ANNUAL REPORT **2017**

smartpay

Welcome to Smartpay's annual report for the year ending 31 March 2017

Smartpay Holdings Limited is the listed Company trading as Smartpay ("NZX:SPY, ASX:SMP")

Smartpay is Australia and New Zealand's largest independent full-service EFTPOS provider. We directly service over 20,000 merchants with approximately 35,000 EFTPOS terminals.

We have longstanding relationships with our bank partners in New Zealand and Australia ranging from terminal supply to fully outsourced service offerings. In New Zealand, we are the largest direct connector of EFTPOS terminals to Paymark, the central electronic payment processing platform.

At Smartpay our vision is to be the payments partner of choice in the markets in which we operate. We strive to provide the most up to date, secure, and feature rich EFTPOS terminals. We believe that we provide the most effective solutions and the very best customer service to ensure our customers can take payments easily, anywhere, any time, everytime. Our helpdesk is manned 24/7 by a multilingual team based in New Zealand.

We recognise our customers, our people, our shareholders and our community as our key stakeholders and aim to add value to each in everything we do.

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Company Overview

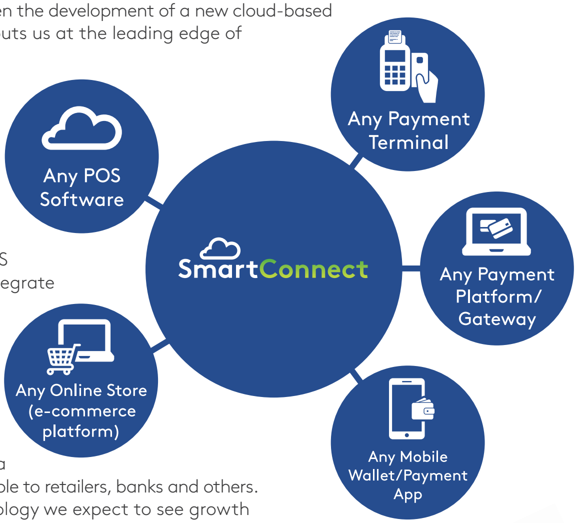
Research + Development = Innovation

At Smartpay, innovation is at the heart of everything we do. Having a dedicated in-house research and development team based in our New Zealand head office ensures we remain at the forefront of payments innovation.

In addition to continually evolving our technology to ensure the most current product offering in market, we are always looking to the future direction of the payments industry to identify new and emerging trends to ensure our customers have access to the best technology for their businesses.

A key initiative during the period has been the development of a new cloud-based payments platform which we believe puts us at the leading edge of payments technology.

Branded "SmartConnect" the platform allows integration of any payment initiation device/application to any payment termination device/application.



The platform we have created has much broader application than EFTPOS terminals as it has the capability to integrate with any payment device/application including mobile wallets, ecommerce gateways and indeed any other payments platform.

Beyond payments integration, the platform has the additional functionality of generating real-time payments data and analytics which is increasingly valuable to retailers, banks and others. As we continue to build out this technology we expect to see growth opportunities for Smartpay beyond our traditional EFTPOS terminal business.

Operations

Our operations team, based in New Zealand supports both the New Zealand and Australian businesses and includes dispatch, terminal repair centre and a bank grade secure terminal set up facility.

As the regional representatives of one of the largest global terminal brands, we offer a truly end-to-end service unmatched in our markets.

A major focus of the operations team during the year was the upgrade of our New Zealand terminal fleet as part of an industry wide upgrade requirement.

Nearly 18,000 Smartpay customers had either their software or hardware upgraded over the last year ensuring they remain compliant. For our customers, this means that their stores can meet their customers' demands for innovations such as contactless card and mobile payments, including Apple Pay, Android and Samsung Pay.

With the upgrade cycle complete, our entire New Zealand terminal fleet (our largest market) now meets hardware compliance requirements until 2023 and has the most up to date terminal specification.

Customer Service and Technical Support

We've built our business on delivering great customer service, to all our customers whatever their size. It's our recipe for success that we continue to invest in.

Our 24/7, multilingual customer support centre based in New Zealand ensures the highest level of technical support to keep our customers' businesses up and running. Through this commitment to the value chain, we can ensure a consistently high level of service which is aimed at ensuring longevity of our customer relationships.

Sales and Marketing

Client management and retention is something we value strongly. Our marketing department provides the necessary research to identify our target customers and ensure we are visible in the large markets we operate in.

During the year we launched our latest terminal technology into the Australian market. This terminal includes the very latest security features and combined with Smartpay's leading payment software represents a cutting edge Australian payments solution.

Customer feedback points to a market leading product, as does the initial sale of this terminal to an Australian bank.

Finance, Accounting, and Human Resources

Our finance team works with all parts of the business to optimise the company's financial performance and to add value across the business.

Our People

As our people are at the heart of our success we ensure we identify and inspire exceptional and diverse talent. We put ideas and enthusiasm ahead of hierarchy and we employ passionate people who share our ambitions in delivering innovative and seamless payment solutions to every customer.

We take an active approach to keeping our culture alive. Our social club is a core part of this, organising all company events from quiz nights and family days to staff functions.

We also believe in encouraging staff to live a healthy lifestyle. We have a wellness committee that supports activities such as yoga, outdoor sports and boot camp to name a few.

Chairman's Report

"Results are positive and with a clear strategic direction we look forward to an encouraging future "

The end of the 2017 financial year has seen Smartpay deliver its best ever result in the company's reasonably short history and, pleasingly, the result was very much in line with the goals as set out in the latest Strategic Plan as put in place by the board last year. The content of that Strategic Plan was shared with shareholders at last year's Annual General Meeting and has also been discussed in various presentations over the year.

A core part of the Plan is a focus on growth which for Smartpay provides greater capabilities and solutions to our customers, more opportunities for our people and, importantly, greater value to our shareholders. This underpins our strategy and we will continue to pursue profitable growth through a combination of organic growth and the undertaking of new business initiatives. The company will provide an acquiring capability into the Australian market this year which will be integral to leveraging customer and revenue growth in this market. We will also provide a range of new and innovative payments products a number of which are outlined elsewhere within this Annual Report.

In addition to our growth initiatives the company has also now completed a comprehensive upgrade of our New Zealand terminal fleet and, with a modern and compliant fleet now deployed to market, we know that Smartpay will now see a good return over the coming years on what has been a very significant investment into this critical part of the business.

As well as being committed to the board's Charter, the directors are also committed to fulfilling the expectations of our shareholders. Of course our strategic imperatives direct the decisions that the company makes and we are very mindful that these decisions must be based on fact and very much with a view to the future. Like all business we are very reliant on technology and we believe that the technology that drives our products and our services is now genuinely leading edge. Whilst always subject to disruption, we are also of the belief that we can use threats of disruption to the payments industry to our advantage and we will continually endeavour to position ourselves to take advantage of the opportunities that disruption will undoubtedly provide.

Smartpay is a pre-eminent provider of services within the payments industry in New Zealand and is now starting to establish a growing presence in the much larger Australian market. A key to maintaining that position is ensuring that we have the people, systems and processes in place to provide a foundation that enables us to deliver to our customers' requirements. After a sustained period of recruitment and restructure I have no doubt that we have the best people in the business. It is pleasing that the systems and processes that are being continually developed and refined are also able to easily deliver to those same customer requirements. This has also been a large part of Smartpay's focus this year.

Any drive for growth will inevitably create certain stresses within a business and certainly upon the people asked to deliver to those outcomes. It has, therefore, been a prime objective of management that all staff are provided with the support that they need to work to the best of their abilities, to attain personal goals and to work in a safe and supportive environment. This focus on staff underpins our strategy of having the best people which then drives the desire to deliver excellence and growth. Without doubt, the improvements in performance made this year by the company are directly attributable to the calibre of the Smartpay staff.

At last year's annual general meeting questions were fielded about the diversity of skills of the board. We have, as we do every year, undertaken a careful assessment of the board's skills and capabilities. Indeed, we have completed a review of all board policies over the last year which we are confident now reflect the ongoing values of the company. We recognise that with good governance there is a need for diversity and for Smartpay to continually add to our knowledge and experience across both of our markets. We are currently seeking at least one further director and expect to be in a position to appoint an appropriately qualified person to the board in the near future and the board has committed to have this process completed by the time of the next annual general meeting.

I have now had some six years on the board of Smartpay including over a year as Chairman. I genuinely believe that the company is well placed to take advantage of a solid platform for growth and to fully exploit the opportunities that have been identified both in New Zealand and Australia. It is a year that will not be without its challenges in what is a fast moving, and changing industry.

However, these challenges will also provide Smartpay with some very good ongoing opportunity. As I have said with our people, our systems and our excellent use of technology, we can expect to make good progress as we continue to strive to pursue our strategic direction. I am looking forward to working with the board and the senior management team to deliver to you as our shareholders another very good year.

Gregor Barclay
Chairman

Chief Executive's Review

"The record profit delivered this year is the culmination of the focused efforts of our outstanding team of people"

I am pleased to present our annual report for the 2017 financial year. The business saw improvement across the board in Revenue, Profit and a reduction in Net Debt.

Some of the key contributors to our increased Revenue include:

- the launch of our latest transport technology into the New Zealand market which resulted in increased revenue and profit from our largest customer; and
- steady growth in Australian general retail terminal numbers and a sale of our flagship terminal to an Australian bank.

As foreshadowed in our interim report, we saw a reduction in Australian taxi revenue during the period as the disruption in the Australian taxi industry impacted some of our taxi customers. This was somewhat offset by the increase in other income lines.

The year saw a significant cash investment in upgrading our New Zealand terminal fleet to meet the industry wide compliance mandate requiring all terminals in market to be contactless capable by 30 April 2017. With this upgrade process now complete, we forecast our net debt to further reduce albeit in the second half of the current financial year as our supplier payment terms are such that the remainder of the terminal upgrade payments carry over into the first half of the current financial year.

New Zealand Operations

The key focus in our New Zealand business has been the upgrade of our New Zealand terminal base to ensure we maintain compliance and the most up to date terminal specification in our largest market. This has required significant investment in the latest terminal technology, both hardware and software, which has been a key factor in the use of our cash this year.

This upgrade cycle is now complete and our entire New Zealand terminal fleet now meets hardware compliance requirements.

This will result in improved cash flow allowing us to invest in our growth and further reduce debt, albeit the latter in the second half of the current financial year as indicated above.

Benefits from the NZ terminal upgrade include:

- an increase in revenue and profit from our largest New Zealand customer, a benefit that will remain long after this investment; and
- increased remote fleet management capability which we expect will reduce operational and maintenance costs to manage the network in subsequent years.

Our new technology has been very well received by customers with feedback suggesting we offer the fastest transaction time in market, a key metric of user experience for retailers.

Other operational highlights in our New Zealand business in the period include further growth in terminal numbers through our bank channels and adding a significant Australasian customer to our Retail Radio product.

Australia Operations

Our Australian business saw revenue growth of 37% over the period including an increasing contribution from our growing retail terminal network and a sale of terminals to an Australian bank.

The terminal sale is a pleasing outcome as it validates our terminal technology against competing products in the Australian market and opens what we expect will be a valuable growth channel for our business.

A key element of our Australian activity in the period has been the ongoing development of our acquiring strategy with the intention of being able to offer our EFTPOS merchants an acquiring facility alongside our terminal offering. Completion of this project will enable Smartpay to participate in the transactional fee pool generated by our terminals. We believe this will offer margin accretion and create further opportunities for growth in both our EFTPOS terminal network and ancillary products and services which we can only offer when we participate directly in the revenue flow through our terminals. This has been a lengthy project which we remain focused on implementing this year.

Innovation

Operating in the Fin-Tech industry, product innovation is a key determinate of our growth opportunities. To this end, we have been and will continue to invest in ensuring we are at the leading edge of payments innovation to meet our current and future customer requirements.

In the course of this year we began investment in the development of a new cloud-based payments platform which we believe puts us at the leading edge of payments technology.

Branded as "SmartConnect", the platform allows integration of any payment initiation device/application to any payment termination device/application.

We recently released our first product to the market on this new platform which allows EFTPOS terminals to integrate with the new generation of cloud-based Point of Sale systems. There is a clear market shift from older "cash register" technology in our target customer base to newer cloud-based Point of Sale services and with this new platform Smartpay is one of very few providers who have the capability to service this requirement.

We have recently released this product into the NZ market and have seen immediate uptake of this solution as this product fills an existing market gap. We will be releasing the same product into the Australian market shortly which we expect will also drive increased sales opportunities in that market.

D210 Mobile EFTPOS Terminal

Importantly the platform we have created has much broader application than EFTPOS terminals as it has the capability to integrate with any payment device / application including mobile wallets, ecommerce gateways and indeed any other payments platform. Beyond payments integration, the platform has the additional functionality of generating real-time payments data and analytics which is increasingly valuable to retailers, banks and others. As we continue to build out this technology we expect to see growth opportunities for Smartpay beyond our traditional EFTPOS terminal business.

Summary and Outlook

The record profit delivered this year is the culmination of the focused efforts of our outstanding team of people. Beyond a milestone financial result, we have set a strong foundation for the business. Our new SmartConnect payments platform demonstrates Smartpay's ability to stay at the forefront of payments innovation which together with the planned implementation of our Australian acquiring capability later this year provides for a positive growth outlook.

Bradley Gerdis
Chief Executive

Directors' Profiles

Gregor John Barclay

Chairman and Independent Director – LLB, Dip. Bus

Greg joined the Board of Smartpay in April 2010. He is an experienced commercial lawyer, was a founding principal of Auckland law firm Claymore Partners and currently acts as a consultant to that firm.

Greg is a past or present director of some high profile New Zealand corporate and sporting entities including Rugby Sales LP (a partner in the commercial programme for Rugby World Cup 2011) and Experience Group (a leading national sports and event management company).

He is currently a director of New Zealand Cricket. He is chairman of Pacific Forest Products Group (a significant log and export marketing company in New Zealand) and currently chairs Franchised Businesses Limited (the largest franchise company in New Zealand with over 700 Green Acres and Hire-A-Hubby franchisees).

Greg resides in Auckland, New Zealand. In addition to being on the Board, Greg serves on the Board's Remuneration and Appointments Committee and Audit and Finance 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 the 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 recent 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 Appointments 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. In addition to being on the Board, Bradley serves on the Board's Audit and Finance Committee.

L-R: Greg Barclay, Matt Turnbull, Marty Pomeroy, Bradley Gerdis

Martyn Richard Pomeroy
Executive Director and Chief Operating Officer

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.

Corporate Governance Statement

Approved by the Board 29 June 2017

The Smartpay Group of companies (Smartpay) design, develop and implement innovative EFTPOS and payment solutions for customers in New Zealand and Australia. Smartpay aims to add value to its clients' businesses, providing a total EFTPOS and payments solution.

Smartpay Holdings Limited (the Company) is the holding company of the Group whose securities are listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

On 1 April 2016 the Company confirmed to the NZX and ASX that it had changed listing category on the ASX from a standard listing to an ASX Foreign Exempt Listing, which took effect from the commencement of trading on Tuesday 5 April 2016. The ASX Foreign Exempt Listing category is based in a principle of substituted compliance, recognising that for secondary listings, the primary regulatory role and oversight rest with the home exchange, the NZX Main Board. This being the case the Company has reviewed its governance framework to incorporate the principles and guidelines issued by the New Zealand Stock Exchange Listing Rules (NZSX Listing Rules) Appendix 16 Corporate Governance Best Practice Code and the Financial Markets Authority in New Zealand Corporate Governance Principles and Guidelines, these guidelines are designed to maximise company performance and accountability in the interests of shareholders and the broader community. The Company continues to comply with the New Zealand Stock Exchange Listing Rules.

The Board and Management of Smartpay are committed to achieving high standards of corporate governance and leadership as appropriate for a listed entity of its size. In order to support the Board's role it has developed a governance framework, which reflects the business' core values outlined in its Ethics and Code of Conduct and are available on the website **smartpayinvestor.com/corporate-documents**.

This section on corporate governance contains commentary on the principles (listed below) that the Company has adopted in line with the NZSX Listing Rules Appendix 16 Corporate Governance Best Practice Code and NZ Financial Markets Authority in New Zealand Corporate Governance Principles and Guidelines. Smartpay will review its Governance Framework in light of the newly issued NZX Corporate Governance Code (released by the NZX 10 May 2017) during the course of the remainder of the current financial year and will report against the new Code in its FY18 Annual Report.

Compliance with governance requirements and recommendations

For the reporting period to 31 March 2017 Smartpay considers its corporate governance practices have adhered to the NZSX Listing Rules Appendix 16 Corporate Governance Best Practice Code (NZX Corporate Governance Code) and the Financial Markets Authority in New Zealand Corporate Governance Principles and Guidelines (FMA Guidelines) as outlined in this section, with the exception of the following:

The current composition of Smartpay's Audit and Finance Committee does not strictly comply with NZX Corporate Governance Best Practice Code; specifically, the role of Bradley Gerdis on the committee means that the Audit and Finance Committee does not only consist of non-executive directors. However, given the size of the business and the Board, the Board believes that the current composition of the Audit and Finance Committee is the most appropriate means for discharging its responsibilities and duties.

Whilst the executive directors remuneration packages include incentive elements that are related to entity performance over time Smartpay does not formally require its non executive directors to take a portion of their remuneration under a performance-based Equity Security compensation plan. Directors are encouraged to hold shares in the Company, subject to any limitations that may affect their independence, and the Remuneration and Nominations Committee reviews the Company's remuneration policy annually and will take external advice on appropriate remuneration to ensure that remuneration is fair and reasonable to retain appropriate levels of skills and competence.

Smartpay does not have a diversity policy; it does not have the resources and infrastructure to set measurable objectives for achieving diversity and to monitor or report on such objectives. The Board however recognises the benefits of diversity representation across the organisation and in leadership positions being reflective of both the populations in which we do business. It has established appropriate ethical standards and in its recruitment practices is committed to recruiting individuals with the appropriate skills and qualifications required for the role; specifically, Smartpay's Ethics and Code of Conduct (**smartpayinvestor.com**) include policies against discrimination.

Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

The Board are responsible for determining, endorsing and communicating Smartpay's corporate values and culture to management who are then responsible for developing and maintaining those values and culture and for creating the environment and employment practice to support these.

Smartpay has an Ethics and Code of Conduct policy which sets out the ethical behaviour required of all members of the Smartpay Team including its directors, senior managers and staff. This policy can be found on its website at **smartpayinvestor.com/corporate-documents** and sets out its expectations and obligations of Directors, senior managers and staff. It contains Smartpay's values, clarifies standards of personal behaviour and unacceptable personal behaviour and provides guidance for compliance with ethical, legal and statutory obligations. It includes Smartpay's approach to equal opportunities and diversity, protection of the Company's assets, Securities Trading policy, interests and related parties and reporting of incidents. These are further expanded on in additional supporting policies and frameworks and the Company's Staff Handbook. The Staff Handbook containing Smartpay's values, standards expected of staff, confidentiality, protected disclosures, and equal opportunities Policy, is issued to all staff and contractors. It's Securities Trading Policy prescribes the circumstances where directors, senior managers and employees can trade in Smartpay Holdings Limited securities and is available on its website **smartpayinvestor.com/corporate-documents**.

Corporate Governance Statement

The breakdown of the gender composition of its Board of Directors and its Senior Managers and staff are reported below:

Level	% of women for FY 2017	% of women For FY 2016
Board	0	0
Senior Managers*	50	33
Other employees and staff	41.3	40.5

There have been no identified breaches of the Company's Ethics and code of Conduct or unethical behaviour.
*See page 70 for definition

Board Composition and Performance

To ensure an effective Board there should be a balance of independence, skills, knowledge, experience and perspectives.

The Board currently comprises four directors, two of whom are independent non-executive directors (including the Chairman). The positions of Chairman and Managing Director are not held by the same individual. The non-executive directors are encouraged to meet separately from the full Board from time to time and at least once a year. Details of their qualifications, skills, directorships and experience are set out on page **12** and are available on Smartpay's website **smartpayinvestor.com/board-of-directors**. Each director has the right, with the prior approval of the Chairman or a resolution of the Board, to seek legal or financial advice on any matter, which is either put forward for decision for the Board, or relevant to their position as director, at the expense of Smartpay.

As detailed in the Board Charter, the Board uses the criteria for determining the independence of directors as set out in the NZSX Listing Rules. In determining independence the NZSX Listing Rules' definition is a director who is not an executive of the company and does not have a disqualifying relationship.
In considering whether a director has a disqualifying relationship Smartpay considers all the circumstances including the history of the relationship between Smartpay and the Director and/or any plans it has concerning the relationship with the Director going forward. For the purposes of this determination it considers that generally 10% of a Director's or an Associated Person of a Director's revenue will be a 'substantial portion' of that Director's or Associated Person's annual revenue and over which threshold would create a disqualifying relationship. The transactions and relationships of the directors are set out in the Notes to the Financial Statements on page **61**, the Board has carefully considered these for each of its independent directors and has determined that any relationships are not material and do not create disqualifying relationships or non-independent status.

The Board strives to ensure that it is comprised of directors with a blend of skills, experience and attributes appropriate to Smartpay, it's Performance Management Policy is reviewed annually and applies to all staff, senior executives, individual directors and the Board as a whole. The Board conducts an annual performance review, for FY16 it utilised the Institute of Directors Performance Management Board Evaluation Survey and for its annual board performance evaluation during FY17 has conducted an internally managed review. In addition this year the Board has established a skills matrix to provide a guide as to the skills, knowledge, experience, personal attributes and other criteria appropriate for the Board of Smartpay Holdings Limited. This matrix will be used as a tool, in conjunction with its annual performance review, to assist with professional development initiatives for directors, for the Board's succession planning and for identifying and selecting potential new Board Members.

The Company practices a 'continuous improvement' approach to the way it does business which is reflected throughout the business; reporting to the Board is structured to require reporting by Management against the Board's identified Strategic Goals and is improved on an ongoing basis in response to director requests and changing business needs. The Company has Corporate membership of the NZ Institute of Directors, giving each director individual membership of the Institute and access to comprehensive training and resources. Individual Directors are encouraged to undertake their own development to ensure they may appropriately and effectively perform their duties.

The Remuneration and Nominations Committee is responsible for reviewing key executives performance and for the performance management structures in place for the whole business. In line with the Company's policy, during the period under review the Remuneration committee considered the performance of its executive directors, these reviews are held annually post the release of Smartpay's results to ensure that reviews can be aligned with the performance of the business.

Smartpay's Constitution and Board Charter provides that all directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where they have an actual or potential conflict. In certain circumstances, Smartpay's Board Charter provides that a director may be required to consider their resignation from office.

The directors receive comprehensive information on Smartpay's operations before each meeting and 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 also available at each meeting to address queries and to assist in developing the Board's understanding of issues facing Smartpay and the performance of its business.

Corporate Governance Statement

Director Attendance Record

	Board meetings	Audit and Finance Committee meetings	Remuneration and Nominations Committee meetings
Meetings Held	**10**	**5**	**4**
Greg Barclay	10	4	4
Bradley Gerdis	10	5	n/a
Marty Pomeroy	10	n/a	n/a
Matt Turnbull	10	5	4

The Board has an obligation to protect and enhance the value of Smartpay's assets and to act in its interests. It recognises that it cannot and must not try to manage the business itself, and must delegate this role to management. It has therefore put in place procedures and structures so it can be satisfied that it is able to carry out its role of accepting ultimate responsibility.

Smartpay's procedures are designed to clarify respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both the Company and its shareholders. They ensure a balance of authority so that no single individual has unfettered powers and that there is a balance of independence, skills, knowledge, experience and perspective among directors so that the Board works effectively. They also ensure that the reporting structures and information provided are sufficient and timely in order to ensure that the Board can perform its oversight role.

The Board Charter provides a framework and policy on delegation, identifying matters requiring Board approval or action. It defines Board structure and membership, the expectations of Directors around conflicts of interest, confidentiality, acting in good faith and sets out individual responsibilities of the Chair and Managing Director and outlines the process for director orientation, education and performance evaluation.

BOARD COMMITTEES

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

The Board has constituted two committees to provide specific input and guidance; it recognises that committees add to the effectiveness of the Board by being able to inject a more detailed analysis of key issues and promote efficient decision making. The two committees are the Audit and Finance Committee and the Remuneration and Nominations Committee. These Committees meet and operate under Board approved terms of reference which are reviewed by the Board regularly, copies of which are available on the Company's website **smartpayinvestor.com/corporate-documents**. Each committee is empowered to seek any information it requires from employees and to obtain independent legal or other professional advice it may deem necessary.

Audit and Finance Committee

The members of the Audit and Finance Committee are:

Name	Date Appointed	Position in Committee	Independence (Yes/No)
Matthew Turnbull BCom, CA	1 April 2013	Chair	Yes
Greg Barclay LLB, Dip. Bus	24 May 2010	Member	Yes
Bradley Gerdis B.Bus (Hons), MCom	24 July 2013	Member	No

Smartpay's Board Charter reflects that ultimate responsibility for the integrity of Smartpay's financial reporting rests with the Board, providing that the following (among others) are matters requiring Board action (and thus cannot be delegated to management); the approval of all financial statements, reports and accounts; the oversight of the audit and compliance functions, and the approval of the framework of control and compliance and their operation.

The current composition of Smartpay's Audit and Finance Committee does not strictly comply with NZX Corporate Governance Code or FMA guidelines; specifically, the role of Bradley Gerdis on the committee means that the Audit and Finance Committee does not consist only of non-executive directors. However, given the size of the business and the Board, the Board believes that the current composition of the Audit and Finance Committee is the most appropriate means for discharging its responsibilities and duties.

The Audit and Finance Committee met five times during the year, meeting attendance is detailed on page **18**. Where directors were unable to participate in a meeting they provided their views to the Chairman of the Committee in advance of the meeting.

Remuneration and Nominations Committee

The members of the Remuneration and Nominations Committee are:

Name	Date Appointed	Position in Committee	Independence (Yes/No)
Greg Barclay LLB, Dip. Bus	24 May 2010	Member	Yes
Matt Turnbull BCom, CA	5 June 2013	Member	Yes

Given the size of the 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 appointments and remuneration rests with the Board.

The Remuneration and Nominations Committee met four times during the year, meeting attendance is detailed on page **18**. The Committees examine proposals and, where appropriate make recommendations to the full Board. Committees do not take action or make decisions unless specifically mandated by prior Board authority to do so.

Corporate Governance Statement

REPORTING AND DISCLOSURE

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosure on Smartpay's affairs.

While the ultimate responsibility to ensure the integrity of the Company's financial reporting rests with the Board, the company has in place a structure of review and authorisation designed to ensure truthful and factual presentation of its financial position. This includes an appropriately resourced Audit and Finance Committee operating under written terms of reference which requires it to review and consider the accounts and preliminary releases of results to the market. It has an Audit Independence Policy which requires that Smartpay's external auditor remains independent and identifies that the appointment of the auditor is reviewed regularly by the Audit and Finance Committee. It also has a Fraud Risk Management Policy which is designed to prevent, detect and respond to fraud by reducing the risk of fraud and misconduct occurring, discovering fraud and misconduct when it occurs and taking 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 Management. All financial reporting provided to the Board goes though a tiered review process and is accompanied by management sign-offs.

The Board and Auditors review information contained in our Annual Report to ensure its compliance with GAAP requirements including segmental reporting.

The Board is committed to the promotion of investor confidence by taking steps within its power to ensure that trade in its 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 at **smartpayinvestor.com/corporate-documents**, it reinforces Smartpay's commitment to the continuous disclosure obligations imposed by the NZX and ASX, 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 Smartpay's procedures relating to disclosure, is designed to ensure accountability at a senior management level and compliance with Smartpay's disclosure obligations under the NZSX Listing Rules and New Zealand law such that all investors have equal and timely access to material information concerning the company, its financial position, performance and governance and Company announcements are factual and are presented in a clear and balanced way.

The Board has appointed the Managing Director as Smartpay's Market Disclosure Officer who is responsible for monitoring Smartpay's business to ensure it meets its disclosure obligations. He is supported by the Company Secretary and, when necessary, will consult professional legal advisers. The Board Charter recognises that the Board has an important role to play in ensuring that proper systems are in place, through approving specific key announcements to which they bring a shareholder perspective.

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

REMUNERATE FAIRLY AND RESPONSIBLY

The remuneration of directors and executives should be transparent, fair and reasonable.

The Board has approved a Remuneration Policy for the whole business which includes remuneration of directors, senior managers and staff and can be found on the Company's website: **smartpayinvestor.com/corporate-documents**.

Non-executive Directors will be 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.

The remuneration payments to directors are included in the related party note to the Financial Statement on page **61** as required by section 211 (1) (g) of the New Zealand Companies Act 1993, the Company's disclosures on employees earning more than $100,000 per annum is detailed on page **74**.

Executive Directors receive no director fees but will be paid as employees of the company in accordance with their contracts of employment with the company. Senior Executives are paid as employees of Smartpay in accordance with their contracts of employment. During the financial year the Remuneration and Nominations Committee obtained independent advice on market conditions and remuneration benchmarking on the remuneration of the executive directors and senior management providing recommendations to the Board.

The Remuneration and Nominations Committee's terms of reference require it to review the performance management and remuneration structures in place for the whole business. The Board has approved a Remuneration Policy for the whole business, the objectives of which are to ensure congruence with its values and that remuneration practices are driven from consistent principles and are competitive within the markets Smartpay operates to enable the organisation to attract and retain a talented, high performing workforce.

The business currently undertakes its review process in June/July post the release of the business' full year results in order to ensure that remuneration is aligned with Smartpay's performance. The Remuneration and Nominations Committee receives recommendations from management at this time for payment of bonuses and for a remuneration policy for the business for the year.

Smartpay may from time to time engage its non-executive directors to provide professional services to Smartpay. In these circumstances the terms of engagement will be competitive, established on an arms' length basis, clearly recorded and all legal requirements for disclosure of the engagement will be observed and the effect on their independent status where that applies will be considered and the appropriate Board determination made.

Smartpay does not have a formal share participation scheme available to staff or directors. In some circumstances individual directors or senior executives may be awarded share options as an incentive plan conditional on certain key performance indicators as identified at the time. All such options are disclosed on page **73**.

Corporate Governance Statement

RISK MANAGEMENT

Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.

Smartpay takes a proactive approach to risk management and reviews major decisions and deals with a view to potential risks that Smartpay may be exposed to as a result. It's Board Charter and Delegation of Authorities Manual set the boundaries for items which must come to the Board for approval so that the Board has the ultimate control of major business decisions. The Board is responsible for ensuring that risks are identified on a timely basis and that Smartpay's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Audit and Finance Committee oversees the process for identification and management of risk in Smartpay. However, Smartpay's Board Charter provides that the oversight and review of risk management is a matter requiring Board action, reflecting that ultimate responsibility for risk oversight and risk management rests with the Board.

The Board has a number of Risk Management Policies including a general Risk Management Policy, a Fraud Risk Management Policy and its Health and Safety Policy. Management maintain risk registers in line with these policies which identify risks to the business and risk mitigation strategies. The areas of Risk and Health and Safety Management are standing agenda items for each scheduled board meeting.

The objectives of the Risk Management Policy and associated Risk Register are to allow the Group to pursue opportunities that involve risk in an informed manner so as to meet the expectation of stakeholders. It enables full and due consideration to be given to the balance of risk, growth and returns, to support the achievement of shareholder value objectives and risk management practices to be applied to enhance strategic and operational decision making. The Risk Management Register is maintained on an ongoing commercial basis; it is reviewed by the management team at least 6 times a year and a summary of the review findings plus the full Risk Register are provided to the Board at each of its scheduled board meetings during the year.

Smartpay is committed to maintaining a safe and healthy working environment for anyone working on Smartpay premises. It's Health and Safety Policy and practices reinforce Smartpay's commitment to:

- comply with current Health & Safety legislation
- ensure that anyone working within its business is provided with a safe working environment
- provide procedures for the rehabilitation of employees into the business following a period of absence
- provide structures and processes which deliver a consistent approach to Health & Safety through the business
- its core values and ethics
- provide guidance on the process to ensure compliance

The Board reviews the Health and Safety Policy and Health and Safety Manual and processes on an annual basis and sets objectives for the year. It receives reporting on Health and Safety as a standing agenda item at each scheduled board meeting.

As detailed in the terms of reference of the Audit and Finance Committee, Smartpay's management is delegated responsibility to design, implement and review Smartpay's risk management and internal control systems, with the Audit and Finance Committee serving an oversight and monitoring role.

Management's internal control systems support its risk management and are required to involve processes to 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. It has an active Wellness Committee which ensures staff engagement in Health, Safety and Wellness initiatives.

Smartpay does not have sufficient scale to have a dedicated internal audit function however recognises the value this process adds; emphasis is placed on the systems and policies in place, including 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. It is continually looking to further improve its systems and processes to ensure good controls are in place.

Corporate Governance Statement

AUDITORS

The Board will ensure the quality and independence of the external audit process.

The ultimate responsibility to ensure the quality and independence of the external audit process rests with the Board, and the Company has in place the following elements to ensure they are able to execute this responsibility. This includes an appropriately resourced Audit and Finance Committee operating under written terms of reference and requirements that the Company's external auditor remains independent and a process to ensure that the appointment of the auditor is reviewed regularly by the Audit and Finance Committee.

The Board has adopted an Audit Independence Policy which defines the services that may or may not normally be performed by Smartpay's external auditors; it requires that the external auditors annually confirm their compliance with professional standards and ethical guidelines of the Chartered Accountants Australia and New Zealand and complements the Audit and Finance Committee's terms of reference. The Audit and Finance Committee is responsible for reviewing the independent and internal audit practices to support the Board in fulfilling its responsibilities. It is responsible for recommending the appointment and removal of the independent auditors and ensuring that the external auditor or lead partner is changed every 5 years. Following a review process KPMG became auditors to the Company for the FY13 year end and Malcolm Downes is the lead audit partner for Smartpay, in accordance with its policy he will step down as lead audit partner following the completion of the FY17 audit.

The 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. The Company promotes good dialogue and encourages a supportive relationship, and the Audit team has unfettered access to the 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. See also page **46** Notes to the Financial Statements.

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 **46**.

SHAREHOLDER RELATIONS

The Board should foster constructive relationships with shareholders that encourage them to engage with the entity.

The Board has approved a Stakeholder Communication Policy, which, in conjunction with its Disclosure and Communication Policy outlined above, seek to ensure that its shareholders understand its activities by communicating effectively with them and giving them ready access to balanced and clear information about the Company and seeks to ensure it is easy for shareholders to participate in general meetings.

Smartpay Holdings Limited is listed on both the NZX and ASX and has a geographically diverse shareholder base however the majority of shareholders are New Zealand and Australian based (see page **77**). Traditionally the Company's General Meetings have been held in Auckland during business hours however, in line with its Stakeholder Communication Policy, the Board will review the location of the 2017 AGM to ensure that Auckland remains the most appropriate location to ensure maximum shareholder participation, it will also webcast the AGM to make the meeting more accessible to shareholders. As a minimum standard the notice requirements of General Meetings as required by the NZSX Listing Rules and the New Zealand Companies Act 1993 are adhered however the Company will provide longer notice to maximise shareholders opportunity to attend. For its 2016 AGM held on 31 August 2016, formal notice was given on 8 August 2016 and the meeting was also available via a live webcast. The notices of meetings are available on Smartpay's website and released to the NZX and ASX. The Company's Auditors are invited to attend the Company's General Meetings of shareholders.

STAKEHOLDER INTERESTS

The Board should respect the interests of stakeholders, taking into account the Company's ownership type and its fundamental purpose.

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 above.

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.

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 2017 and the results of their operations and cash flows for the year ended 31 March 2017.

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 2017.

These financial statements dated 24 May 2017 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 2017

		Group	
		2017	2016
	Note	$'000	$'000
Continuing operations			
Revenue	5	20,892	20,361
Other income	6	864	8
Operating expenditure	7	(12,131)	(12,250)
Earnings before interest, tax, depreciation, share options expense, amortisation, impairments and unrealised foreign exchange		9 ,625	8,119
Depreciation and amortisation	7	(5,937)	(5,713)
Unrealised foreign exchange adjustments		87	502
Share option amortisation	22	(21)	(98)
Net finance (costs)	7 & 12	(1,429)	(1,903)
Impairments	7	(380)	(811)
		(7,680)	(8,023)
Profit before tax		**1,945**	**96**
Tax benefit	8	258	119
Profit for the year from continuing operations of owners		2,203	215
Other comprehensive income			
Foreign currency translation differences for foreign operations which may be reclassified subsequently to profit and loss (no tax effect)	23	(99)	(256)
Share based payments reversal which will not subsequently be reclassified to profit / (loss) (no tax effect)	22	461	369
Total comprehensive income of owners		2,565	328
Earnings / (losses) per share from continuing operations attributable to the equity holders of the company during the year	9		
Basic earnings per share		1.29 cents	0.13 cents
Diluted earnings per share		1.29 cents	0.13 cents

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 31 to 65 form part of the financial statements.

Statement of Changes in Equity

For the year ended 31 March 2017

	Group			
	Share Capital	**Foreign Currency Translation Reserve**	**Retained Deficits**	**Total**
Balance at 31 March 2015	**54,709**	**631**	**(43,913)**	**11,427**
Profit for the year from continuing operations of owners	-	-	215	215
Other comprehensive income	-	(256)	369	113
Total comprehensive income	-	(256)	584	328
Share options recognised at fair value net of options lapsed (note 22)	(271)	-	-	(271)
Total changes in equity	(271)	(256)	584	57
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

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 31 to 65 form part of the financial statements.

Statement of Financial Position

As at 31 March 2017

		Group	
		2017	2016
	Note	$'000	$'000
Current assets			
Cash and bank balances	10	2,896	3,414
Trade and other receivables	11	3,149	2,770
Finance receivable	13	98	248
Income tax receivable	20	173	55
Total current assets		**6,316**	**6,487**
Non-current assets			
Finance receivables	13	212	-
Property, plant and equipment	15	15,417	14,695
Intangible assets	16	7,913	7,878
Goodwill	17	14,772	14,772
Total non-current assets		**38,314**	**37,345**
Total assets		**44,630**	**43,832**
Current liabilities			
Trade payables and accruals	19	3,507	4,071
Derivative financial instruments	12	90	252
Borrowings	21	2,984	2,982
Total current liabilities		**6,581**	**7,305**
Non-current liabilities			
Borrowings	21	23,934	24,354
Derivative financial instruments	12	175	240
Deferred tax liabilities	18	331	449
Total non-current liabilities		**24,440**	**25,043**
Total liabilities		**31,021**	**32,348**
Net assets		**13,609**	**11,484**
Equity			
Share capital	22	53,998	54,438
Foreign currency translation reserve	23	276	375
Retained deficits		(40,665)	(43,329)
Total equity		**13,609**	**11,484**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 31 to 65 form part of the financial statements.

Statement of Cash Flows

For the year ended 31 March 2017

	Note	Group 2017 $'000	Group 2016 $'000
Cash flows from operating activities			
Receipts from customers		20,512	19,937
Interest received		62	87
Payments to suppliers & employees		(12,673)	(12,488)
Interest paid		(1,521)	(1,763)
Net cash inflow from operating activities	**24**	**6,380**	**5,773**
Cash flows from investing activities			
Proceeds from disposal of assets		454	-
Purchase of terminal assets and other property, plant and equipment		(4,823)	(5,785)
Spend on intangible assets		(2,094)	(2,748)
Net cash outflow from investing activities		**(6,463)**	**(8,533)**
Cash flows from financing activities			
Proceeds from borrowings		2,580	4,224
Repayments of borrowings		(3,015)	(3,015)
Net cash inflow/(outflow) from financing activities		**(435)**	**1,209**
Net increase/(decrease) in cash equivalents		**(518)**	**(1,551)**
Add opening cash equivalents		**3,414**	**4,965**
Closing cash equivalents		**2,896**	**3,414**
Reconciliation of closing cash equivalents to the balance sheet:			
Cash and cash equivalents		2,896	3,414
Closing cash equivalents	**10**	**2,896**	**3,414**

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 31 to 65 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 24 May 2017.

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 2018/2019. 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.

Notes to the Financial Statements

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, however none are likely to have a material impact on the measurement or recognition policies of the Group including NZ IFRS 16 Leases. There may be further disclosures required by those standards.

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. Nonmonetary 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.

Notes to the Financial Statements

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.(iv) 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) 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.

iv) 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.

v) 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.

vi) 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

Notes to the Financial Statements

- 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.

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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 10 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 ten 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 life's.

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 3-10 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.

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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.

Notes to the Financial Statements

- **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.

a. Significant Accounting Judgements

i) Impairment of Non-Financial Assets Other Than Goodwill
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product performance, technology, economic and political environments and future product sales expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

ii) Revenue Recognition
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).

iii) Recovery of Deferred Tax Assets
A deferred tax benefit has not been recognised on any tax losses due to the sizable tax losses already being carried forward from prior years.

iv) Provisions
Judgements were required to determine the likely levels of provisioning.

b. 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) Allowance for Impairment Loss on Trade and Lease Receivables
Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management.Assessment is based on supportable past collection history and historical write-offs of bad debts. Receivables have been disclosed at the carrying value in note 11.

iii) Estimation of Useful Lives of Assets
The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation and amortisation charges are included in notes 15 and 16.

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 additonal 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.

Notes to the Financial Statements

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

2017	New Zealand	Australia	Elimination	Total
Revenue	**$'000**	**$'000**	**$'000**	**$'000**
Operating lease, software and support revenue	15,989	1,936	-	17,925
Other service revenue	1,448	246	-	1,694
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	35,619	3,669	(970)	38,318

2016	New Zealand	Australia	Elimination	Total
Revenue	**$'000**	**$'000**	**$'000**	**$'000**
Operating lease, software and support revenue	15,331	1,782	-	17,113
Other service revenue	2,413	327	-	2,740
Sale of goods	978	1	(519)	460
Finance revenue	-	36	-	36
Other revenue	12	-	-	12
Total segment revenue	**18,734**	**2,146**	**(519)**	**20,361**
Additions to non current assets	7,508	2,177	-	9,685
Non current assets	34,276	3,588	(519)	37,345

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	
	2017	2016
	$'000	$'000
Sale of Intangible asset	429	-
Fair value adjustment on terminals residual value	406	-
Bad debts recovered	29	8
	864	8

7. Expenditure

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

Operating Expenditure	Note	Group	
		2017	2016
		$'000	$'000
Direct costs of sales		441	82
Terminal Communication & Servicing costs		924	1,402
Compliance, IT and Marketing costs		1,654	1,412
Employee costs		7,074	7,183
Occupancy costs		939	866
Other costs		809	947
Travel and Accommodation		290	358
		12,131	12,250

The decrease on the prior year on the terminal communication and servicing costs is attributable to the capitalisation of sales commissions.

Depreciation and Amortisation	Note	Group	
		2017	2016
		$'000	$'000
Depreciation of property, plant and equipment	15		
Merchant terminals		3,520	3,529
Computer equipment		262	320
Motor vehicles		26	27
Furniture, fixtures and office equipment		100	60
Amortisation of intangible assets	16		
Software		1,605	1,354
Customer contracts		424	423
		5,937	5,713

Notes to the Financial Statements

Auditors Fees included in operating expenditure	Group	
	2017	2016
	$'000	$'000
Audit fees to the principal auditor (note 1)	118	130
Taxation services - consultancy - to the principal auditor (note 2)	10	-
Non audit fees to principal auditor (note 3)	2	11
	130	141

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	
	2017	2016
	$'000	$'000
Bad debts written off	291	417
Net impairment/ (reversal) of provision of receivables	(108)	(249)
Net loss/ (gain) on disposal of assets	(22)	-
Directors fees and directors consulting fees	119	202
Net foreign exchange losses/ (gains)	(48)	(9)
Operating lease payments	623	612

Net finance costs	Note	Group	
		2017	2016
		$'000	$'000
Other interest received		(32)	(88)
Interest on bank overdrafts and borrowings		1,585	1,739
Change in fair value - interest rate swap	12	(136)	168
Change in fair value - foreign exchange contract (realised and unrealised)		(5)	17
Finance transaction fees amortisation		17	67
		1,429	1,903

Impairments	Group	
	2017	2016
	$'000	$'000
Merchant terminals	380	811

8. Taxation Expense / (Credit)

	Group	
	2017	2016
	$'000	$'000
Income tax expense comprises:		
Current income tax benefit	140	-
Deferred tax benefit	118	119
Income tax benefit	258	119
Reconciliation between charge for year and accounting profit		
Profit/(loss) before tax	1,945	96
Income tax at 28%	(545)	(27)
Add/(deduct) the tax effect of:		
Non-deductible expenses	(367)	(189)
Non-assessable income	553	138
Temporary differences not recognised	443	173
Tax benefit recognised	140	-
Australian tax rate differences	34	24
Income tax benefit	258	119

The tax rate used in the above reconciliation is the corporate tax rate applicable at 31 March 2017 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	
	2017	2016
Basic earnings per share - cents		
Profit for the period ($'000)	2,203	215
Weighted average number of shares ('000)	171,752	171,752
Basic earnings per share - cents	1.29	0.13

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 2017 the share options were not dilutive so the calculation excludes the impact of 7,000,000 shares (2016:14,000,000 shares) potentially issuable, consequently the diluted earnings per share is equivalent to the basic earnings per share.

Notes to the Financial Statements

10. Cash and Cash Equivalents

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	
Cash and cash equivalents	**2017**	**2016**
	$'000	**$'000**
Cash at bank and in hand	2,896	3,414
Total cash and cash equivalents	2,896	3,414

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.

11. Trade and Other Receivables

	Group	
	2017	**2016**
	$'000	**$'000**
Accounts receivable	1,307	1,271
Less impairment provision on receivables	(9)	(117)
Accrued revenue	1,633	1,332
Prepayments	191	266
GST	27	18
Total trade and other receivables	**3,149**	**2,770**

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.

12. Derivative Financial Instruments

The Group's subsidiary Smartpay New Zealand Limited has entered into two interest rate swaps transaction 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 liabilities or accruals. 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).

	Group	
Fair value	**2017**	**2016**
	$'000	**$'000**
Swap A	(274)	(432)
Swap B	(23)	-
Foreign exchange contracts	32	(60)
Total	(265)	(492)
Current	(90)	(252)
Non Current	(175)	(240)
Total	**(265)**	**(492)**

13. Non Current Finance Receivables

	Group	
	2017	2016
	$'000	$'000
Total finance lease receivables	310	248
less current portion of finance lease receivables	(98)	(248)
Non current finance lease receivables	**212**	**-**

Finance Lease Receivable

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**

2016	Current	1-5 Years	Total
Finance leases - gross receivable	259	-	259
less unearned finance income	(11)	-	(11)
Total finance lease receivables	**248**	**-**	**248**

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.

Notes to the Financial Statements

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
	2017	2016		
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%	-	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 the their parent company of 31 March and all subsidiaries were owned for the full financial year except for Smartpay Epayments Pty Limited incorporated on 24 November 2016 and is currently not trading.

15. Property, Plant and Equipment

	Merchant terminals at cost		Furniture, fixtures and office equipment at cost		Computer equipment at cost	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Opening carrying value	9,863	9,358	84	115	452	698
Additions	1,096	232	226	25	90	73
Transfers	5,561	4,282	-	-	-	-
Depreciation	(3,520)	(3,529)	(100)	(60)	(262)	(320)
Disposals	(14)	-	(3)	-	-	-
Cost of sales	-	(32)	-	-	-	-
Impairment	(320)	(543)	-	-	-	-
FX adjustments	15	95	(1)	4	-	1
Closing carrying value	12,681	9,863	206	84	280	452
Capital work in progress						
Opening carrying value	4,222	2,391	-	-	-	-
Additions	4,444	6,558	-	-	-	-
Transfers	(5,561)	(4,282)	-	-	-	-
Cost of sales	(791)	(216)	-	-	-	-
Impairment	(61)	(268)	-	-	-	-
FX adjustments	(18)	39	-	-	-	-
Closing carrying value	2,235	4,222	-	-	-	-
Total	**14,916**	**14,085**	**206**	**84**	**280**	**452**
Reconciled to:						
Cost	22,609	17,229	405	349	4,090	4,323
Less accumulated depreciation and impairment	(9,928)	(7,366)	(199)	(265)	(3,810)	(3,871)
Closing carrying value	12,681	9,863	206	84	280	452
Capital work in progress	2,235	4,222	-	-	-	-
Total	**14,916**	**14,085**	**206**	**84**	**280**	**452**

Notes to the Financial Statements

	Motor vehicles at cost		Group Total	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Opening carrying value	74	76	10,473	10,247
Additions	-	25	1,412	355
Transfers	-	-	5,561	4,282
Depreciation	(26)	(27)	(3,908)	(3,936)
Disposals	(33)	-	(50)	-
Cost of sales	-	-	-	(32)
Impairment	-	-	(320)	(543)
FX adjustments	-	-	14	100
Closing carrying value	15	74	13,182	10,473
Capital work in progress				
Opening carrying value	-	-	4,222	2,391
Additions	-	-	4,444	6,558
Transfers	-	-	(5,561)	(4,282)
Cost of sales	-	-	(791)	(216)
Impairment	-	-	(61)	(268)
FX adjustments	-	-	(18)	39
Closing carrying value	-	-	2,235	4,222
Total	**15**	**74**	**15,417**	**14,695**
Reconciled to:				
Cost	81	159	27,185	22,060
Less accumulated depreciation and impairment	(66)	(85)	(14,003)	(11,587)
Closing carrying value	15	74	13,182	10,473
Capital work in progress	-	-	2,235	4,222
Total	**15**	**74**	**15,417**	**14,695**

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	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Opening carrying value	4,984	3,544	2,894	3,317	7,878	6,861
Additions	2,085	2,788	-	-	2,085	2,788
Amortisation	(1,605)	(1,354)	(424)	(423)	(2,029)	(1,777)
Disposals	(18)	-	-	-	(18)	-
FX adjustments	(3)	6	-	-	(3)	6
Closing carrying value*	5,443	4,984	2,470	2,894	7,913	7,878
Reconciled to:						
Cost	21,188	19,397	4,235	4,235	25,423	23,632
Less accumulated amortisation	(14,326)	(12,994)	(1,765)	(1,341)	(16,091)	(14,335)
Less accumulated impairment	(1,419)	(1,419)	-	-	(1,419)	(1,419)
Closing carrying value	**5,443**	**4,984**	**2,470**	**2,894**	**7,913**	**7,878**

* This balance includes research and development in progress totalling $497,000 (2016 $752,000)

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

Software and Development
Internally developed software to operate and manage the EFTPOS terminals has a carrying value of $5,242,000 (2016: $4,539,000) including capital work in progress of $497,000 (2016: $752,000).

The Group undertook a significant amount of development during this financial year in respect of its EFTPOS terminal management systems 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 $2,082,000 (2016 $2,857,000) and a reduction in the carrying value of work in progress software amounting to $255,000 (2016 increase of $90,000).

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.

Notes to the Financial Statements

17. Goodwill

	Group	
	2017 $'000	2016 $'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 2017 and 2016 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 sales growth rate assumptions for years 1 to 5 of 1.5% on average. For cash flows beyond 5 years no terminal growth rate is assumed. The cash flows are discounted using a nominal rate of 10% after tax.

Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. A change to a discount rate to 13.1%, or a reduction in revenue of 21%, or a 41% reduction in terminal value is required for the carrying amount of goodwill to equal the recoverable amount.

18. Deferred Tax Asset / (Liability)

	Group	
Movements in deferred tax:	2017 $'000	2016 $'000
Opening balance	(449)	(568)
Charge to profit and loss	118	119
Balance at end of the year	(331)	(449)
Deferred tax balance comprises:		
Employee entitlements	111	112
Receivables impairment provision	3	33
Non deductible accruals	101	67
License fee	78	137
Revenue recognition differences	3,960	5,192
Computer software and development and customer contracts	(614)	(695)
Deferred tax asset not recognised for accounting	(3,970)	(5,295)
Total deferred tax balance	(331)	(449)
Deferred tax liability - New Zealand	**(331)**	**(449)**

a. Tax losses

The Group has aggregate estimated New Zealand net tax losses of $24,420,000 as at 31 March 2017 (31 March 2016 actual $23,400,497) and in Australia estimated net taxable losses at the same date of AU$4,132,000 (31 March 2016 actual AU$2,749,000). No tax losses have been recognised in the balance sheet as deferred tax in either reporting period. See note 3.b.(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 2016 tax returns the continuity has remained constant and no further tax losses have been forfeited, however $500,000 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 2017. The deferred tax liability recognised relates to the customer contracts acquired from Viaduct

19. Trade Payables and Accruals

	Group	
	2017	**2016**
	$'000	**$'000**
Trade payables	2,043	2,675
Other payables	75	64
GST	99	28
Deferred revenue	-	191
Accruals	557	310
Employee entitlements	733	803
Total trade payables and accruals	**3,507**	**4,071**

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

Within trade payables are accrued costs of $612,000 (2016:$1,681,000) for capex purchases.

Notes to the Financial Statements

20. Income Tax Payable/(Receivable)

Current Tax	Group 2017 $'000	Group 2016 $'000
Opening balance	(55)	(30)
Tax refund due on R&D grant	(140)	-
Payments and RWT credits	22	(25)
Balance at end of the year - liability/(receivable)	**(173)**	**(55)**

The tax refund relates to the R&D grant for the 2016 year. The Group received confirmation from the Inland Revenue in relation to the R&D grant.

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.

Borrowings	Group 2017 $'000	Group 2016 $'000
Secured - at amortised cost		
Current	2,984	2,982
Non-current	23,934	24,354
Total Borrowings	**26,918**	**27,336**
The following arrangement fees have been deducted from the debt above.		
Arrangement fees	724	709
Amortisation of arrangement fees	(708)	(691)
	16	**18**

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 30 June 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 accumlative drawdowns on the CAF facility amounted to $9,684,000.

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 2017 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	
Share Capital	**2017 $'000**	**2016 $'000**
Opening balance	54,438	54,709
Share based payments:		
- Value of share options issued to directors that were amortised during the year	21	98
- Value of share options issued to directors which were not exercised and which lapsed during the year	(461)	(369)
Total shares issued during the year	(440)	(271)
Balance at end of the year	**53,998**	**54,438**

a. Ordinary Shares

As at 31 March 2017 there were 171,752,278 (2016:171,752,278) ordinary shares on issue. No new shares were issued during 2015/16 or in 2016/17. 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.

	Group	
Movements in the Number of Ordinary Shares on issue	**2017 '000**	**2016 '000**
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 2017 financial year related to options lapsing at 31 March 2017 or being forfeited resulting from a resignation.

	Group	
Movements in the Management Share Options on issue	**2017 '000**	**2016 '000**
Opening balance - weighted average exercise price per share: 2017 50.0c (2016 52.0c)	28,000	48,000
Options lapsed - weighted average exercise price per share 2017: 42.9c (2016: 80c)	(14,000)	(20,000)
Closing balance - weighted average exercise price per share: 2017 57.1c (2016 50.0c)	**14,000**	**28,000**
Weighted average remaining contractual life of outstanding options (years)	1.125	2.125

Notes to the Financial Statements

In 2017 14,000,000 Management options for 7,000,000 shares at weighted average price of 42.9c per share had lapsed. At 31 March 2016 20,000,000 options for 1,000,000 shares at 80.0c per share lapsed.

Other than options lapsing there were no other movements in these options in either 2017 or 2016.

Movements in the Number of Directors Incentive Share Options on issue

Since the lapse of the Directors incentive options in the 2016 financial year there have been no further options issued.

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:

	2017		
	Management 2012 Tranche 3	Management 2013 Tranche 1	Management 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 (000)	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 post 1:2 share consolidation	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

	2016			
	Management 2012 Tranche 2	Management 2012 Tranche 3	Management 2013 Tranche 1	Management 2013 Tranche 1
Number of options issued (000) as performance incentive to management				
Number of options fair valued (000)	10,000	10,000	4,000	4,000
Number of shares (000)	5,000	5,000	2,000	2,000
Risk-free interest rate	3.3%	3.3%	3.3%	3.3%
Exercise price (per share)	40.0c	60.0c	40.0c	60.0c
Share price at measurement date	21 cents	21 cents	33 cents	33 cents
Volatility	50%	50%	50%	50%
Life of options	61 months	73 months	58 months	82 months
Exercise on or before	31/3/17	31/3/18	31/12/17	31/12/19
Dividend yield	-	-	-	-
Fair value	4.94 cents	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.

	Note	Group	
Gearing Ratios		**2017**	**2016**
		$'000	**$'000**
Total borrowings	21	26,918	27,336
Less Cash and cash equivalents	10	(2,896)	(3,414)
Net debt		24,022	23,922
Total Equity		13,609	11,484
Total Capital		37,631	35,406
Ratio of Net debt to Total Capital		63.8%	67.6%

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	
	2017	**2016**
	$'000	**$'000**
Profit for the period	2,203	215
Add/ (deduct) non-cash items:		
Depreciation & amortisation	5,937	5,713
Loss/ (gain) on disposal of fixed assets	(22)	-
Other Income	(835)	-
Share based payments	21	98
Financing costs and bad debts	202	235
Unrealised foreign exchange	(87)	(502)
Tax benefit	(119)	(119)
Impairment charges	381	811
Add/ (deduct) changes in working capital items:		
Trade and other receivables	(411)	(424)
Derivative financial instruments	(227)	185
Payables and accruals	(544)	(414)
Provision for current tax	(119)	(25)
Net cash inflow/(outflow) from operating activities	**6,380**	**5,773**

Notes to the Financial Statements

25. Operating Leases

Leases as Lessee

Non cancellable operating lease rentals are payable as follows:

	Group	
Operating Lease Commitments	**2017**	**2016**
	$'000	**$'000**
Within one year	550	710
After one year but not more than five years	1,295	1,644
After five years but not more than ten years	-	155
Total operating lease commitments	**1,845**	**2,509**

The Group 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 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	
	2017	**2016**
	$'000	**$'000**
Within one year	4,411	4,621
After one year but not more than five years	4,244	4,055
Total operating lease commitments	**8,655**	**8,676**

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 (2016: $75,000) and for the Sydney office of A$92,000 (2016: A$92,000).

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).

27. Capital Commitments

The Group has no capital commitments at 31 March 2017 (2016: $100,000).

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

Claymore Law provided legal services to the Group on normal commercial terms amounting to $43,000 (2016: $59,000). Gregor Barclay is a consultant of Claymore Law Partnership and Director of Smartpay Holdings Limited. The balance outstanding at 31 March 2017 was $3,000 (2016: $8,000). Gregor Barclay was not actively involved in providing any legal services performed by Claymore Partners Limited for Smartpay.

Gregor Barclay is also a Director and principal of Ngatapa Trust, and provided consulting services in relation to Directors' fees on normal commercial terms amounting to $60,000 (2016: $49,000).

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$569,000, NZ$622,000 (2016: A$444,000, NZ$492,000) which included a bonus of A$131,250 NZ$144,000 (2016: A$56,000, NZ$62,000).

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: 6,014,253) ordinary shares as well as 10,000,000 (2016: 20,000,000) share options which can be converted into 5,000,000 (2015: 10,000,000) shares - 5,000,000 at 60 cents per share by 31 March 18. 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 2017.

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 4,000,000 (2016: 4,000,000) options to purchase 2,000,000 (2016: 2,000,000) shares - half can be exercised by 31 December 2017 at an exercise price of 40 cents per share and half can be exercised by 31 December 2019 at an exercise price of 60 cents per share. At 31 March 2017 he holds 3,399,053 shares directly whereas at 31 March 2016 TEOV Limited held 6,798,106 shares in the Company. Martyn Pomeroy was appointed a director of the Company on 1 April 2014.

Martyn Pomeroy or his associated entities have received:
- Salary received $435,000 (2016: $395,000) which included a bonus of $127,500 (2016: $91,000).

Matthew Turnbull was appointed a Director of the Company on 1 April 2013 and is also a Director of Black Rock Capital Limited, and received Directors' fees of $55,000 (2016: $55,000).

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 2017 of $358,000 (2016: $871,000). Directors remuneration was $1,107,000 (2016: $1,095,000).

Key Management Compensation	2017 $'000	2016 $'000
Salaries and other short term employee benefits	358	871

Notes to the Financial Statements

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
2017	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets				
Cash and bank balances	2,896	-	-	2,896
Trade, finance and other receivables	1,635	-	-	1,635
	4,531	**-**	**-**	**4,531**
Financial liabilities				
Trade payables and accruals	-	-	3,507	3,507
Derivative financial instruments	-	90	-	90
Financial liabilities at amortised cost	-	-	26,918	26,918
	-	**90**	**30,425**	**30,515**

	Group			
	Loans and receivables	Measured at fair value through profit and loss	Measured at amortised cost	Total
2016	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets				
Cash and bank balances	3,414	-	-	3,414
Trade, finance and other receivables	1,420	-	-	1,420
	4,834	**-**	**-**	**4,834**
Financial liabilities				
Trade payables and accruals	-	-	3,880	3,880
Derivative financial instruments	-	252	-	252
Financial liabilities at amortised cost	-	-	27,336	27,336
	-	**252**	**31,216**	**31,468**

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$1.4 million
- $Aust - Sales of A$5 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	
Maximum exposure to credit risk at balance date is:	**2017**	**2016**
	$'000	**$'000**
Cash and cash equivalents	2,896	3,414
Trade receivables (net of impairment)	1,298	1,154
Finance lease receivables (net of impairment)	310	248

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)
- greater than 101 days overdue (salvage).

The impairment provision includes some arrears and collection and all the salvage category. In 2016 no impairment was made for overdue payments within the arrears and collection categories.

	2017		2016	
2017	**%**	**$'000**	**%**	**$'000**
Arrears	3.49	117	2.73	93
Collections	0.08	4	1.13	55
Salvage	0.10	19	0.63	115
		140		**263**

The basis for calculating the percentage of overdue payments in each of the categories for arrears, collections and salvage is as follows. 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.

Notes to the Financial Statements

Concentration of credit risk
One customer is included within finance receivables and the total receivable balance is $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 level1 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 2017 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 $70,000 higher or $70,000 lower. The notional principal of the interest rate swaps is $20.4million and the carrying value on the balance sheet is a liability of $297,000 (2016: liability of $432,000).

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:

		Group	
	Total	Within 12 Months	Within 1 to 5 years
	($'000)	($'000)	($'000)
ASB Bank Limited	26,934	3,000	23,934
Total Group Debt	**26,934**	**3,000**	**23,934**
Total Aging of Financial Liabilities Commitments			
2017			
Trade Payables and accruals	3,507	3,507	-
Future interest payments on borrowings (note 1)	2,831	1,395	1,436
Borrowings (note 2)	26,934	3,000	23,934
	33,272	**7,902**	**25,370**
2016			
Trade Payables and accruals	4,071	4,071	-
Future interest payments on borrowings (note 1)	2,978	1,467	1,511
Borrowings (note 2)	27,354	3,000	24,354
	34,403	**8,538**	**25,865**

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 $9,684,000.

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 27 to 65:

i. Present fairly in all material respects the Group's financial position as at 31 March 2017 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 2017;

— 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.

Our firm has also provided other services to the Group in relation to IT and tax services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

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 $100,000 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 property, plant and equipment of $15.42 million as disclosed in note 15 of the financial statements, which includes merchant EFTPOS terminals. These terminals are leased to customers. The valuation of terminal assets is a key audit matter due to the significance of the asset to the group balance sheet, and the impact technology and compliance factors have on the possible impairment. In addition, there is considerable judgement in determining the classification of the terminal contracts as either operating or finance leases.	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 the Paymark-advised changes in the industry compliance requirements (specifically terminal model sunset dates); — assessing management's methodology for writing down slow moving and idle terminals, by comparing to historic write off trends and examining the stratification of customers (by terminal model) of terminals in use; — 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 leasing contracts in the financial year, examining management's assessment of whether the leasing contracts are operating or finance leases. Based on our analysis, the assessments and methodologies used in determining if terminal assets are impaired or of the useful life requires shortening were within an acceptable range. We did not identify any material errors in the interpretation of whether new leasing contracts written were operating or finance leases. We did not identify any material issues with the carrying value of terminal assets in the financial statements.
Valuation of Goodwill	
The Group has goodwill of $14.78 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 to the group balance sheet and the valuation models used in the impairment test include a range of subjective assumptions about future	Our audit procedures included, amongst others: — ensuring the methodology adopted in the impairment model is consistent with accepted valuation approaches; — comparing the group's market capitalisation with the net asset value, as an indicator of possible impairment; — comparing the 5 year cash flow forecasts in the valuation models to Board approved forecasts and strategic plans; — challenging the reasonableness of the revenue and cost forecasts by comparing these forecasts to actual cash flow and growth rates achieved historically;

The key audit matter	How the matter was addressed in our audit
performance, specifically the forecast cash flows for 5 years and the discount and terminal growth rates.	— assessing the accuracy of previous forecasting, to identify appropriate sensitivities to use when evaluating the forecasts included in the impairment models; — assessing the reasonableness of the discount rates applied to future cash flows, by comparing with market data such as comparable company published costs of capital; and — Performing sensitivity analysis on the CGU considering a range of likely outcomes for various scenarios. Based on our analysis, the assumptions and judgements used in the impairment model were within an acceptable range. We did not identify any material issues with the carrying value of goodwill in the financial statements.
Development asset	
The Group has development assets of $5.44 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 to the group balance sheet 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, historical performance by terminal model and the industry's compliance requirement. Assess 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 includes 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 — evaluating management's estimates of market size and the group's market share, by comparing actual terminal model sales volumes with forecasts. Based on our analysis, the assumptions and judgements used in determining if the development asset is impaired or the useful life requires shortening were within an acceptable range. 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 Audit 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 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 International Standards on Auditing (New Zealand) 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 Auditor's Report.

KPMG.

Malcolm Downes - Partner

KPMG
Auckland

24 May 2017

Statutory information

DIRECTORS

At 31 March 2017 the directors holding office were Bradley Gerdis, Gregor Barclay, Matthew Turnbull and Martyn Pomeroy.

At the annual meeting of shareholders held on 31 August 2016 Marty Pomeroy stood for re-election and was re-elected by the shareholders as Director of the Company.

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

SUBSIDIARY COMPANY DIRECTORSHIPS

At 31 March 2017, subsidiary companies had directors as follows:

New Zealand Subsidiary Companies	Director
Smartpay Rental Services Limited	Bradley Gerdis, Gregor Barclay
Smartpay Limited	Bradley Gerdis, Gregor Barclay
Smartpay Ethos Limited	Bradley Gerdis, Gregor Barclay
Smartpay Software Limited	Bradley Gerdis, Gregor Barclay
Smartpay New Zealand Limited	Bradley Gerdis, Gregor Barclay
Viaduct Limited	Bradley Gerdis, Gregor Barclay

Australian Subsidiary Companies	Director
Smartpay Rentals Pty Limited	Gregor Barclay, Bradley Gerdis
Smartpay Australia Pty Limited	Gregor Barclay, Bradley Gerdis
Cadmus Payment Solutions Pty Limited	Gregor Barclay, Bradley Gerdis
Product Rentals Pty Limited	Gregor Barclay, Bradley Gerdis
Pax Technology Pty Limited	Bradley Gerdis
Smartpay Taxis Pty Limited	Bradley Gerdis, Lincoln Burgess
Smartpay Epayments Pty Limited	Bradley Gerdis

SUBSIDIARY COMPANY CHANGES

Smartpay Epayments Pty Limited was incorporated on 24 November 2016.

DIRECTORS' INTERESTS

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	Director TEOV Limited
	Director	iHoldings Limited
	Director	iGenerate 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.

Statutory information

DIRECTOR AND SENIOR MANAGERS INTERESTS IN SHARES OF THE COMPANY

Directors

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 31/03/2016	Movement in period	Balance at 31/3/2017
Bradley Gerdis	Haymaker Investments Pty Limited (Haymaker Account)	Potential beneficiary under a discretionary trust	6,014,253	501,169	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	TEOV Limited	Director and Shareholder of TEOV Limited	6,798,106	(6,798,106)*	0
	Pomeroy Asset Protection Trust	Potential beneficiary under the trust	0	3,399,053*	3,399,053

* on 5 August 2016 TEOV Limited distributed its shares to the beneficial holders, as one of the holders Marty received half of the shares formerly held by TEOV Limited.

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.

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 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:

Directors

Director	Name of holder	Nature of relevant interest	Type of Option	Conversion Price	Balance as at 31/3/2016	Movement	Balance at 31/3/2017	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	0	10,000,000	5,000,000
		Potential beneficiary under a discretionary trust	2017 Incentive Options	$0.40 per share	10,000,000	(10,000,000)*	0	0
Martyn Pomeroy	Martyn Pomeroy	Beneficial	2017 Incentive Options	$0.40 per share	2,000,000	0	2,000,000	1,000,000
		Beneficial	2019 Incentive Options	$0.60 per share	2,000,000	0	2,000,000	1,000,000

*These options expired without being exercised.

Senior Managers

As at the balance date no senior managers, who are not also directors, held interests in options in the company.

Statutory information

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.

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.

The Board has confirmed that the company continues to comply with the NZSX listing rules.

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: 1800 501 366
F: +61 3 9473 2500

EMPLOYEE RENUMERATION

During the year a number of employees or former employees (excluding directors) received remuneration, including commissions and other benefits in their capacity as employees of the Company. The value of which exceed $100,000 per annum were as follows:

Renumeration Range $	Number of Employees
280,000 – 289,000	1
230,000 – 239,000	1
220,000 – 229,000	1
190,000 – 199,000	1
180,000 – 189,000	1
160,000 – 169,000	1
140,000 – 149,000	2
130,000 – 139,000	4
120,000 – 129,000	2
110,000 – 119,000	2
Total	**16**

GENDER COMPARISONS

	As at 31 March 2017			As at 31 March 2016		
Level	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
Board	4	0	4	4	0	4
Senior Managers	1	1	2	3	1	4
Other employees and staff	74	52	126*	78	47	125*

* At the year end the business had an additional 29 (2016: 15) employees working on a temporary basis to assist with the upgrade of terminals to customers. These temporary workers are included in the numbers.

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.

OTHER DISCLOSURES

Notice pursuant to clause 30 of schedule 4 of the Financial Markets Conduct act 2014

The Company transitioned into the Financial Markets Conduct act 2014 ('FMCA') on 1 December 2016, accordingly on and from the 1 December 2016 the requirements of the FMCA have applied to Smartpay Holdings Limited.

Summary of waivers and exemptions

There were no NZX waivers or exemptions sought during the period.

Security holder information

as at 16 May 2017

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

Options issued	Number of Options	Number of ordinary shares over which they are exercisable	Exercise Price per share	Expiry Date
2017 Incentive Options	2,000,000	1,000,000	$0.40	31 December 2017
2018 Incentive Options	10,000,000	5,000,000	$0.60	31 March 2018
2019 Incentive Options	2,000,000	1,000,000	$0.60	31 December 2019
Total	**14,000,000**	**7,000,000**		

Distribution Of Shareholders

	New Zealand Register				Australian Register				Combined Register			
Range	Total Holders	Holder %	Units	% of Units	Total Holders	Holder %	Units	% of Units	Total Holders	Holder %	Units	% of Units
Less than 5,000	523	42.66	596,650	0.35	78	6.36	160,886	0.09	601	49.02	757,536	0.44
5,000 to 9,999	89	7.26	568,380	0.33	35	2.85	233,380	0.14	124	10.11	801,760	0.47
10,000 to 49,999	207	16.88	4,400,623	2.56	95	7.75	2,129,093	1.24	302	24.63	6,529,716	3.80
50,000 to 99,999	38	3.10	2,539,004	1.48	32	2.61	1,985,358	1.16	70	5.71	4,524,362	2.63
100,000 to 499,999	43	3.51	8,765,430	5.10	48	3.92	9,432,435	5.49	91	7.42	18,197,865	10.60
500,000 to 999,999	12	0.98	7,611,186	4.43	4	0.33	2,391,188	1.39	16	1.31	10,002,374	5.82
Over 1,000,000	6	0.49	30,766,568	17.91	16	1.31	100,172,097	58.32	22	1.79	130,938,665	76.24
Totals	**918**	**74.88**	**55,247,841**	**32.17**	**308**	**25.12**	**116,504,437**	**67.83**	**1,226**	**100.00**	**171,752,278**	**100.00**

Distribution of option holders

Range*	Total Holders	Number of shares over which options are exercisable	% of number of shares over which options are exercisable
5,000,000 – 5,999,999	1	5,000,000	71.42
2,000,000 – 2,999,999	1	2,000,000	28.58
Total	**2**	**7,000,000**	**100.00**

* Range based on the number of shares over which the options are exercisable.

Geographical spread of shareholders

	New Zealand Register				Australian Register				Combined Register			
Country/Region	Holder	Holder %	Units	Units %	Holder	Holder %	Units	Units %	Holder	Holder %	Units	Units %
New Zealand	863	70.39	47,863,547	27.87	59	4.81	8,307,626	4.84	922	75.20	56,171,173	32.70
Australia	40	3.26	7,017,956	4.09	241	19.66	87,695,333	51.06	281	22.92	94,713,289	55.15
United Kingdom	4	0.33	24,927	0.01	1	0.08	50,000	0.03	5	0.41	74,927	0.04
Switzerland	2	0.16	17,500	0.01	1	0.08	5,396,526	3.14	3	0.24	5,414,026	3.15
Malaysia	7	0.57	193,911	0.11	0	-	-	-	7	0.57	193,911	0.11
Philippines	1	0.08	30,000	0.02	0	-	-	-	1	0.08	30,000	0.02
United Arab Emirates	1	0.08	100,000	0.06	0	-	-	-	1	0.08	100,000	0.06
Hong Kong	0	-	-	-	1	0.08	220,000	0.13	1	0.08	220,000	0.13
Singapore	0	-	-	-	4	0.33	14,827,952	8.63	4	0.33	14,827,952	8.63
U.S.A.	0	-	-	-	1	0.08	7,000	0.01	1	0.08	7,000	0.01
Totals	**918**	**74.88**	**55,247,841**	**32.17**	**308**	**25.12**	**116,504,437**	**67.83**	**1,226**	**100.00**	**171,752,278**	**100.00**

Geographical spread of option holders

Location	No of Options	Number of Shares over which options are exercisable	% of Number of shares over which options are exercisable	Holders	% of Holders
Australia	10,000,000	5,000,000	71.42	1	50.00
New Zealand	4,000,000	2,000,000	28.58	1	50.00
Total	**14,000,000**	**7,000,000**	**100.00**	**2**	**100.00**

Security holder information
as at 16 May 2017

Twenty Largest Registered Shareholders

Rank	Name	Units	% of Units
1	JP Morgan Nominees Australia Limited	32,893,498	19.15
2	National Nominees New Zealand Limited - NZCSD (NNLZ90)	11,383,414	6.63
3	The Summit Hotel Bondi Beach Pty Ltd	9,099,689	5.30
4	Ten Soo Lan	8,570,225	4.99
5	National Nominees Limited	7,643,038	4.45
6	Haymaker Investments Pty Limited (The Haymaker A/C)	6,515,422	3.79
7	Walker & Hall Fine Gifts Limited	6,010,920	3.50
8	Melville Investment Holdings Limited	5,396,526	3.14
9	Connie Lo Lin Sye	5,255,227	3.06
10	Anacacia Pty Ltd (Wattle Fund A/C)	5,126,628	2.98
11	Benger Superannuation Pty Limited (Benger Super Fund A/C)	5,000,000	2.91
12	Citicorp Nominees Pty Limited	3,470,501	2.02
13	Martyn Pomeroy & Sara Pomeroy (Pomeroy Asset Protection A/C)	3,399,053	1.98
14	Harrogate Trustee Limited (Brandywine A/C)	3,222,676	1.88
15	Anthony James Thorpe & Marilyn Ruth Thorpe & David Alistair Thorpe (AJ & Mr Thorpe Family A/C)	3,031,252	1.76
16	HSBC Custody Nominees (Australia) Limited	3,012,500	1.75
17	BNP Paribas Noms Pty Ltd (DRP)	2,957,066	1.72
18	Gregory Kevin Molloy & Claymore Trustees Limited (Cicero A/C)	2,445,765	1.42
19	Gwynvill Trading Pty Ltd	1,813,106	1.06
20	Telane Pty Limited	1,667,000	0.97
Totals: Top 20 holders of Ordinary Shares		**127,913,506**	**74.48**
Total Remaining Holders Balance		**43,838,772**	**25.52**
Total Shares		**171,752,278**	**100.00**

Substantial Security Holders

The following persons were substantial security holders (as defined in the Financial Markets Conduct Act 2013) in Smartpay Holdings Limited as at the balance date and have disclosed the Substantial Security Holdings to the NZX and ASX as per the table below:

	Number of Securities	% of Capital
Microequities Asset Management Pty Limited	17,789,397	10.36
Milford Asset Management Limited	12,699,330	7.39
Allan Walker Tattersfield	10,424,051	6.07
TBF Investment Management Pty Limited (T/A The Boat Fund)	8,727,569	5.09
Linear Asset Management Limited	9,710,069	5.65

The total number of issued voting securities of Smartpay Holdings Limited at these dates was 171,752,278.

Directory

Registered Office
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Wairau Valley
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Phone: +64 9 442 2700
Email: info@smartpay.co.nz
Website: **smartpayinvestor.com**

Australian Office
Level 2, 117 York Street
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NSW 2000
Phone: +61 2 8876 2300

Board
Bradley Gerdis – Managing Director
Greg Barclay – Independent Director
Matthew Turnbull – Independent Director
Marty Pomeroy – Executive 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
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Phone: + 64 9 367 5800

Share registrar – New Zealand
Computershare Investor
Services Limited
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Share registrar – Australia
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