholder, not able to attend the meeting in person, the opportunity to attend via a remote meeting platform, through which they were able to ask questions and vote on resolutions, and we intend to hold future meetings in a similar fashion.





Voting at the meeting was conducted by poll rather than show of hands reflecting the principle of one share one vote.

We maintain websites specific to our New Zealand and Australian customers with a separate one for our investors. When a shareholder first invests in our Company they are sent a welcome letter which provides information on where to find our website and an invitation to elect to receive communications from us electronically.

Our Stakeholder Communications policy sets out our expectations of how we will communicate with our shareholders and around our annual meetings.

Our customers

Fearless – in our approach and focus on the customer.

Goal/Challenge	Progress	Areas of Focus/Measurement
To be the provider of choice to customers in the NZ market		<ul style="list-style-type: none"> Product stability, security and compliance Product development aligned with customer demand and technological developments
Have a business in Australia the equal of New Zealand		<ul style="list-style-type: none"> Expand the Customer Success team to ensure customers are getting value from our products and solutions
Provide leading edge/ innovative solutions through superior technology		<ul style="list-style-type: none"> Develop a best in class Customer service team to manage all customer queries across Australia and New Zealand
Develop and deliver an end to end payment solution		<ul style="list-style-type: none"> Competitive pricing to customer segments Continue with customer research to gain ongoing insights Manage any customer complaints effectively

 Achieved  Work in progress

Customer success has been a key focus for us in FY18 and continues to be our focus.

We restructured and refocused our retention team to focus on reducing customer churn by proactively undertaking “health checks” with customers to ensure they are getting value from our products and solutions, raise any potential issues and identify any opportunities for additional products or services required.



We are developing more ways in which customers can interact with us via our website and social media, recognising that customers communication preferences vary.

Our Customer Service teams have been growing to accommodate the growth in our acquiring product in Australia – additional support, training and tools have been implemented to ensure we provide excellent customer service for our merchants – across both countries.

Key Performance indicators and service level requirements throughout the business are structured to ensure that behaviours are directly linked to customer success.

Our community

Alongside our shareholders and our people, the Smartpay community includes the payments industry in which we play a key role, and the communities in which we operate.

Goal/Challenge	Progress	Areas of Focus/Measurement
Contribution to the broader payments industry		<ul style="list-style-type: none"> • Build strong relationships with key strategic partners in the payments industry • Contribution to payments events • Attendance at Global Payments forums
Minimise environmental impact		<ul style="list-style-type: none"> • Obtain maximum use/shelf life of terminals • Recycling of obsolete terminals • Minimise waste and maximise recycling at our premises

 Achieved  Work in progress

The Board approved Stakeholder Communication Policy recognises the interests of stakeholders wider than its shareholders and investment community. It is committed to using its best endeavours to familiarise itself with the issues of concern to all stakeholders including customers, staff, the payments industry and the communities in and around the Company.

It has established its Ethics and Code of Conduct and Communications and Disclosures Policy which are covered in more detail on pages 10 and 12.

Smartpay’s business is an integral part of the payments industry and as such has an important role to play in ensuring that public confidence in the payments infrastructure and ecosystem is maintained. Key external stakeholders in the payments industry, many who have strategic partnerships with Smartpay, are the banks, Paymark and Visa/Mastercard.

We acknowledge that our operations have minimal environmental impacts compared to many industries however we strive to play our part in reducing environmental impact.

We maximise the useful life of terminals, which has three key impacts:

- Minimises impact/inconvenience to our customers
- Minimises operational costs
- Minimises waste and our environmental impact.

We achieve this by enabling remote updating of software onto terminals, re-furbishing returned equipment for re-deployment and sending obsolete and de-commissioned terminals to specialist recyclers.


Since moving into our new premises in Auckland we have placed emphasis on our recycling of office waste, with paper and other recyclable products being collected for recycling which has reduced our landfill waste by 50%.

As a business we can offer discounted rates on short term rentals for Charities and our staff are able to have the use of a short-term rental for events such as school fairs, sports events etc.

As a team we participate in charitable events and our Social Club and Wellness Committee organises a variety of events, with the emphasis on the giving of our time and efforts. Events include mid-winter food collections for the City Mission in Auckland, collections of children’s Christmas gifts donated to the Salvation Army and donating our time to events such as the Christmas Parade in Auckland as donation collectors for charities.

Our People

One Team – we will work together to create an inspiring company that we are all proud to work for.

Goal/Challenge	Progress	Area of Focus/Measurement
Attract and retain the best people		<ul style="list-style-type: none"> • Staff satisfaction surveys • Pay parity • Living wage • Maintain Immigration NZ Accredited Employer status • Automated H&S induction program • Group and individual training plans • Internal promotion of staff

 Achieved  Work in progress

We recognise that delivering on our goals, including providing excellent customer service, innovative new products and building a profitable and diversified payments business, is directly linked to our ability to attract and retain the best people in our business.

It is essential to our ongoing success that we ensure our people feel confident, appreciated and inspired, have opportunities to develop and are motivated to excel. Our teams are based largely in Auckland and Sydney with small representation in Wellington and Christchurch. Our culture and values are fundamental to our attraction and retention strategies and we periodically test our success at this through internal staff surveys and feedback. While formal reporting on retention rates has not yet been established we aim to ensure that we understand what is motivating any turnover we do have so we can address as appropriate.

Our strategies for attracting and retaining the best people include:

- *Culture:* We continually strive for a culture that engages our people. The past 12 months has seen an emphasis on customer success and, through our management structures, we have focused on ensuring that each individual in our business, regardless of role, has an understanding of the contribution they make to our customer experience.





We have an active Social Club and Wellness Committee which support our One Team Value.

- *Learning and Development:* We take a continuous improvement approach to learning and development. Performance reviews are conducted throughout the business including staff, management and our Board. Clear performance outcomes are set with our customer success a focus. Training starts on day one with our induction programme after which training and development is largely planned and constructed for individual requirements. We ensure we deliver consistent approaches and messaging to staff through group training sessions and regular meetings and updates.

We are committed to a workplace culture that promotes and values diversity and inclusion.

We introduced a Diversity and Inclusion Policy during 2017. Taking a broad sense of diversity and recognising, valuing and considering our employees’ different backgrounds, knowledge, skills, needs and experiences, we set ourselves targets to be achieved.

We have not yet set numerically measurable standards and instead have set objectives which promote diversity across the business, these include:

Target	Progress
To achieve and maintain NZ Immigration Accredited employer status to ensure access to a wide pool of talent	
Gender pay parity	
Working towards living wage	
Skills diversity of the board	

 Achieved  Work in progress

We have conducted a preliminary review of pay parity for male and female members of staff doing the same role and are pleased to report that there is no difference in the salaries paid in those roles. Our approach to our staff has always been to have the right people in the role without reference to bias or discrimination and it is important to us that our staff are reflective of the communities in which we operate.

For commentary on the “Living Wage” see the Remuneration section on page 15.

The Board’s skills matrix is cornerstone to the identification of skills needed on the Board and is reviewed and updated annually and whenever a new Director joins the Board.

The Board remains committed to improving gender diversity in its membership however, as a small board, any appointment must also be aligned with any skills gap identified.



Diversity disclosure

Directors

As at 31 March 2018

■ Male: 5/100% ■ Female: 0/0%



As at 31 March 2017

■ Male: 4/100% ■ Female: 0/0%



Senior Managers

Senior Managers of the company include anyone who is not a Director but occupies a position that allows that person to exercise significant influence over the management or administration of the Company. The list of people considered to be senior managers by the company is contained in the directory at the back of the Annual Report.

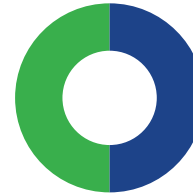
As at 31 March 2018

■ Male: 1/50% ■ Female: 1/50%



As at 31 March 2017

■ Male: 1/50% ■ Female: 1/50%



Other Staff

At the 2017 year end the business had 29 employees working on a temporary basis to assist with the upgrade of terminals to customers. These temporary workers are included in the numbers as at 31 March 2017.

As at 31 March 2018

■ Male: 63/64.3% ■ Female: 35/35.7%



As at 31 March 2017

■ Male: 74/58.7% ■ Female: 52/41.3%





2018 Financial Statements

Directors' Responsibility Statement

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of Financial Statements which give a true and fair view of the financial position of Smartpay Holdings Limited and its subsidiaries (the Group) as at 31 March 2018 and the results of their operations and cash flows for the year ended 31 March 2018.

The Directors consider that the Financial Statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied except where indicated, and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and enable them to ensure that the Financial Statements comply with the Financial Reporting Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the Financial Statements of the Group for the year ended 31 March 2018.

These Financial Statements dated 30th May 2018 are signed in accordance with a resolution of the directors made pursuant to section 211(1) (k) of the Companies Act 1993.

For and on behalf of the Directors



Gregor Barclay
Chairman



Bradley Gerdis
Managing Director

Statement of Comprehensive Income

For the year ended 31 March 2018

		Group	
	Note	2018 \$'000	2017 \$'000
Continuing operations			
Revenue	5	20,347	20,892
Other income	6	16	864
Operating expenditure	7	(10,806)	(12,131)
Earnings before interest, tax, depreciation, share options expense, amortisation, impairments and unrealised foreign exchange		9,557	9,625
Depreciation and amortisation	7	(5,878)	(5,937)
Unrealised foreign exchange adjustments		-	87
Share option amortisation	22	(15)	(21)
Net finance (costs)	7	(1,307)	(1,429)
Impairment	7	(179)	(380)
		(7,379)	(7,680)
Profit before tax		2,178	1,945
Tax benefit	8	346	258
Profit for the year from continuing operations of owners		2,524	2,203
Other comprehensive income			
Foreign currency translation differences for foreign operations which may be reclassified subsequently to profit and loss (no tax effect)	23	(133)	(99)
Share based payments reversal which will not subsequently be reclassified to profit/ (loss) (no tax effect)	22	559	461
Total comprehensive income of owners		2,950	2,565
Earnings/ (losses) per share from continuing operations attributable to the equity holders of the company during the year			
Basic earnings per share	9	1.47 cents	1.29 cents
Diluted earnings per share		1.47 cents	1.29 cents

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 29 to 63 form part of the Financial Statements.

Statement of Changes in Equity

For the year ended 31 March 2018

	Group			
	Share Capital	Foreign Currency Translation Reserve	Retained Deficits	Total
Balance at 31 March 2016	54,438	375	(43,329)	11,484
Profit for the year from continuing operations of owners	-	-	2,203	2,203
Other comprehensive income	-	(99)	461	362
Total comprehensive income	-	(99)	2,664	2,565
Share options recognised at fair value net of options lapsed (note 22)	(440)	-	-	(440)
Total changes in equity	(440)	(99)	2,664	2,125
Balance at 31 March 2017	53,998	276	(40,665)	13,609
Profit for the year from continuing operations of owners	-	-	2,524	2,524
Other comprehensive income	-	(133)	559	426
Total comprehensive income	-	(133)	3,083	2,950
Share options recognised at fair value net of options lapsed (note 22)	(544)	-	-	(544)
Total changes in equity	(544)	(133)	3,083	2,406
Balance at 31 March 2018	53,454	143	(37,582)	16,015

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 29 to 63 form part of the Financial Statements.

Statement of Financial Position

As at 31 March 2018

		Group	
	Note	2018 \$'000	2017 \$'000
Current assets			
Cash and bank balances	10	2,396	2,896
Trade and other receivables	11	5,201	2,996
Finance receivable	13	100	98
Income tax receivable	20	13	173
Total current assets		7,710	6,163
Non-current assets			
Finance receivable	13	122	212
Property, plant and equipment	15	13,670	15,417
Intangible assets	16	10,250	7,913
Goodwill	17	14,772	14,772
Total non-current assets		38,814	38,314
Total assets		46,524	44,477
Current liabilities			
Trade payables and accruals	19	5,867	3,354
Derivative financial instruments	12	164	90
Borrowings	21	2,998	2,984
Total current liabilities		9,029	6,428
Non-current liabilities			
Borrowings	21	21,224	23,934
Derivative financial instruments	12	44	175
Deferred tax liabilities	18	212	331
Total non-current liabilities		21,480	24,440
Total liabilities		30,509	30,868
Net assets		16,015	13,609
Equity			
Share capital	22	53,454	53,998
Foreign currency translation reserve	23	143	276
Retained deficits		(37,582)	(40,665)
Total equity		16,015	13,609

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 29 to 63 form part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 March 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		20,506	20,512
Interest received		92	62
Payments to suppliers & employees		(10,870)	(12,673)
Interest paid		(1,426)	(1,521)
Tax refund from R&D grants		364	-
Net cash inflow from operating activities	24	8,666	6,380
Cash flows from investing activities			
Proceeds from disposal of assets		1	454
Purchase of terminal assets and other property, plant and equipment		(3,361)	(4,823)
Spend on intangible assets		(4,299)	(2,094)
Net cash outflow from investing activities		(7,659)	(6,463)
Cash flows from financing activities			
Proceeds from borrowings		290	2,580
Repayments of borrowings		(3,000)	(3,015)
Secured deposit		(239)	-
Net cash outflow from financing activities		(2,949)	(435)
Net decrease in cash equivalents		(1,942)	(518)
Add opening cash equivalents		2,896	3,414
Closing cash equivalents		954	2,896
<i>Reconciliation of closing cash equivalents to the balance sheet:</i>			
Cash and cash equivalents		954	2,896
Other bank balances		1,442	-
Closing cash and bank balances	10	2,396	2,896

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 29 to 63 form part of the Financial Statements.

Notes to the Financial Statements

1. General Information

Smartpay Holdings Limited (the "Parent") is a New Zealand company registered under the Companies Act 1993 and listed on both the New Zealand Stock Exchange ("NZX") and the Australian Securities Exchange ("ASX"). The Parent is an issuer (FMC entity) in terms of the Financial Reporting Act 2013. The addresses of its registered office and principal place of business are disclosed in the directory to the annual report.

The consolidated Financial Statements of Smartpay Holdings Limited comprise the Parent and its subsidiaries (together referred to as the "Group").

The Group comprises profit-oriented entities and is a provider of technology products, services and software to merchants and retailers in New Zealand and Australia.

2. Summary of Significant Accounting Policies

a. Statement of Compliance

The Parent is a reporting entity for the purposes of the Financial Reporting Act 2013 and its Financial Statements comply with that Act.

The Financial Statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013.

The Financial Statements comply with International Financial Reporting Standards ("IFRS").

The Financial Statements were authorised for issue by the Directors on 30 May 2018.

b. Basis of Preparation

The Group Financial Statements have been prepared on a historical cost basis except for certain assets, which have been measured at fair value. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The principal accounting policies are set out below.

The going concern assumption is applied, it is supported by current cash flow and cash flow forecasts for 2019/2020. The cash/flow forecasts indicate that there is adequate cover for the current net liability position and to support its ongoing operations.

The prior year comparative figures have been reclassified to agree to the current year classification where appropriate.

c. Functional and Presentation Currency

The Financial Statements are presented in New Zealand dollars (\$'000), which is the Parent's and New Zealand subsidiaries functional currency. All financial information is presented in New Zealand dollars except if stated otherwise, and has been rounded to the nearest thousand where appropriate.

d. Accounting Judgements and Major Sources of Estimation Uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 3 for a discussion of judgements in applying the accounting policies, and major sources of estimation uncertainty.

e. Adoption of New and Revised Standards and Interpretations

i) Standards and Interpretations Effective in the Current Period

The following standards have been implemented in the current period. These standards had no impact on the calculation of reported financial information of the Group.

- Other Clarifications

There have been minor amendments to standards which have not had a material impact on the Group in the current reporting period.

ii) Standards on Issue Not Yet Adopted

	Effective Date*
NZ IFRS 9 Financial Instruments	1 January 2018
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018
NZ IFRS 16 Leases	1 January 2019

* The effective date for the Group is the commencement date of the next accounting period after the Effective Date

Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory.

Management have given consideration to the changes and do not expect any of the changes to have an adverse material impact on the measurement or recognition policies of the Group.

NZ IFRS 9 Financial Instruments - The standard is replacing the existing guidance in NZ IAS 39 Financial Instruments. The Group does not currently undertake hedge accounting and therefore consider the impact of the change will not be material.

NZ IFRS 15 Revenue from Contracts with Customers - The standard is replacing NZ IAS 18 Revenue. The component of revenue relating to the provision of software within the rental agreements is recognised as the services are provided over the term of the agreement. This is consistent to how the Group currently reports this revenue and therefore consider there will not be a material impact from this change.

NZ IFRS 16 Leases - Lessor accounting will not change materially under NZ IFRS 16 and management do not consider that there will be a material impact to the revenue recognition on EFTPOS rental agreements. As a lessee the Group will recognise a liability in relation to building leases along with a corresponding asset for the premises. The Group does not consider that there will be a material adverse impact.

f. Consolidation

The Group Financial Statements incorporate the Financial Statements of the Parent and entities controlled by the Parent (its subsidiaries). Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The Financial Statements of the subsidiaries are prepared using consistent accounting policies which may involve making adjustments to the Financial Statements of subsidiaries to bring them into line with other members of the Group.

All intra-group balances, transactions, income and expenses have been eliminated in full on consolidation.

Investments in subsidiaries are recorded at cost less any impairment provision in the Parent company's Financial Statements.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any costs directly attributable to the business combination are expensed in the Statement of Comprehensive Income.

Any excess of the cost of acquisition over the aggregate fair values of the identifiable net assets acquired is recognised as goodwill. Goodwill arising on acquisition is recognised as an asset and initially measured at cost. Refer to note 2.u for the Group's accounting policy on Goodwill.

Where equity instruments are issued in a business combination, the fair value of the instruments is the published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. The 20 days volume weighted average prior to the date of exchange is used when there is low trading volume in the shares. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

g. Foreign Currencies

i) Foreign Currency Transactions

The individual Financial Statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group Financial Statements, the results and financial position of any group entity whose functional currency is not New Zealand dollars is converted to New Zealand dollars being the functional currency of the Parent.

Transactions in currencies other than an entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to the entity's functional currency at rates prevailing at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise.

ii) Foreign Operations

For the purpose of presenting the Group Financial Statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand dollars using exchange rates prevailing at the end of the reporting period. Items in the Statement of Comprehensive Income are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in Other Comprehensive Income and accumulated as a separate component of equity in the Group's Foreign Currency Translation Reserve. Such exchange differences are reclassified from equity to income (as a reclassification adjustment) on disposal of the net investment.

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

h. Comparatives

When the presentation or classification of items is changed, comparative amounts are reclassified unless the reclassification is impractical. There have been only minor presentation or classification changes in the current period.

i. Current versus Non Current Classification

The Group presents assets and liabilities in the statement of financial position based on current/non current classifications.

An asset is current when it is:

- expected to be realised or intended to be sold or consumed within twelve months after the reporting date or
- is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date

All other assets are classified as non current.

A liability is current when it is:

- expected to be settled within twelve months after the reporting date or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date

All other liabilities are classified as non current.

j. Revenue Recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

i) Operating Lease Income

Rental agreements for terminals recognised as operating leases result in revenue being recognised on a straight line basis over the term of the lease.

ii) Finance Lease Income

Rental agreements for terminals where substantially all the risks and rewards are considered to have transferred to the customer are recognised as a sale of the terminal hardware and as a finance lease transaction. The income from the sale of the terminal is recognised according to 2.j.(v) below and the finance lease transaction is recognised based on the net present value of the future cash flows over the term of the agreement using the effective interest method.

iii) Transactional Revenue

Rental agreements for terminals may include the processing of merchant transactions and the transaction revenue is earned as the transactions are processed.

iv) Service and Software Revenue

The component of revenue relating to the servicing of terminal assets subject to rental agreements, including provision for software upgrades for terminals is recognised as the services are provided over the term of the agreement.

v) Terminals and ancillary devices sold

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

vi) Finance Income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the finance income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

vii) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

k. Share-based Payment Transactions

Equity Settled Transaction

The Group has provided benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). Similarly share based benefits have been provided to other parties such as consultants and financiers, in settlement of services rendered. No benefits in the form of share based payments were provided in this financial year.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Smartpay Holdings Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

- The grant date fair value of the award;
- The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- The expired portion of the vesting period. The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

l. Finance Costs

Interest expense is accrued on a time basis using the effective interest method and are recognised as an expense when incurred.

m. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

i) Current Tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the Statement of Comprehensive Income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date. Current tax assets and liabilities are the tax balances due from or owing to taxation authorities.

ii) Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Current and deferred tax are recognised as an expense or income in profit or loss except when they relate to items recognised in other comprehensive income or directly in equity in which case the tax is also recognised in other comprehensive income or directly in equity, or where they arise from initial accounting for a business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they are levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

iii) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

n. Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash, net of outstanding bank overdrafts and which are subject to an insignificant risk of changes in value.

The following terms are used in the Statement of Cash Flows:

- operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities; and
- investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- financing activities are the fund raising activities of the Group from both owners and financiers. Any dividends paid are classified as part of financing activities.

o. Financial Assets

Financial assets are classified by NZ IAS 39 Financial Instruments: Recognition and Measurement into the following categories:

- financial assets at fair value through profit and loss,
- held-to maturity investments,
- available-for-sale financial assets,
- loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and when allowed and appropriate, re-evaluates this designation at each reporting date.

When financial assets are initially recognised they are measured at fair value, plus, in the case of assets not at fair value through profit and loss, directly attributable transaction costs.

The Group has the following classifications:

i) Financial Assets at Fair value through Profit & Loss

This category has two sub categories:

- financial assets held for trading,
- those designated at fair value through profit and loss on initial recognition.

The Group's derivative financial instruments are categorised 'at fair value through profit and loss' on initial recognition.

ii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables.

Trade receivables are amounts due from customers for services performed and goods provided in the ordinary course of business. Trade receivables, which generally have 30-60 day terms, are recognised at fair value less an allowance for any uncollectible amounts. Some trade receivables relating to Telephony have one week payment terms.

Finance lease receivables are amounts due from customers who have taken out rental agreements at the time of taking possession of their EFTPOS terminals and or Retail Radio equipment. See note 2.j. (ii).

Impairment of Financial Assets

Collectability of trade receivables and finance lease receivables are reviewed on an on-going basis. Trade receivables that are

known to be uncollectible are written off when identified. Finance lease receivables that are known to be uncollectible will have the terminal repossessed and the debt written off.

Financial assets, other than those financial assets at fair value through profit and loss are assessed for indicators of impairment at the end of each reporting period including trade and finance lease receivables on a collective basis. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows.

Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

p. Derivative Financial Instruments

The Group's derivative financial instruments are categorised 'at fair value through profit and loss' on the date a derivative contract is entered into and are subsequently remeasured to their current fair value at each reporting date. The resulting gain or loss of any derivative is recognised immediately in the profit and loss.

The balance outstanding of derivative financial instruments are classified as current assets or liabilities if they are expected to be realised within 12 months otherwise they are treated as non-current assets or liabilities.

q. Merchant Terminals and Property, Plant and Equipment

Merchant terminals and plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. All other repairs and maintenance are recognised in the Statement of Comprehensive Income as incurred.

Terminals on hand are held in capital works in progress and are valued at cost after due consideration for excess and obsolete items and depreciation on used equipment. Costs are assigned on the basis of standard costs which are reassessed periodically as the costs change.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets and charged to the Statement of Comprehensive Income as follows:

- Merchant terminals - 6 years
- Motor vehicles - 5 years
- Computer equipment – between 3 and 6 years
- Furniture, fixtures and office equipment - between 2 and 12 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Disposal

A merchant terminal or an item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is de-recognised.

r. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) Group as Lessor

Refer to notes 2.j. (i) & (ii) and 2.o. (ii).

ii) Group as Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction in the lease obligation. The finance lease costs are charged directly to the Statement of Comprehensive Income.

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

s. Intangibles

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

i) Software and Development Costs

All costs directly incurred in the purchase or development of major computer software or subsequent upgrades and material enhancements, which can be reliably measured and are not integral to a related asset are capitalised as intangible assets. Direct costs may include payroll and on-costs for employees directly associated with the project. Costs incurred on computer software maintenance are expensed to the Statement of Comprehensive Income as they are incurred. Computer software is amortised on a straight line basis over the period of time during which benefits are expected to arise, being three to six years. Amortisation commences once the computer software is available for use.

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

ii) Intangible Assets Acquired in a Business Combination

Intangible assets other than goodwill acquired in a business combination are identified and recognised separately where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition (including any adjustment to previous provisionally assessed fair values), intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses where they have finite useful lives.

iii) Research

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Statement of Comprehensive Income when incurred.

iv) Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

- capitalised development costs 2-5 years
- customer contracts 3-10 years
- software 3-6 years

t. Impairment of Non-financial Assets Other Than Goodwill

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 tested 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. 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 that 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 impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

An impairment loss is recognised immediately in the Statement of Comprehensive Income.

u. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated across the Group's cash-generating unit or units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit/group of cash-generating units, to which the goodwill relates. When the recoverable amount of the cash-generating unit/group of cash-generating units is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit/group of cash-generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

v. Financial Liabilities and Equity Instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

i) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. Ordinary shares are classified as equity. The equity portion of compound financial instruments is included in equity.

ii) Financial Liabilities

Financial liabilities, including borrowings and trade payables and accruals, are initially measured at fair value, plus directly attributable transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with any interest expense recognised on an effective interest basis.

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 end of the reporting period.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

w. Provisions and Employee Leave Benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in interest costs.

Employee Leave Benefits

Wages, salaries, annual leave and sick leave: Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

x. Earnings Per Share

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the Group, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

y. Fair value of financial assets and liabilities

Fair Value Methodologies

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

- **Certain Short Term Financial Assets**
For cash and short term funds, balances with other financial institutions with maturities for less than 3 months and other types of short term financial assets, the carrying value of these financial instruments are considered to approximate fair values as they are short term in nature or are receivable on demand.
- **Finance Receivables**
The fair value is the net present value of the future cash flows over the term of the agreement using the effective interest method.
- **Other Financial Assets**
The carrying value of accrued interest and income receivable approximate fair values as they are short term in nature or are receivable on demand. Prepaid expenses are not considered financial assets.
- **Payables and Other Financial Liabilities**
This category includes accrued interest and payables for which the carrying amount is considered to approximate fair value, as they are short term in nature or are payable on demand. Income tax liabilities, provisions and accrued charges are not considered financial liabilities.
- **Borrowings**
The fair value of borrowings is the amount payable on demand as at balance date. The carrying values of all liabilities with maturities of less than 12 months are considered to approximate fair values as they are short term in nature. In respect of borrowings with maturities greater than 12 months they are recognised at fair value.

z. Government Grants

Government grants that compensate the Group for expenses incurred are recognised as profit and loss in the same periods in which the expenses are recognised.

aa. Insurance Contracts

Where the group enters into financial guarantee contracts to guarantee the performance or indebtedness of companies within the group, the company considers these to be insurance arrangements and accounts for them as such. In this respect the company treats the guarantee as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

ab. Changes in Accounting Policies

There have been no changes in accounting policies during the year.

3. Significant Accounting Judgments, Estimates and Assumptions

In applying the Group's accounting policies management continually evaluate judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by the Directors and management in the preparation of these Financial Statements are outlined below.

Significant Accounting Estimates and Assumptions

i) Impairment of Goodwill and Intangibles with Indefinite Useful Lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with useful lives are discussed in note 17.

ii) Recognition of Software Development

The Group assesses all development expenditure in accordance with the future economic benefits to determine if it fulfils the criteria for capitalisation as an intangible asset.

iii) Lease Classification

In making their judgement, the Directors considered the detailed criteria for recognising income on terminal lease agreements with customers, see note 2.j (i) and 2.j (ii).

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise loans, interest rate swaps and foreign exchange contracts. The main purpose of these financial instruments is to raise finance for the Group's operations and hedge currency exposure. The Group has various other financial assets and liabilities such as overdraft facilities, cash, accounts receivable, finance lease receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments, assets and liabilities are risks in the movement of, interest rates and foreign exchange rates, liquidity risk, and credit risk. The Board reviews and agrees policies for managing each of these risks as summarised below.

a. Market Risk

(i) Foreign Currency Risk

The Group has a growing Australian business and an exposure to foreign exchange risk. The Group acquires terminal assets from foreign suppliers and they are denominated in USD. The group uses forward exchange contracts to manage the exposure to currency fluctuation in respect of the USD risk.

(ii) Cash Flow and Fair Value Interest Rate Risk

The Group's only significant financial assets subject to floating interest rates is its cash held in the bank, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its borrowings. The Group has entered into an interest rate swap in respect of 75% of the interest obligations which mirrors the amortisation profile of the ASB facility see note 21. The interest rate swap was restructured effective 30 December 2016 to mirror debt extension to July 2019 and an additional swap has been entered into to hedge 75% of the capex facility.

b. Credit Risk

In the normal course of business, the Group incurs credit risk (defined as the risk of failure of a counterparty to a transaction) from accounts receivable, finance lease receivables and transactions with financial institutions.

Management have a credit policy in place and the exposure to credit risk is monitored on an on-going basis with the review of payment history of trade and lease receivable and finance lease receivables. A review of all types of accounts takes place daily with active measures taken to collect outstanding amounts and prevent them becoming non performing accounts. On the lease receivables the terminals remain the property of the Group and in New Zealand a financing statement is registered under the Personal Property Securities Act 1999 in respect of each terminal and repossession can be undertaken in the event of default of the debt. In Australia financing statements are registered where possible under the Personal Property Securities Act 2009 which came into force in October 2011.

See note 29.c for more explanation on determining objective evidence that an impairment has occurred and an analysis of accounts overdue and concentrations of credit risk.

The Group deals with high credit quality financial institutions in placing its cash and deposits.

c. Liquidity Risk

Liquidity risk arises from the financial liabilities of the Group and the ability to meet their obligations to repay their financial liabilities as and when they fall due. The objective is to maintain a balance between continuity of funding and committed available credit lines. See note 22 for more information on the Group's Capital Management processes.

The Group manages its liquidity by forecasting and monitoring the total cash flows on a daily, monthly and annual basis (see note 29.e).

d. Fair Values

The carrying value of all debt and finance leases is the fair value of these liabilities.

5. Segment Information

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments and whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

The Group's business provides technology solutions through various product lines into the same markets, to the same customers, with all product lines being reported as a single business.

The only data that is reviewed by management that is analysed by any segment breakdown is revenue showing the various revenue streams split geographically. Costs and funding are analysed at a group level for decision making purposes.

Geographical Segments

2018	New Zealand	Australia	Elimination	Total
Revenue	\$'000	\$'000	\$'000	\$'000
Operating lease, software and support revenue	15,403	2,165	-	17,568
Transactional income	907	477	-	1,384
Other service revenue	394	68	-	462
Sale of goods	1,246	618	(986)	878
Finance revenue	1	13	-	14
Other revenue	38	3	-	41
Total segment revenue	17,989	3,344	(986)	20,347
Additions to non current assets	6,957	407		7,364
Non current assets	35,329	4,436	(951)	38,814

2017	New Zealand	Australia	Elimination	Total
Revenue	\$'000	\$'000	\$'000	\$'000
Operating lease, software and support revenue	15,989	1,936	-	17,925
Transactional income	1,019	62	-	1,081
Other service revenue	429	184	-	613
Sale of goods	2,662	711	(2,157)	1,216
Finance revenue	-	11	-	11
Other revenue	14	32	-	46
Total segment revenue	20,113	2,936	(2,157)	20,892
Additions to non current assets	6,339	1,602	-	7,941
Non current assets	34,649	4,635	(970)	38,314

In New Zealand and Australia no single customer represents more than 10% of total revenues as such there is no concentration of customers.

6. Other Income

The following items are included in other income:

	Group	
	2018	2017
	\$'000	\$'000
Sale of Intangible asset	-	429
Fair value adjustment on terminals residual value	-	406
Bad debts recovered	16	29
	16	864

7. Expenditure

The following items are included within the Statement of Comprehensive Income:

Operating Expenditure	Note	Group	
		2018	2017
		\$'000	\$'000
Direct costs of sales		860	441
Terminal Communication & servicing costs		445	924
Compliance, IT and Marketing costs		1,325	1,654
Employee costs		6,350	7,074
Occupancy costs		591	939
Other costs		862	809
Travel and accommodation		373	290
		10,806	12,131
Depreciation and Amortisation		Group	
		2018	2017
		\$'000	\$'000
Depreciation of property, plant and equipment	15		
Merchant terminals		3,629	3,520
Computer equipment		252	262
Motor vehicles		15	26
Furniture, fixtures and office equipment		85	100
Amortisation of intangible assets	16		
Software		1,474	1,605
Customer contracts		423	424
		5,878	5,937
Auditors Fees included in operating expenditure		Group	
		2018	2017
		\$'000	\$'000
Audit fees to the principal auditor (note 1)		122	118
Taxation services - consultancy - to the principal auditor (note 2)		-	10
Non audit fees to principal auditor (note 3)		-	2
		122	130

Fees paid to the principal auditor were for:

1. Annual audit of the consolidated Financial Statements
2. Tax compliance advice
3. IT system consulting fee

Operating expenditure includes the following costs	Group	
	2018	2017
	\$'000	\$'000
Bad debts written off	90	291
Net impairment/ (reversal) of provision of receivables	-	(108)
Net loss/ (gain) on disposal of assets	(1)	(22)
Directors fees and directors consulting fees	150	119
Net foreign exchange losses/ (gains)	5	(48)
Operating lease payments	512	623
Net finance costs	Group	
	2018	2017
	\$'000	\$'000
Other interest received	(50)	(32)
Interest on bank overdrafts and borrowings	1,419	1,585
Change in fair value - interest rate swap (note 12)	(92)	(136)
Change in fair value - foreign exchange contract (realised and unrealised)	16	(5)
Finance transaction fees amortisation	14	17
	1,307	1,429
Impairments	Group	
	2018	2017
	\$'000	\$'000
Merchant terminals	179	380

8. Taxation Expense / (Credit)

	Group	
	2018	2017
	\$'000	\$'000
Income tax expense comprises:		
Current income tax benefit	227	140
Deferred tax benefit	119	118
Income tax benefit	346	258
Reconciliation between charge for year and accounting profit		
Profit/(loss) before tax	2,178	1,945
Income tax at 28%	(610)	(545)
Add/(deduct) the tax effect of:		
Non-deductible expenses	(488)	(367)
Non-assessable income	241	553
Temporary differences not recognised	956	443
Tax benefit recognised	227	140
Australian tax rate differences	20	34
Income tax benefit	346	258

The tax rate used in the above reconciliation is the corporate tax rate applicable at 31 March 2018 payable on taxable profits under New Zealand (28%) and Australian tax law (30%). The current income tax benefit recognised relates to the R&D grant received from Inland Revenue.

9. Earnings per Share

The calculation of basic and fully diluted earnings per share is as follows:

	Group	
	2018	2017
	\$'000	\$'000
Basic earnings per share - cents		
Profit for the period	2,524	2,203
Weighted average number of shares ('000)	171,752	171,752
Basic earnings per share - cents	1.47	1.29

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares issued during the year.

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares whether issued or able to be issued during the year. For 2018 the share options were not dilutive so the calculation excludes the impact of 1,000,000 shares (2017:7,000,000 shares) potentially issuable, consequently the diluted earnings per share is equivalent to the basic earnings per share.

10. Cash and Bank Balances

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, net of outstanding overdrafts.

	Group	
	2018	2017
	\$'000	\$'000
Cash and cash equivalents		
Cash at bank and in hand	954	2,896
Total cash and cash equivalents	954	2,896
Other Bank Balances		
Merchant settlement account	1,203	-
Secured Deposit	239	-
Total cash and bank balances	2,396	2,896

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value. The carrying amount in the Merchant Settlement account represents the surplus cash balances the Group holds on behalf of its customers when the incoming amount from the card schemes precedes the funding obligation to customers.

11. Trade and Other Receivables

	Group	
	2018	2017
	\$'000	\$'000
Accounts receivable	1,244	1,307
Less impairment provision on receivables	(9)	(9)
Less provision for kit recovery	(244)	(153)
Merchant receivables	2,457	-
Accrued revenue	1,466	1,633
Prepayments	287	191
GST	-	27
Total trade and other receivables	5,201	2,996

An allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. The Group manages its receivables in line with its approved credit control procedures see note 4 b. The Merchant receivables are amounts due from the card schemes for transactions processed on behalf of customers.

12. Derivative Financial Instruments

The Group's subsidiary Smartpay New Zealand Limited has entered into two interest rate swap transactions with ASB Bank Limited. The original interest rate swap was renewed on 30 November 2016, effective 30 December 2016 for a notional amount of \$13,500,000 decreasing by \$562,500 per quarter and terminates on 28 June 2019 whereby the Group pays fixed 3.55% and receives floating rate (90 day bill rate BKBM). The fair value is included in current and non current liabilities. On 30 November 2016 effective 30 December 2016 a second swap was entered into to hedge the capex facility for a notional principal of \$7.5 million whereby the Group pays fixed 2.56% and receives floating (90 day bank bill rate BKBM).

Fair Value

	Group	
	2018 \$'000	2017 \$'000
Swap A	(166)	(274)
Swap B	(39)	(23)
Foreign exchange contracts	(3)	32
Total	(208)	(265)
Current	(164)	(90)
Non Current	(44)	(175)
Total	(208)	(265)

13. Non Current Finance Receivables

	Group	
	2018 \$'000	2017 \$'000
Total finance lease receivables	222	310
less current portion of finance lease receivables	(100)	(98)
Non current finance lease receivables	122	212

Finance Lease Receivable

2018	Current	1-5 Years	Total
Finance leases - gross receivable	111	126	237
less unearned finance income	(11)	(4)	(15)
Total finance lease receivables	100	122	222
2017	Current	1-5 Years	Total
Finance leases - gross receivable	114	226	340
less unearned finance income	(16)	(14)	(30)
Total finance lease receivables	98	212	310

The leases have no residual value and the lessee is required to provide insurance on the terminals and the lease payments are made monthly during the term of the lease. Any change in the residual value is recognised in the year the change arises.

The Group manages its receivables in line with its credit control procedures.

An allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. Finance lease receivables are generally recoverable evenly over the relevant lease period. They are initially recorded at their discounted value using a market discount rate for similar activities.

14. Subsidiary Companies

The consolidated Financial Statements include the Financial Statements of Smartpay Holdings Limited and the subsidiaries listed in the following table.

	Equity Interest		Place of Incorporation	Activities
	2018	2017		
Subsidiaries				
Smartpay Limited	100%	100%	NZ	Product and services
Smartpay New Zealand Limited	100%	100%	NZ	Product and services
Smartpay Software Limited	100%	100%	NZ	Software ownership
Viaduct Limited	100%	100%	NZ	Non-trading
Smartpay Rental Services Limited	100%	100%	NZ	Rental of equipment
Smartpay Australia Pty Limited	100%	100%	Aust	Product and services
Smartpay Rentals Pty Limited	100%	100%	Aust	Rental of equipment
Cadmus Payment Solutions Pty Limited	100%	100%	Aust	Product and services
Pax Technology Pty Limited	100%	100%	Aust	Non-trading
Smartpay Taxis Pty Limited	100%	100%	Aust	Rental of equipment
Smartpay Epayments Pty Limited	100%	100%	Aust	Non-trading
Smartpay Ethos Limited	100%	100%	NZ	Software ownership
Product Rentals Pty Limited	100%	100%	Aust	Rental of equipment

All subsidiary companies have the same balance date as their parent company of 31 March and all subsidiaries were owned for the full financial year.

15. Property, Plant and Equipment

	Merchant terminals at cost		Furniture, fixtures and office equipment at cost		Computer equipment at cost	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Opening carrying value	12,681	9,863	206	84	280	452
Additions	584	1,096	10	226	165	90
Transfers	2,664	5,561	-	-	-	-
Depreciation	(3,629)	(3,520)	(85)	(100)	(252)	(262)
Disposals	-	(14)	-	(3)	-	-
Cost of sales	(25)	-	-	-	-	-
Impairment	(164)	(320)	-	-	-	-
FX adjustments	(94)	15	-	(1)	-	-
Closing carrying value	12,017	12,681	131	206	193	280
Capital work in progress						
Opening carrying value	2,235	4,222	-	-	-	-
Additions	2,354	4,444	-	-	-	-
Transfers	(2,664)	(5,561)	-	-	-	-
Cost of sales	(563)	(791)	-	-	-	-
Impairment	(15)	(61)	-	-	-	-
FX adjustments	(18)	(18)	-	-	-	-
Closing carrying value	1,329	2,235	-	-	-	-
Total	13,346	14,916	131	206	193	280
Reconciled to:						
Cost	21,327	22,609	398	405	611	4,090
Less accumulated depreciation and impairment	(9,310)	(9,928)	(267)	(199)	(418)	(3,810)
Closing carrying value	12,017	12,681	131	206	193	280
Capital work in progress	1,329	2,235	-	-	-	-
Total	13,346	14,916	131	206	193	280

	Motor vehicles at cost		Group Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Opening carrying value	15	74	13,182	10,473
Additions	-	-	759	1,412
Transfers	-	-	2,664	5,561
Depreciation	(15)	(26)	(3,981)	(3,908)
Disposals	-	(33)	-	(50)
Cost of sales	-	-	(25)	-
Impairment	-	-	(164)	(320)
FX adjustments	-	-	(94)	14
Closing carrying value	-	15	12,341	13,182
Capital work in progress				
Opening carrying value	-	-	2,235	4,222
Additions	-	-	2,354	4,444
Transfers	-	-	(2,664)	(5,561)
Cost of sales	-	-	(563)	(791)
Impairment	-	-	(15)	(61)
FX adjustments	-	-	(18)	(18)
Closing carrying value	-	-	1,329	2,235
Total	-	15	13,670	15,417
Reconciled to:				
Cost	81	81	22,417	27,185
Less accumulated depreciation and impairment	(81)	(66)	(10,076)	(14,003)
Closing carrying value	-	15	12,341	13,182
Capital work in progress	-	-	1,329	2,235
Total	-	15	13,670	15,417

Merchant terminals represents the equipment leased by customers, primarily EFTPOS terminals.

ASB Bank Ltd has a general security over the assets of the Parent and certain subsidiaries.

16. Intangible Assets

Software and development costs are intangible assets.

	Software and development costs at cost		Customer contracts at cost		Group Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Opening carrying value	5,443	4,984	2,470	2,894	7,913	7,878
Additions	4,251	2,085	-	-	4,251	2,085
Amortisation	(1,474)	(1,605)	(423)	(424)	(1,897)	(2,029)
Disposals	(10)	(18)	-	-	(10)	(18)
FX adjustments	(7)	(3)	-	-	(7)	(3)
Closing carrying value*	8,203	5,443	2,047	2,470	10,250	7,913
Reconciled to:						
Cost	12,819	21,188	4,235	4,235	17,054	25,423
Less accumulated amortisation	(4,616)	(14,326)	(2,188)	(1,765)	(6,804)	(16,091)
Less accumulated impairment	-	(1,419)	-	-	-	(1,419)
Closing carrying value	8,203	5,443	2,047	2,470	10,250	7,913

* This balance includes development in progress totalling \$3,838,000 (2017 \$497,000)

The directors have considered the carrying value of software and development and have concluded no provision is required.

Significant Software and Development

(i) Internally Developed Software

Internally developed software to operate and manage the EFTPOS terminals has a carrying value of \$8,203,000 (2017: \$5,443,000) including capital work in progress of \$3,838,000 (2017: \$497,000).

The Group undertook a significant amount of development in New Zealand during this financial year in relation to projects on its eftpos terminal fleet for both New Zealand and Australia. The combination of the development undertaken in this financial year and previous financial years resulted in the completion of internally developed software amounting to \$877,000 (2017 \$2,082,000) and an increase in the carrying value of work in progress software amounting to \$3,341,000 (2017: a reduction of \$255,000). The work in progress software mainly relates to the development of the transaction processing and merchant management system to support the merchant acquiring function. Although this platform went to pilot in this financial year for a small number of merchants it is still under development and it will become fully operational during the 2019 financial year.

Customer Contracts

Customer contracts relate to the lease contracts purchased as part of the business combination of Viaduct. The customer contracts acquired as part of a business combination are valued at fair value.

17. Goodwill

	Group	
	2018	2017
	\$'000	\$'000
Opening value net of accumulated impairment	14,772	14,772
Impairment	-	-
Closing carrying value	14,772	14,772
Reconciled to:		
Cost	14,772	14,772
Less accumulated impairment	-	-
Closing carrying value	14,772	14,772

a. Impairment

At 31 March 2018 and 2017 the directors tested the goodwill for impairment. The impairment testing was performed over the New Zealand business on the basis that the goodwill relates only to New Zealand. The recoverable amount was determined by taking the value in use compared to the carrying amount. The value in use was also tested against market capitalisation. This testing indicated no impairment had occurred.

The value in use methodology has been applied using past experience of sales, growth and margin to determine the expectations for the future. These cash flows are based on the Directors' view of the projected cash flows for 5 years and beyond using gross margin growth rate assumptions for years 1 to 5 of 1.9% on average. For cash flows beyond 5 years no terminal growth rate is assumed. The cash flows are discounted using a nominal rate of 11.5% after tax.

18. Deferred Tax Asset / (Liability)

	Group	
Movements in deferred tax:	2018	2017
	\$'000	\$'000
Opening balance	(331)	(449)
Charge to profit and loss	119	118
Balance at end of the year	(212)	(331)
Deferred tax balance reconciliation:		
Employee entitlements	92	111
Receivables impairment provision	3	3
Non deductible accruals	99	101
License fee	-	78
Revenue recognition differences	2,938	3,960
Computer software and development and customer contracts	(573)	(614)
Deferred tax asset not recognised for accounting	(2,771)	(3,970)
Total deferred tax balance	(212)	(331)
Deferred tax liability - New Zealand	(212)	(331)

a. Tax losses

The Group has aggregate estimated New Zealand net tax losses of \$27,214,000 as at 31 March 2018 (31 March 2017 actual \$22,222,000) and in Australia estimated net tax losses at the same date of A\$5,510,000 (31 March 2017 actual A\$4,476,000). No tax losses have been recognised in the balance sheet as deferred tax in either reporting period. See note 3.a.(iii) for discussion on the criteria for recognising losses. Subject to IRD confirmation and maintaining the required shareholder continuity, these losses are available to carry forward in aggregate from the individual New Zealand companies within the Group. In Australia a different test is required to carry forward and utilise the losses. This requires that the same business continues to be conducted to maintain the availability of the losses. There are no plans to change the type of business.

In prior years deferred tax assets were recognised for deductible temporary differences as the Directors considered that it was probable that future reversal of deferred tax liabilities would off-set the temporary differences. However the Directors reversed the deferred tax asset in 2013 as it was no longer probable that the losses could be utilised over the next 2 to 3 years. On completion of the 2017 tax returns the continuity has remained constant and no further tax losses have been forfeited, however \$1,300,000 of tax losses have been utilised in relation to the R&D grant. Utilisation of tax losses requires that the shareholder continuity remains above 49%. Currently based on the reset date shareholder continuity is above this threshold. Because of the uncertainty of when these losses will be utilised no losses have been recognised for 2018. The deferred tax liability recognised relates to the customer contracts acquired from Viaduct.

19. Trade Payables and Accruals

	Group	
	2018	2017
	\$'000	\$'000
Trade payables	1,096	2,043
Merchant payables	3,658	-
Other payables	77	75
GST	179	99
Accruals	292	404
Employee entitlements	565	733
Total trade payables and accruals	5,867	3,354

Trade payables are typically non-interest bearing and are normally settled in 7-60 day terms.

Within trade payables are accrued costs of \$0 (2017:\$612,000) for capex purchases.

Merchant payables represents amounts that are due to acquiring customers in respect of transactions that have been processed.

20. Income Tax Payable/(Receivable)

	Group	
	2018	2017
Current Tax	\$'000	\$'000
Opening balance	(173)	(55)
Tax refund on R&D grant	140	(140)
RWT credits received	20	22
Balance at end of the year - receivable	(13)	(173)

The tax refund relates to the R&D grant for the 2016 year now received.

Imputation credit account balances

Neither the Parent company or any of the subsidiary companies have any material imputation credit account balances.

21. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans which are measured at amortised cost. For more information about the Groups exposure to interest rate, foreign currency and liquidity risk see note 29.

	Group	
	2018	2017
Borrowings	\$'000	\$'000
Secured - at amortised cost		
Current	2,998	2,984
Non-current	21,224	23,934
Total Borrowings	24,222	26,918
The following arrangement fees have been deducted from the debt above.		
Arrangement fees	724	724
Amortisation of arrangement fees	(722)	(708)
	2	16

a. Summary of borrowing arrangements

On 11 July 2012 the Group's subsidiary Smartpay New Zealand Limited entered into a term loan facility and a committed cash advance facility (CAF) with ASB Bank Limited. In November 2016 the term loan facility and CAF was extended until 11 July 2019. Quarterly amortisations of the term loan facility amount to \$750,000. A total of \$3,000,000 was repaid in this financial year. The accumulative drawdowns on the CAF facility amounted to \$9,974,000.

The interest rate is the BKBM (90 day bill rate) plus a margin set at 1.50%. In addition a line fee is payable quarterly and is currently set at 1.00% based on the facility limit. In conjunction with the extension of the term loan facility the interest rate swap was restructured and another interest rate swap was entered into on 30 November 2016 in respect of 75% of the interest obligations which mirrors the amortisation profile of the term loan facility. The swap requires Smartpay to pay a fixed rate of interest of 3.55% and receive floating rate of interest based on the 90 day bill rate (BKBM). A second interest rate swap was entered into on 30 November 2016 to hedge the interest rate risk on the capex facility. The swap has a notional principal of NZD7.5 million and requires Smartpay to pay a fixed interest rate of 2.56% and receive floating based on the 90 day bank bill rate (BKBM).

The CAF remains in place until 11 July 2019, each drawdown on the facility is provided on 90 day terms and rolled over .

ASB Bank Limited has security over all the assets of the Group with all companies in the Group providing cross guarantees and indemnities in favour of the Bank (refer to note 14 for a list of the group companies).

The specific covenants relating to financial ratios the group was required to meet in 2018 are:

- i) Interest cover ratio
- ii) Net leverage ratio

The covenants were monitored and reported to the ASB Bank Limited on a quarterly basis. The Company was in compliance with its covenants during the period.

22. Share Capital

	Group	
	2018	2017
Share Capital	\$'000	\$'000
Opening balance	53,998	54,438
Share based payments:		
- Value of share options issued to directors that were amortised during the year.	15	21
- Value of share options issued to directors which were not exercised and which lapsed during the year	(559)	(461)
Total shares issued during the year	(544)	(440)
Balance at end of the year	53,454	53,998

a) Ordinary Shares

As at 31 March 2018 there were 171,752,278 (2017:171,752,278) ordinary shares on issue. No new shares were issued during 2016/17 or in 2017/18. All ordinary shares are fully paid and rank equally with one vote attaching to each share. The ordinary shares have no par value. Ordinary shares are considered equity.

Movements in the Number of Ordinary Shares on issue

	Group	
	2018	2017
	000's	000's
Opening balance	171,752	171,752
No movements	-	-
Balance at end of the year	171,752	171,752

b) Share Options

The only movements in share options during the 2018 financial year related to options lapsing at 31 March 2018.

Movements in the Management Share Options on issue

	Group	
	2018	2017
	000's	000's
Opening balance - weighted average exercise price per share: 2018 57.1c (2017 50.0c)	14,000	28,000
Options lapsed - weighted average exercise price per share 2018: 57.0c (2017: 42.9c)	(12,000)	(14,000)
Closing balance - weighted average exercise price per share: 2018 60.0c (2017 57.1c)	2,000	14,000
Weighted average remaining contractual life of outstanding options (years)	1.750	1.125

In 2018 12,000,000 Management options for 6,000,000 shares at weighted average price of 57.0c per share had lapsed. At 31 March 2017 14,000,000 options for 7,000,000 shares at 42.9c per share lapsed.

Other than options lapsing there were no other movements in these options in either 2018 or 2017.

Option Pricing Assumptions

The options have been valued using the Black Scholes option pricing model to obtain their fair value which has been expensed on a pro rata basis according to the time expired. Volatility was considered on an historical basis but following the acquisition of the Viaduct assets in 2013 this has been amended to reflect the significantly different scale of the Group. The assumptions used were:

	2018		
	Management		
	2013 Tranche 1		
Number of options issued (000) as performance incentive to management			
Number of options fair valued (000)	2,000		
Number of shares	1,000		
Risk-free interest rate	3.3%		
Exercise price (per share)	60.0c		
Share price at measurement date post 1:2 share consolidation	33 cents		
Volatility	50%		
Life of options	82 months		
Exercise on or before	31/12/19		
Dividend yield	-		
Fair value	1.08 cents		
		2017	
	Management	Management	Management
	2012 Tranche 3		
	2012 Tranche 3	2013 Tranche 1	2013 Tranche 1
Number of options issued (000) as performance incentive to management			
Number of options fair valued (000)	10,000	2,000	2,000
Number of shares	5,000	1,000	1,000
Risk-free interest rate	3.3%	3.3%	3.3%
Exercise price (per share)	60.0c	40.0c	60.0c
Share price at measurement date	21 cents	33 cents	33 cents
Volatility	50%	50%	50%
Life of options	73 months	58 months	82 months
Exercise on or before	31/3/18	31/12/17	31/12/19
Dividend yield	-	-	-
Fair value	3 cents	1.08 cents	1.08 cents

Capital Management

The main objective of capital management is to ensure the entity continues as a going concern, meets debts as they fall due, maintains the best possible capital structure and reduces the cost of capital.

Share capital is regarded as equity as shown in the Statement of Financial Position.

To maintain or alter the capital structure the Group has the ability to issue new shares, decide whether to pay a dividend to shareholders and what size that may be, reduce or increase debt or sell assets.

Gearing Ratios

	Group	
	2018	2017
	\$'000	\$'000
Total borrowings (see note 21)	24,222	26,918
less Cash and cash equivalents (see note 10)	(954)	(2,896)
Net debt	23,268	24,022
Total Equity	16,015	13,609
Total Capital	39,283	37,631
Ratio of Net debt to Total Capital	59.2%	63.8%

23. Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all exchange rate differences arising from translating the Financial Statements of the foreign currency operations (see Note 2 g (ii)).

Movements are shown in the Statement of Changes in Equity.

24. Operating Cash Flows Reconciliation

	Group	
	2018	2017
	\$'000	\$'000
Profit for the period	2,524	2,203
<i>Add/(deduct) non-cash items:</i>		
Depreciation & amortisation	5,878	5,937
Loss/(gain) on disposal of fixed assets	-	(22)
Other Income	-	(835)
Share based payments	15	21
Financing costs and bad debts	103	202
Unrealised foreign exchange	-	(87)
Tax benefit	(119)	(118)
Impairment charges	179	380
<i>Add/(deduct) changes in working capital items:</i>		
Trade and other receivables	144	(311)
Derivative financial instruments	(57)	(227)
Payables and accruals	(161)	(644)
Provision for current tax	160	(119)
Net cash inflow/(outflow) from operating activities	8,666	6,380

25. Operating Leases

Leases as Lessee

Non cancellable operating lease rentals are payable as follows:

Operating Lease Commitments	Group	
	2018	2017
	\$'000	\$'000
Within one year	606	550
After one year but not more than five years	1,554	1,295
After five years but not more than ten years	-	-
Total operating lease commitments	2,160	1,845

The Groups leases its office and warehouse premises situated at 205 Wairau Road. The lease period of the new premises is 6 years from December 2015. The Group also leases small office premises in Sydney and Wellington.

The Group also leases various items of office machinery and a motor vehicle under cancellable operating lease agreements.

Leases as Lessor

The group leases out Eftpos terminals and associated equipment (representing the hardware component) under non cancellable operating leases which are receivable as follows:

	Group	
	2018	2017
	\$'000	\$'000
Within one year	4,270	4,411
After one year but not more than five years	2,931	4,244
Total operating lease commitments	7,201	8,655

This excludes the software and service revenue under the rental contract.

26. Contingencies

Guarantees

The Group has provided bank guarantees in favour of NZX of \$75,000 (2017: \$75,000) and for the Sydney office of A\$138,000 (2017: A\$92,000) are issued.

ASB Bank Limited has security over all the assets of the Group with all companies in the Group providing cross guarantees and indemnities in favour of the Bank (refer to note 14 for a list of the group companies).

The Group has a secured bank deposit with Cuscal Limited amounting to \$239,000.

27. Capital Commitments

The Group has no capital commitments at 31 March 2018 (2017: Nil).

28. Related Parties

Parent and ultimate controlling party

The parent company of the Group and the listed entity is Smartpay Holdings Limited.

Identity of related parties with whom material transactions have occurred.

Note 14 identifies all entities within the Group. All those entities are related parties of the Parent. In addition, the directors, companies with which the directors and key management are associated and key management personnel of the Group are also related parties.

a. Transactions with directors and key management or entities related to them

Gregor Barclay is a Director of Ngatapa Finance Limited, and provided consulting services in relation to Directors' fees on normal commercial terms amounting to \$60,000 (2017: \$60,000).

Bradley Gerdis is the Managing Director of Smartpay Holdings Limited. He is a Director of Haymaker Investments Pty Limited (HIL) which is the Trustee of the Haymaker Trust which is a shareholder of Smartpay Holdings Limited.

Bradley Gerdis or his associated entities have received:

- Salary received A\$563,000, NZ\$577,000 (2017: A\$569,000, NZ\$622,000) which included a bonus of A\$125,000 NZ\$133,000 (2017: A\$131,000, NZ\$144,000).

HIL is a shareholder of the Company and Bradley Gerdis has an interest in these shares by virtue of being a potential beneficiary of a discretionary trust. HIL holds 6,515,422 (2016: 6,515,422) ordinary shares as well as Nil (2017: 10,000,000) share options which can be converted into Nil (2017: 5,000,000) shares. No new share options were issued in the current year and 10,000,000 share options entitling HIL to 5,000,000 shares lapsed at 31 March 2018.

Martyn Pomeroy is Chief Operating Officer at Smartpay since January 2013 and is a shareholder and director of TEOV Limited (formerly Viaduct Limited) whose assets were acquired by Smartpay on 23 January 2013. He holds 2,000,000 (2017: 4,000,000) options to purchase 1,000,000 (2017: 2,000,000) shares - the options can be exercised by 31 December 2019 at an exercise price of 60 cents per share. At 31 March 2018 he holds 3,399,053 shares (2017: 3,399,053) directly. Martyn Pomeroy was appointed a director of the Company on 1 April 2014.

Martyn Pomeroy or his associated entities have received:

- Salary received \$398,000 (2017: \$435,000) which included a bonus of \$90,000 (2017: \$127,000).

Matthew Turnbull was appointed a Director of the Company on 1 April 2013. He is a Director of Black Rock Capital Limited, and provided consulting services in relation to Directors' fees on normal commercial terms amounting to \$55,000 (2017: \$55,000).

Bruce Mansfield was appointed a Director of the Company on 1 October 2017 and received Directors' fees of \$27,000 (2017: Nil).

b. Key management and director compensation

Key management personnel comprises employees who are part of the Senior Management Team (Aidan Murphy and Rowena Bowman). Bradley Gerdis and Martyn Pomeroy are excluded as this information is provided above and is included in Directors remuneration. Key management personnel compensation comprised short term benefits and share instruments for the year ended 31 March 2018 of \$366,000 (2017: \$358,000). Directors remuneration was \$1,117,000 (2017: \$1,107,000).

Key Management Compensation	2018	2017
	\$'000	\$'000
Salaries and other short term employee benefits	366	358

29. Financial Risk Management

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

- foreign exchange risk
- credit risk
- interest rate risk
- liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

a. Financial Instruments by Category

Group	Group			
	Loans and receivables	Measured at fair value through profit and loss	Measured at amortised cost	Total
2018	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and bank balances	2,396	-	-	2,396
Trade, finance and other receivables	3,670	-	-	3,670
	6,066	-	-	6,066
Financial liabilities				
Trade payables and accruals	-	-	5,123	5,123
Derivative financial instruments	-	208	-	208
Financial liabilities at amortised cost	-	-	24,222	24,222
	-	208	29,345	29,553
2017				
Group	Group			
	Loans and receivables	Measured at fair value through profit and loss	Measured at amortised cost	Total
2017	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and bank balances	2,896	-	-	2,896
Trade, finance and other receivables	1,482	-	-	1,482
	4,378	-	-	4,378
Financial liabilities				
Trade payables and accruals	-	-	2,522	2,522
Derivative financial instruments	-	265	-	265
Financial liabilities	-	-	26,918	26,918
	-	265	29,440	29,705

The financial assets and financial liabilities above are being carried at their cost less any impairment which is considered to approximate fair value.

b. Foreign currency exchange risk management

The Group has exposure to the following currencies in the next financial year, hedging policies are in place although a portion remains unhedged. The amount for which no hedging has been entered into is as follows:

- \$US - Purchases of US\$1.0 million
- \$Aust - Sales of A\$14 million.

There is also a foreign currency exposure in respect of the intercompany accounts with foreign entities which eliminate on consolidation.

c. Credit risk

Credit risk arises from cash deposits with banks and outstanding receivables.

	Group	
	2018	2017
	\$'000	\$'000
Maximum exposure to credit risk at balance date is:		
Cash and cash equivalents	2,396	2,896
Trade receivables (net of impairment)	3,692	1,298
Finance lease receivables (net of impairment)	222	310

In respect of the lease receivables an analysis of the credit risk is performed on a monthly basis and any contracts for which payment has not been received are identified and categorised for the purposes of determining any impairment if required. The three categories are:

- payments overdue 10-60 days (arrears)
- payments overdue 61-100 days (collections) and
- greater than 101 days overdue (salvage).

The impairment provision includes some "arrears" and "collection" and all the "salvage" category. In 2018 no impairment was made for overdue payments within the "arrears" and "collection" categories.

	2018		2017	
	%	\$'000	%	\$'000
Arrears	2.76	54	3.49	117
Collections	0.06	2	0.08	4
Salvage	0.07	12	0.10	19
		68		140

The basis for calculating the percentage of overdue payments in each of the categories for arrears, collections and salvage. The dollar amount of overdue payments in each category is compared with the total dollar value of the payments due for the period under each category. For example the "arrears" category includes all overdue by 10 to 60 days consequently the dollar value of total payments due equates to those over a period of 60 days for all rental receivables. In respect of the salvage category the period equates to twelve months for the purposes of determining the total value of payments due.

Immediate action is taken in respect of "arrears" contracts and overdue payments and the majority of overdue payments are rectified within a short period of time, consequently no impairment is recognised. Contracts that fall outside the three categories have met all their payments on time and no impairment is recognised.

Concentration of credit risk

One customer is included within finance receivables and the total receivable balance is \$222,000 (2017: \$318,000), representing the future finance receivables.

d. Interest Rate Risk

Disclosure is required of the fair value measurements by level of the following fair value measurement hierarchy:

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

The Group has entered into interest rate swaps which fixed the interest rate in respect of 75% of the interest payable. The Group has interest rate risk on the residual unhedged portion. At 31 March 2018 if interest rates had changed by +/- 1% from the year end rates with all other variables held constant, the Group's post tax profit for the period (annualised) and equity would have been \$65,000 higher or \$65,000 lower. The notional principal of the interest rate swaps is \$18.187 million and the carrying value on the balance sheet is a liability of \$205,000 (2017: liability of \$297,000).

The carrying amount has been determined in accordance with level one above.

e. Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

In respect of the Group's debt the following table indicates the periods in which they fall due:

	Total	Within 12 Months	Within 1 to 5 years
ASB Bank Limited	24,224	3,000	21,224
Total Group Debt	24,224	3,000	21,224

Total Aging of Financial Liabilities Commitments	Total	Within 12 Months	Within 1 to 5 years
Group			
2018			
Trade Payables and accruals	5,867	5,867	-
Future interest payments on borrowings (note 1)	1,540	1,254	286
Borrowings (note 2)	24,224	3,000	21,224
	31,631	10,121	21,510
2017			
Trade Payables and accruals	3,354	3,354	-
Future interest payments on borrowings (note 1)	2,831	1,395	1,436
Borrowings (note 2)	26,934	3,000	23,934
	33,119	7,749	25,370

1. The future interest payment on borrowings includes the net swap receipts and payments based on an estimate of the floating interest rate.

2. Includes the drawn down revolving capex facility of \$9,974,000.

30. Subsequent Events

Following balance date the following events have occurred: There have been no events subsequent to balance date.



Independent Auditor's Report

To the shareholders of Smartpay Holdings Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Smartpay Holdings Limited (the company) and its subsidiaries (the Group) on pages 25 to 63:

- i. Present fairly in all material respects the Group's financial position as at 31 March 2018 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2018;
- the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the company.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$108,900 determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter

How the matter was addressed in our audit

Valuation and classification of terminal assets

The Group has terminal assets of \$13.3 million as disclosed in note 15 of the financial statements, which includes merchant EFTPOS terminals. These terminals are leased to customers.

The classification and valuation of terminal assets is a key audit matter due to the significance of the asset and the possibility of impairment. Terminal assets may be impaired due to technology changes and terminal model sunset dates required by the industry compliance requirements.

There is considerable judgement in determining the classification of the terminal contracts as either operating or finance leases based on the assessment of the substantial transfer of risk and rewards.

Our audit procedures included, amongst others:

- considering management's assessment of the useful life and residual values of terminal assets, by comparing with actual historical information on the terminal models used by the Group's customers and changes in the industry compliance requirements;
- assessing management's methodology for writing down slow moving and idle terminals, by comparing to historic write off trends;
- on a sample basis ensuring the methodology for writing down slow moving and idle terminals has been correctly applied; and
- for a sample of new terminal leasing contracts in the financial year, examining management's assessment of whether the leasing contracts are operating or finance leases.

Based on our analysis, we did not identify any material issues with the carrying value of terminal assets or their classification as finance or operating lease.

Valuation of Goodwill

The Group has goodwill of \$ 14.8 million as disclosed in note 17 of the financial statements, which relates solely to the NZ cash generating unit ('CGU').

Valuation of goodwill is considered to be a key audit matter due to the significance of the asset and the models used in the impairment test included a range of subjective assumptions about future performance. Particular attention was required of the forecast cash

Our audit procedures included, amongst others:

- ensuring the methodology adopted in the impairment model is consistent with accepted valuation approaches;
- comparing the cash flow forecasts in the valuation models to Board approved forecasts and strategic plans;
- challenging the appropriateness of the revenue and cost forecasts by comparing these forecasts to actual cash flow and growth rates achieved historically;
- Involving valuation specialist to challenge management's methodology used in impairment model;

The key audit matter

How the matter was addressed in our audit

flows and the discount and terminal growth rates.

- Involving valuation specialist to challenge key judgements, which included weighted average cost of capital and terminal growth rate used in the impairment model.
- Performing sensitivity analysis considering a range of likely outcomes for various scenarios.
- comparing the group's market capitalisation with the net asset value, as an indicator of possible impairment;

We did not identify any material issues with the carrying value of goodwill.

Capitalisation of development asset

The Group has development assets of \$8.2 million as disclosed in note 16 of the financial statements, which relates primarily to internally developed software to operate and manage the EFTPOS terminals. The valuation of the development asset is considered to be a key audit matter due to the significance of the asset and the impact revisions to the Group's business plans have on possible impairment. In addition, management applies significant judgement in determining if it is correct to capitalise amounts to the balance sheet or to expense them.

Our audit procedures included, among others:

- obtaining and interpreting recent changes in the group's terminal model strategy and the industry's compliance requirement. Assessing how this impacts whether the development asset is impaired or if the useful life requires shortening;
- on a sample basis, determining the nature of expenditure by examining whether the development phase has commenced (and therefore whether the spend should be capitalised). This included considering management's assessment of the possible market and resources the group has to complete development assets and whether the product will generate future profits; and
- Involving range of specialists to understand and evaluate new business processes.
- Assessing the accuracy of calculation of the amount of internal costs based on hours which staff spend for developing software.

We did not identify any material errors in the interpretation of whether spend in the current financial year should be capitalised or expensed.

Other Information

The Directors, on behalf of the group, are responsible for the other information included in the entity's financial statements. Other information includes the Directors' Responsibility Statement. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Chairman's report, Chief Executive's report, and disclosures relating to corporate governance and statutory information are expected to be made available to us after the date of this audit report. Our responsibility is to read the Chairman's report, Chief Executive's report, and disclosures relating to corporate governance and statutory information when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If so, we are required to report such matters to the Directors.



Use of this Independent Auditor's Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.



Responsibilities of Directors for the consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of consolidated a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the Audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Independent Auditor's Report.

The engagement partner on the audit resulting in this independent auditor's report is Lauder Erasmus.

For and on behalf of



KPMG Auckland
30 May 2018

Statutory Information

Directors and Former Directors

Directors holding office

At 31 March 2018 the directors holding office were Bradley Gerdis, Gregor Barclay, Matthew Turnbull, Bruce Mansfield and Martyn Pomeroy.

Current Directors and their appointment dates are detailed below:

Name	Date Appointed	Position	Independence (Yes/No)
Bradley Gerdis B.Bus (Hons), MCom	1 July 2012	Executive Director and Managing Director	No
Greg Barclay LLB, Dip. Bus	1 April 2010	Non-Executive Director	Yes
Matthew Turnbull BCom, CA	1 April 2013	Non-Executive Director	Yes
Marty Pomeroy	1 April 2014	Executive Director	No
Bruce Mansfield	1 October 2017	Non-Executive Director	Yes

At the annual meeting of shareholders held on 26 September 2017 Bradley Gerdis stood for re-election and was re-elected by the shareholders as Director of the Company. Bruce Mansfield was appointed during the year by the directors and will stand for re-election by shareholders at the AGM this year; Greg Barclay will be retiring by rotation and will stand for re-election.

Independent Directors

In accordance with the requirements of the Listing Rules the Board has determined that Gregor Barclay, Matthew Turnbull and Bruce Mansfield are Independent Directors.

Subsidiary Company Directorships

At 31 March 2018, subsidiary companies had directors as follows:

New Zealand Subsidiary Companies	Director
Smartpay Rental Services Limited	Bradley Gerdis, Gregor Barclay, Marty Pomeroy #
Smartpay Limited	Bradley Gerdis, Gregor Barclay, Marty Pomeroy #
Smartpay Ethos Limited	Bradley Gerdis, Gregor Barclay, Marty Pomeroy #
Smartpay Software Limited	Bradley Gerdis, Gregor Barclay, Marty Pomeroy #
Smartpay New Zealand Limited	Bradley Gerdis, Gregor Barclay, Marty Pomeroy #
Viaduct Limited	Bradley Gerdis, Gregor Barclay, Marty Pomeroy #
Australian Subsidiary Companies	Director
Smartpay Rentals Pty Limited	Gregor Barclay, Bradley Gerdis, Marty Pomeroy #
Smartpay Australia Pty Limited	Gregor Barclay, Bradley Gerdis, Marty Pomeroy #
Cadmus Payment Solutions Pty Limited	Gregor Barclay, Bradley Gerdis, Marty Pomeroy #
Product Rentals Pty Limited	Gregor Barclay, Bradley Gerdis, Marty Pomeroy #
Pax Technology Pty Limited	Bradley Gerdis, Marty Pomeroy #
Smartpay Taxis Pty Limited	Bradley Gerdis, Lincoln Burgess*, Marty Pomeroy #
Smartpay Epayments Pty Limited	Bradley Gerdis, Marty Pomeroy #

#Marty Pomeroy was appointed as a director of the subsidiary companies with effect from 31 March 2018.

*Lincoln Burgess retired as a director of Smartpay Taxis Pty Limited with effect from 31 May 2018.

There were no changes, apart from directorships, to the subsidiary companies of the group during the period.

Directors' and Officers' Interests

Directors interests in external entities

The Directors have declared interests in the following entities:

Director	Interest	Entity
Bradley Gerdis	Director	Haymaker Investments Pty Limited
	Director	Active Capital Partners Pty Limited
Gregor Barclay	Consultant	Claymore Partners Limited
	Director	Various client trustee companies
	Director	Claymore Property Limited
	Director	Franchised Businesses Limited
	Director	Pacific Forest Products NZ Limited (and various related or subsidiary companies)
	Director	Planet Fun Limited
	Director	Rugby Hospitality New Zealand Limited (and related)
	Director & Shareholder	Kervus Property Group Limited
	Director	New Zealand Cricket Association
	Director	International Cricket Council
	Director	ICC Development (International) Limited
	Director	ICC Business Corporation NZ LLC
	Director	Boffa Miskell Limited
	Director	Ngatapa Finance Limited
Director	Ngatapa Legal Limited	
Director	Ngatapa Trustees Limited	
Director	Stress Crete Group, including Stress Crete Northern Limited and Stress Crete Wellington Limited	
Matthew Turnbull	Director	Black Rock Capital Limited
	Director	Verbier Limited
	Director	Mangawara Farms Limited
Martyn Pomeroy	Director	TEOV Limited
		iHoldings Limited
		iGenerate Limited
Bruce Mansfield	Director	Lifeline Australia Limited
		Lifeline Direct Limited

Information Used by Directors

There were no notices from Directors of the Company requesting to disclose or use Company information received in their capacity as Directors which would not otherwise have been available to them.

Director and Senior Managers Interests in Shares of The Company

Directors held interests in the following Ordinary shares in the Company as at the balance date:

Director	Name of shareholder	Nature of relevant interest	Balance at 31/03/2017	Movement in period	Balance at 31/3/2018
Bradley Gerdis	Haymaker Investments Pty Limited (Haymaker Account)	Potential beneficiary under a discretionary trust	6,515,422	0	6,515,422
Gregor Barclay	Ngatapa Trustees Ltd	Potential beneficiary under a discretionary trust	576,910	0	576,910
	Ngatapa Advisory Ltd	Potential beneficiary under a discretionary trust	49,404	0	49,404
Martyn Pomeroy	Pomeroy Asset Protection Trust	Potential beneficiary under the trust	3,399,053	0	3,399,053

Senior Managers of the company include anyone who is not a director but occupies a position that allows that person to exercise significant influence over the management or administration of the Company. Senior Managers of the Company are required by the Financial Markets Conduct Act 2013 to disclose their interests in the Company. The list of people considered to be senior managers by the company is contained in the directory at the back of the Annual Report. As at the balance date no Senior Managers, who are not also Directors, held disclosable interests in the shares or options of the Company.

Directors and Senior Managers Interests in Options of The Company

Directors held interests in the following Options in the Company as at the balance date:

Director	Name of holder	Nature of relevant interest	Type of Option	Conversion price	Balance as at 31/3/2017	Movement	Balance at 31/3/2018	Maximum number of shares on conversion
Bradley Gerdis Managing Director	Haymaker Investments Pty Ltd	Potential Beneficiary under a discretionary trust	2018 Incentive Options	\$0.60 per share	10,000,000	(10,000,000)*	0	0
Marty Pomeroy	Marty Pomeroy	Beneficial	2017 Incentive Options	\$0.40 per share	2,000,000	(2,000,000)*	0	0
			2019 Incentive Options	\$0.60 per share	2,000,000	0	2,000,000	1,000,000

* These options expired without being exercised.

As at the balance date no Senior Managers, who are not also Directors, held disclosable interests in the shares or options of the Company.

Directors' Insurance

The Group has arranged Directors and Officers Liability Insurance which is underwritten by Berkshire Hathaway Speciality Insurance Company and Chubb Insurance New Zealand Limited which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors.

Directors' Indemnity

The Company has entered into Deeds of Indemnity with individual Directors whereby it has agreed to indemnify the Directors to the maximum extent permitted by the Companies Act 1993.

Directors' Remuneration

Directors fees and other remuneration are set out in detail in note 28 to the Financial Statements and covered in our Corporate Governance Statement on page 14.

Other Disclosures

Listing

The ordinary shares of Smartpay Holdings Limited are listed on the securities exchanges operated by the New Zealand Exchange Limited (NZX) and the Australian Securities Exchange (ASX). On 1 April 2016 the ASX approved a change in admission category of Smartpay Holdings Limited (the "Company") from an ASX Listing to an ASX Foreign Exempt Listing which took effect on 5 April 2016. The Company confirms that it continues to comply with the New Zealand Stock Exchange Listing Rules.

Shareholders continue to be able to trade their shares on either the NZX or the ASX. In order to trade on either exchange shares must be held on the share register for that particular jurisdiction, for that purpose Smartpay has an Australian sub registry alongside its main share register, both of which are managed by Computershare.

Summary of Waivers and Exemptions

On 31 August 2017 NZX Regulation granted the Company a waiver from NZSX Listing Rule 5.5.1(b) to the extent that this Rule requires the Company to hold its 2017 Annual Meeting in New Zealand. The Company's 2017 Annual Meeting was subsequently held in Sydney Australia.

Investors Enquiries

Shareholders should address any queries regarding the operations of the Company to Mr Bradley Gerdis, Managing Director at the Company's business address.

Shareholders with administrative enquiries relating to their holdings should address these to Computershare whose contact details in each country are:

New Zealand

Computershare Investor Services Limited
Private Bag 92119 Auckland 1142
Level 2, 159 Hurstmere Road, Takapuna, North Shore City,
Auckland
P: + 64 488 8700
F: + 64 9 488 8787

Australia

Computershare Investor Services Pty Limited
GPO Box 3329, Melbourne VIC 3001
Freephone: 1 800 501 366
F: +61 3 9473 2500

Remuneration and gender diversity

Please see Governance Statement on page 15 and 22.

Security Holder Information

Securities On Issue

The Securities on issue at the time of publication of the Annual Report are as follows:

Listed Securities

171,752,278 Ordinary fully paid shares, all shares in this class carry a 1 vote per share voting right.

Unlisted Options

2,000,000 Incentive Options exercisable over 1,000,000 shares. These options have an exercise price of \$0.60 and expire 31 December 2019. These options are held by Pomeroy Asset Protection Trust in New Zealand.

Distribution of shareholders

as at 31 May 2018

Range	Total holders	Holder %	Units	% of Units
Less than 5,000	777	40.68	1,322,421	0.77
5,000 - 9,999	294	15.39	1,793,976	1.04
10,000 - 49,999	587	30.73	11,316,281	6.59
50,000 - 99,999	108	5.65	6,622,418	3.86
100,000 - 499,999	103	5.39	17,970,747	10.46
500,000 - 999,999	14	0.73	9,056,160	5.27
Over 1,000,000	27	1.41	123,670,275	72.01
Total	1,910	100.00	171,752,278	100.00

Twenty Largest Registered Shareholders

as at 31 May 2018

Rank	Name	Units	% of Units
1	JP Morgan Nominees Australia Limited	33,610,936	19.57
2	National Nominees New Zealand Limited - NZCSD (NNLZ90)	11,382,164	6.63
3	Anacacia Pty Ltd (Wattle Fund A/C)	8,601,628	5.01
4	Haymaker Investments Pty Limited (The Haymaker A/C)	6,515,422	3.79
5	Walker & Hall Fine Gifts Limited	6,010,920	3.50
6	Melville Investment Holdings Limited	5,396,526	3.14
7	Gwynvill Trading Pty Ltd	4,364,202	2.54
8	National Nominees Limited	3,600,000	2.10
9	The Summit Hotel Bondi Beach Pty Ltd	3,577,931	2.08
10	Benger Superannuation Pty Limited (Benger Super Fund A/C)	3,500,000	2.04
11	Martyn Pomeroy & Sara Pomeroy (Pomeroy Asset Protection A/C)	3,399,053	1.98
12	Harrogate Trustee Limited (Brandywine A/C)	3,222,676	1.88
13	JBWere (NZ) Nominees Limited (NZ Resident A/C)	3,064,752	1.78
14	Citicorp Nominees Pty Limited	2,729,698	1.59
15	Craig Graeme Chapman (NAMPAAC Discretionary A/C)	2,479,878	1.44
16	Gregory Kevin Molloy & Claymore Trustees Limited (Cicero A/C)	2,445,765	1.42
17	BNP Paribas Noms Pty Ltd (DRP)	2,423,555	1.41
18	Ten Soo Lan	2,248,790	1.31
19	Pershing Australia Nominees Pty Ltd (Accum A/C)	2,055,000	1.20
20	Gregory Segal	2,000,000	1.16
Totals: Top 20 holders of Ordinary Shares		112,628,896	65.58
Total Remaining Holders Balance		59,123,382	34.42
Total Shares		171,752,278	100.00

Substantial Security Holders

At the time of publication of the Annual Report the following persons are substantial security holders (as defined in the Financial Markets Conduct Act 2013) in Smartpay Holdings Limited and have disclosed their Substantial Security Holdings to the NZX and ASX as per the table below:

	Number of Securities	% of Capital
Microequities Asset Management Pty Limited	27,923,535	16.26
Milford Asset Management Limited	12,699,330	7.39
Allan Walker Tattersfield	10,424,051	6.07
Anacacia Pty Limited	10,935,217	6.37

The total number of issued voting securities of Smartpay Holdings Limited is 171,752,278.

Directory

Registered Office

205 - 209 Wairau Road, Wairau Valley
PO Box 100490,
North Shore Mail Centre
Auckland, New Zealand
Phone: +64 9 442 2700
Email: info@smartpay.co.nz
Website: www.smartpayltd.com

Australian Office

Level 2, 117 York Street
SYDNEY
NSW 2000
Phone: +61 2 8876 2300
Website: www.smartpay.com.au

Board

Bradley Gerdis – Managing Director
Greg Barclay – Independent Director
Matthew Turnbull – Independent Director
Marty Pomeroy – Executive Director
Bruce Mansfield – Independent Director

Management

Bradley Gerdis – Managing Director
Marty Pomeroy – Chief Operating Officer
Aidan Murphy – Chief Financial Officer
Rowena Bowman – Company Secretary

Auditors

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland
Phone: + 64 9 367 5800

Share Registrar – New Zealand

Computershare Investor
Services Limited
Private Bay 92119 Auckland 1142
Level 2, 159 Hurstmere Road
Takapuna, North Shore City
Auckland, New Zealand
Phone: + 64 9 488 8700

Share Registrar – Australia

Computershare Investor Services Pty Ltd
GPO Box 3329
Melbourne Victoria 3001
Freephone: 1 800 501 366

Solicitors

Claymore Partners Limited
Level 2
63 Fort Street
Auckland
Phone : +64 9 379 3163



smartpay