





2010

smartpay limited annual report

SMARTPAY LIMITED

welcome

Welcome to SmartPay's annual report for the 12 months to 31 March 2010.

We provide merchant services to a significant customer base that help our customers to run their businesses more efficiently. We are focused on developing value-added products and services that generate recurring and repeatable revenue streams. Where possible we own the technology and the underlying intellectual property inherent in our products and services.

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about smartpay

SmartPay is a listed company on the New Zealand stock exchange (nzx:spy) and is one of New Zealand's leading providers of integrated merchant services.

SmartPay is a one-stop-shop where merchants can find products and services to enhance their business offerings, attract more customers, reduce telecommunication costs and increase revenue.

our business

SmartPay is New Zealand's number one provider of technology services for merchants and retailers and has a growing business in Australia.

It is our vision to own the merchant space, and in doing so develop sustainable and ongoing revenue streams, delivering products and services that add value to our 30,000 customers.

Our products and services include:

Payments

- Broadband EFTPOS
- Wireless terminals
- Pre-paid vouchers
- Taxi systems and processing
- IP-POS EFTPOS network
- On-line payments

Telecommunications

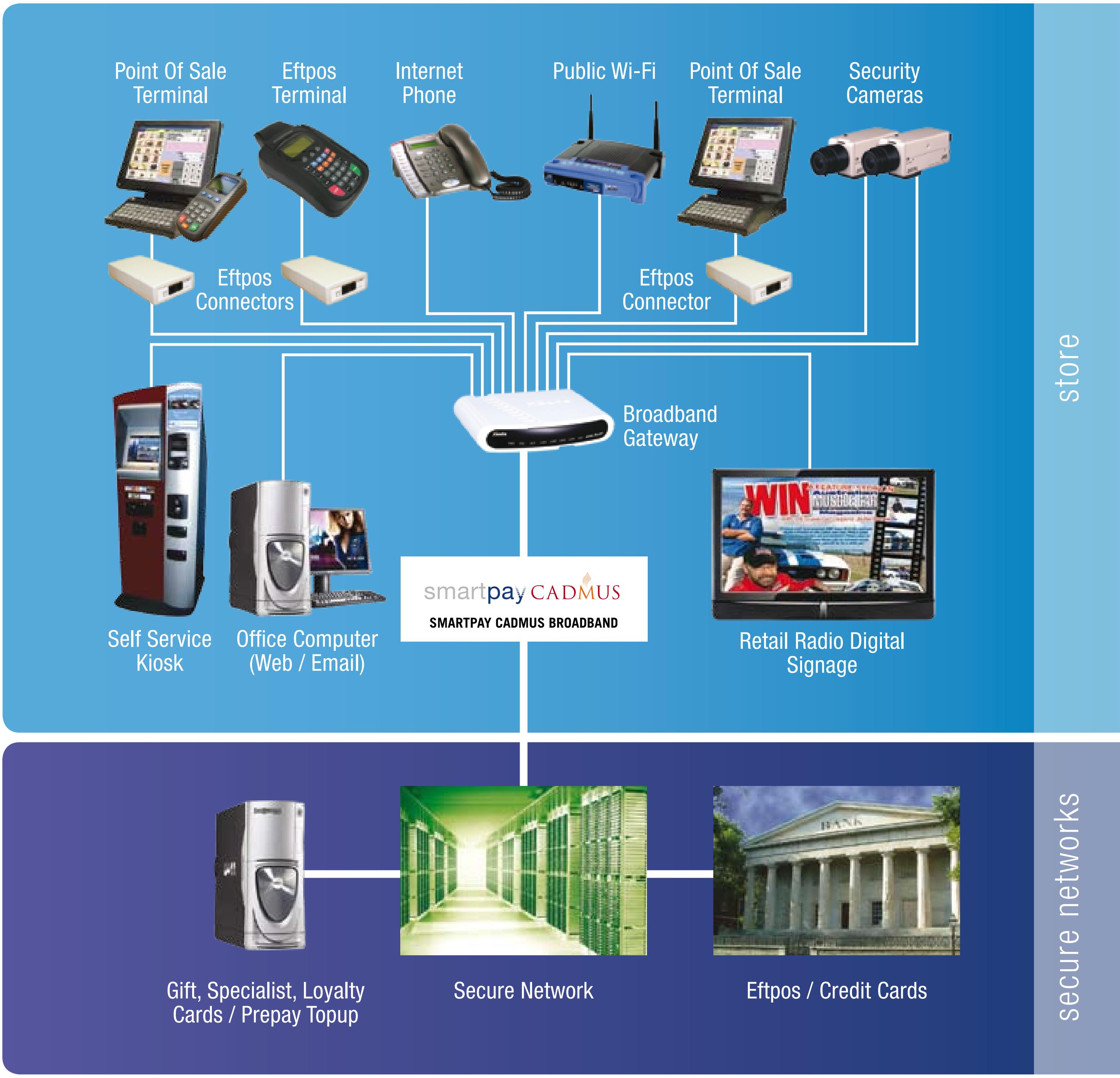
- Wi-Fi and GPRS
- VoIP telephony
- GPRS wireless terminals
- IP-PBX hardware

Marketing Media

- In-store radio
- In-store audio advertising
- In-store video
- Music licensing
- Managed services

merchant **infrastructure**

SmartPay provides services to its customer base with recurring and repeatable business streams – using broadband as a delivery mechanism



chairman's **report**

We began this financial year with a newly-confirmed strategy and direction, together with a desire to continue to build SmartPay. And we have done so in remarkable fashion.

In what can only be described as a watershed year in the short history of the Company, SmartPay has navigated its way through an unprecedented period of change and economic uncertainty. We have emerged a stronger and bigger organisation.

Through a combination of acquisitive and organic growth, SmartPay has consolidated its position as New Zealand's leading merchant services provider.

Your Company has ended this past financial year with improved earnings before interest, taxation, depreciation and amortisation (EBITDA) of $2.034 million and a market capitalisation of approximately $30 million, a far cry from 12 months ago.

"Our goal is to demonstrate the inherent value in our business and broaden our shareholder base."

Much of the credit for SmartPay's improved outlook is due to the hard work and focus of the management team and the directors who collectively and individually assisted the Company, providing input well above the level normally expected of directors and without any additional financial support.

The combined board and management team worked very closely, in many cases with almost daily contact, to identify the steps required to realise the Company's potential, and deliver on its strategy. There is, however, still much to be done to fully capitalise on SmartPay's promise.

In August SmartPay gained significantly more scale when it bought the payments division off competitor ProvencoCadmus. The acquisition included intellectual property, manufacturing capability, customer bases and an Australian payments business. This opportunistic purchase quadrupled the size of the business, and saw our share price achieve a record high.

Since then the team has been working hard to amalgamate the ProvencoCadmus payments business into SmartPay, integrate systems, and 'steady the ship'. Financial plans were developed to ensure that the new larger SmartPay could prosper and we spent some time evaluating the larger business before making the changes that were announced in May 2010. This, coupled with building SmartPay's value-added service offering and corporate sales as well as positioning the Company to expand further has been the focus of these past months.

Financial Result

This year SmartPay has become profitable at an operating level, due to significantly improved margins and sales growth, and in the process achieved the upper end of EBITDA guidance. Gross profit improved by 533% to reach $11.1 million, up from $1.7 million* for 2009. Net earnings, while a $2.6 million loss, improved by $2.1 million*. Importantly, this year's financial result includes just seven and a half months' trading from ProvencoCadmus payments.

Topline revenue increased by 16% to reach $39.4 million, up from $34.1 million* for the previous year.

A number of one-off costs associated with the ProvencoCadmus acquisition impacted SmartPay's cashflow, including increased costs to rebuild inventory and service stock, legal fees and consolidation consultancy costs. Net earnings were also impacted by high interest and financing costs related to the acquisition.

The challenge ahead is three-fold:

- To address SmartPay's capital structure and in the process access main bank funding;
- To ensure reliable sources of rental book funding;
- To meet or exceed EBITDA guidance for 2011, expected to fall between $7 million and $10 million.

Getting to the Next Level

We believe SmartPay has turned the corner, and is on track for long term sustainable profits. During the year, we sought the advice of external advisors Holland Corporate to review our forecasts, structure and operations, who confirmed that - based on our assumptions and materials provided - we are on track to meet EBITDA guidance for the coming year. Our goal is to demonstrate the inherent value in our business and broaden our shareholder base.

* As reported in the company's 2009 annual report. Following a change in accounting policy – see note 9 – the 2009 comparatives have been restated.

We are in the process of addressing our capital structure, and have recently completed a shareholder purchase plan, which raised $870 thousand. This allowed existing New Zealand based shareholders to increase their holdings at attractive prices, and should improve SmartPay's debt to equity ratio, reduce our interest burden and make our Company more attractive to investors and lenders. Work is also underway to establish secure lines of debt funding for our rental book, essential as we continue to grow.

With EFTPOS manufacturing becomingly increasingly commoditised, SmartPay recently announced a move to outsourced manufacturing, relying on local producer GPC and China-based PAX for its EFTPOS terminal and associated hardware requirements. This change will generate savings in overheads, release additional working capital, reduce overall inventory levels, and enable SmartPay to divert additional resources to software development where it has a competitive advantage. Regretfully, ceasing manufacturing will reduce staff numbers by around 25%, occurring gradually over a few months.

The Australasian market is the focus of SmartPay's business model. This model seeks to provide an ever-widening range of value-added services to merchants and in the process generate ongoing revenue streams and long term customer relationships.

Changes in the Board

In March, foundation independent director Murray Henshall resigned. SmartPay was well served by Murray as we restructured and reorganised to become more efficient, and during the many acquisitions that we have undertaken. SmartPay thanks Murray for his contribution, and wishes him well as he moves to other business ventures.

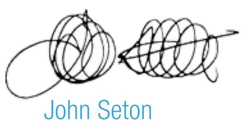
Auckland based lawyer, Greg Barclay joins the board. Greg has had a close involvement with both Cadmus and SmartPay over the last few years as a representative of major shareholders and investors in the Company. He brings expertise in commercial law including corporate structuring, and mergers and acquisitions. This specialised knowledge will benefit the Company as it seeks to expand further in its key markets of New Zealand and Australia.

SmartPay intends to expand the board by appointing a fifth director later in the year. The search to find a candidate with skills and experience complementary to the collective of the current directors will begin soon.

Looking Ahead

In summary, the past year has been one of capitalising on opportunity and of achievement. Now the task at hand is to fully realise the potential of the business, and make the Company profitable - not only at an operating (EBITDA) level, but also - on the "bottom line".

SmartPay is not a Company that rests on its laurels. The board and senior management team have worked tremendously hard over the past year and will continue to do so as we seek to develop the Company further. The board thanks SmartPay's management team and employees for their continued efforts.



John Seton
Chairman

> "SmartPay has navigated its way through an unprecedented period of growth and economic uncertainty, emerging stronger and bigger."

managing director's **report**

Last year we shared our plans to turn SmartPay into a significant Company with a clear focus and business strategy. Our goal was to return to profitability and become operationally cashflow positive. By March 2010, we demonstrated improved margins, operating profits and cashflows.

We achieved this by focusing on higher-margin business, reducing overheads, removing non-performing customers and developing new products. Whilst certainly opportunistic, the August 2009 acquisition of the ProvencoCadmus payments division aligned with our strategy and accelerated the Company to another level.

> "We are a young company growing quickly in a dynamic and competitive market."

With only 10 days to evaluate and purchase the business, the management team had to move quickly to identify areas of integration and opportunity. We immediately merged our accounting and operational systems, moved all staff into one location, and developed a plan to outsource manufacturing and further streamline the business.

In May 2010 we implemented our plan to derive value from the business and to find ways of adding more value to our customers. We announced a move away from direct manufacturing and confirmed PAX as a product supplier for our EFTPOS terminal requirements alongside domestic supplier GPC Electronics. We also announced the purchase of a transactional processing system called Postilion that provides a back room host system compliant with the latest payment card industry and bank security requirements. We have enhanced our customer offerings by adding a number of new services, including internet payments to our product mix.

As an integrated merchant services provider we are focused on the continuing development of value-added products and services, rather than manufacturing, an activity where SmartPay has no competitive advantage.

Aside from growth by acquisition, SmartPay continues to look for opportunities to develop its core business and customer base. The recent changes to New Zealand's banking requirements for EFTPOS terminals presents an immediate opportunity to replace up to 62,000 EFTPOS terminals with new products.

Strategy Pays Off

Our strategic direction is bearing fruit and this year's financial result proves we are on the right track. We aim to have long term relationships with our customers and SmartPay is achieving this goal by providing products and services that meet customers' needs based on a subscription agreement model. This approach produces recurring and renewable revenue streams. It means we have the ability to introduce new products and services to the merchant relationship thereby adding value to SmartPay and the merchant. By consolidating services with us, customers can reduce costs, increase revenue streams and margins, improve reporting and enhance shoppers' in-store experience. Providing our customers with the opportunity to run their businesses more efficiently, has in turn, considerably improved SmartPay's business. Our corporate sales team has won or renewed contracts with a number of nationwide retailers.

Key to the turnaround has been a marked improvement in margins. SmartPay can help its customers to do more with less, a message that has been welcomed during these challenging economic times. We took steps to move away from uneconomic and low margin business activity, and refocused on driving sustainable and ongoing revenue streams. Where possible we own the technology and the underlying intellectual property inherent in our products and services.

SmartPay's product offering now includes telecommunications, in-store radio, music and advertising, Wi-Fi, integrated merchant services, taxi payment services, internet payment services and EFTPOS terminals focused on the New Zealand and Australian markets. Our move away from the internationally focused "box-moving" strategy of ProvencoCadmus has been deliberate. We are choosing to devote more resources to research and development to create a unique range of software that will further differentiate SmartPay as the country's leading merchant services provider.

Momentum and Scale

The pace and scale of change has been unprecedented. By moving quickly to purchase ProvencoCadmus, we were able to transform our business, growing four-fold and gaining scale that would have taken many years to create. This also provided us with a platform in Australia where we are now one of the leaders in providing systems designed for the taxi industry.

In total we now have approximately 30,000 customers, a growing business in Australia, significant infrastructure and a clear plan in place.

Innovation

We are building our Company in a cohesive and strategic manner. Providing customers with everything from marketing media to telecommunications and payments, our reputation for innovative products and services that add value is thoroughly deserved.

A lot of work has gone into developing our ability to meet the latest banking and security standards and enhance our value-added services offering. Meeting these standards is of increasing importance with many larger merchants now deploying their own cards, gift vouchers and loyalty programmes, which contain value similar to cash.

Our added value services portfolio took a giant leap forward this year when we purchased a Postilion transactional switch. Compliant with international bank standards for card processing, it is a powerful resource that allows SmartPay to better support customers and offer new services as well as supporting our overall growth objectives.

SmartPay can now offer services that comply with payment card industry data security standards, and we are working on a range of new services to support our merchants as industry standards evolve even further.

Highlights for the Year

While there have been many achievements, improving margins and purchasing ProvencoCadmus have been the most important and transformative for our business. We have delivered triple digit margin growth over the past 12 months, and now have the critical mass and scale from which to build our business even further. Our corporate sales team has notched up many notable multi-million dollar contract wins with nationwide retail chains, including Mitre 10 and Paper Plus, and we are on the verge of announcing more.

SmartPay enhanced its tailored offering for the taxi industry by introducing mobile on-line payments. SmartPay's taxi service offering is used by almost every major taxi fleet in New Zealand and a growing number in Australia. The country's two largest taxi fleets, Auckland's Co-op and Wellington's Combined Taxis now use the latest Cadmus EFTPOS terminals and specialised software to provide enhanced security, online processing and improved back office reporting to operators.

> "Improving margins and purchasing ProvencoCadmus have been the most important and transformative for our business."

After gaining certification from the New Zealand Bankers' Association, we are now marketing the China-manufactured PAX range of EFTPOS terminals. This relationship allows SmartPay to lead the market in payment card industry compliance, and free up its in-house engineering team to focus on developing additional value-added services.

In Australia we have delivered over 10,000 terminals via our bank relationships and 4,500 with taxi operators. This provides a fantastic spring board for growth. Over the next three years nearly 600,000 terminals will have to be upgraded in order to comply with the latest security and processing standards, and SmartPay will be chasing hard to win as much of this business as possible in the market niches we operate.

Our products have recently gained certification from Westpac and SPS. We are finishing a project to upgrade the current Australia installed base to comply with the latest EMV industry requirements and are in the process of certifying the PAX range for use in three Australian banks. This platform will allow our Australian based team to launch many of the products that have been successful in the New Zealand market.

"We are choosing to devote more resources to research and development to create a unique range of software that will further differentiate SmartPay."

We have also been successful in providing a payment platform based on our "Syncro" product to the Victorian public transport system. This is used to load value onto the Myki public transport card and we continue to look for further opportunities to market this product in Australia.

Business Performance

Revenue improvement and better margin performance has enabled SmartPay to deliver on its EBITDA guidance for the year, and set an achievable target of $7 million - $10 million for EBITDA guidance for the coming year.

We are a young Company, growing quickly in a dynamic and competitive market. Revenue has improved by $5.3 million*, and margins by $9.3 million*. Consequently, operating profit (EBITDA), previously negative, has improved by $4.5 million* to reach $2.034 million. We have addressed the fundamentals in our business and this is reflected in our operating performance.

Unlocking the Value

The next task is to improve our capital structure and reduce SmartPay's external debt. Accessing funding from mainstream lenders will ease our interest burden and significantly improve profitability. The first step in achieving this next goal is to address our mix of debt and equity, and funds raised from the recently completed shareholder purchase plan will be used to repay debt. The debt market is still very tough and characterised by a lack of confidence. The fact that existing shareholders and new shareholders alike have provided additional capital suggests that there is confidence in SmartPay's business and direction.

Looking Ahead

We are working hard and pushing ahead on many fronts to improve our business. Purchasing ProvencoCadmus payments accelerated our progress and provides significant presence in the market. We have the right products and services for the times, and our one-stop-shop approach allows our customers to consolidate services and importantly to do more with less.

This year we have achieved our goals, but our task is far from over. Our target for next year is even more ambitious and we will be relentless in its pursuit.

Our achievements would not be possible without hard work from the dedicated team at SmartPay and I thank them all for their efforts to assist the Company in meeting its targets and delivering value to shareholders. The performance of all staff, in a tough and highly competitive market, needs to be recognised and applauded. Simply we could not have done this without their commitment and dedication to the Company.

Ian Bailey
Managing Director

* As reported in the company's 2009 annual report. Following a change in accounting policy – see note 9 – the 2009 comparatives have been restated.

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directors' **profiles**

The names and details of the Company's directors in office are as follows:

1. John Seton

Independent Director

John Seton is an Auckland based solicitor with extensive experience in commercial law and stock exchange listed companies. He is a director and former President of Olympus Pacific Minerals Inc (TSX/ASX:OYM), a director of Manhattan Corporation Limited (ASX:MHC), a former director and Chairman of Summit Resources Limited and has held directorships in several companies listed on the Australian and New Zealand Stock Exchanges. Mr Seton is also the former Chairman of the Vietnam/New Zealand Business Council and holds a number of private company directorships including Chairman of The Mud House Wine Group Limited, an unlisted public company.

2. Ian Bailey

Managing Director

Ian has been involved in the EFTPOS and IT industries for over 25 years. He has been Managing Director of a number of successful start-up companies in the EFTPOS and IT industries including five years as Managing Director of Provenco's Australian subsidiary until 1996, and subsequently founder of Cadmus Technology Limited from inception to listing, in New Zealand, until his departure in 2007. He is also a member of the Institute of Directors and owns management consultancy company Riverhorse Consultants Limited.

3. Greg Barclay

Director (appointed 1 April 2010)

Greg practices in general commercial law providing advice on mergers and acquisitions, corporate structuring and commercial property. He is a founding principal of Claymore Law, and has a law degree from the University of Canterbury and a postgraduate diploma in business from Auckland University. Greg brings experience as a present or past director of high profile New Zealand companies including Kim Crawford Wines, Pacific Forest Products Group and Hospitality New Zealand to the SmartPay board. As a representative of major shareholders and investors in the company, the board has determined that Greg is a non-independent director.

4. Wayne Johnson

Independent Director

Wayne has over 25 years' business and financial transaction experience gained in Australia, New Zealand, Asia and North America. He has founded and helped manage a range of businesses from start-ups through to public listings and has been responsible for a number of large business sales in the technology and telecommunications industries to multinational buyers. Wayne provides a wealth of experience in mergers and acquisitions, corporate advisory and general business development to the board.

Murray Henshall

Director (retired 31 March 2010)

Murray is a charted accountant by qualification and a specialist management consultant by occupation. In recent times he has co-ordinated development and investment in EFTPOS and payment solutions. Murray has had a long standing involvement as trustee of a charitable organisation operating in the mental health field.

corporate governance **statement**

The Board of SmartPay Ltd is committed to the guiding values of the Company as being Australasian focused, innovative, pursuit of excellence, leadership, integrity and honesty in its role of being a profitable provider of end-to-end payment solutions. It expects that management and staff subscribe to these values and use them as a guide in making decisions.

We pride ourselves on transparency and accountability in all our business dealings. As a listed company SmartPay strives to go beyond mere compliance and achieve best practice standards.

SmartPay has modelled its corporate governance on the New Zealand Exchange (NZX) Corporate Governance Best Practice Code and also has had regard to the Principles and Guidelines of Corporate Governance as recommended by the New Zealand Securities Commission. In addition, SmartPay is aware of the guidelines of the Institute of Chartered Accountants of New Zealand when it comes to best practice in terms of reporting requirements expected in terms of annual reports and other statutory documents.

Responsibility

The Board has ultimate responsibility to shareholders for the proper direction and control of the Company's activities. This includes strategic direction, capital expenditure, policy determination, and stewardship of the Company's assets, risk management, legal compliance and monitoring management performance. The Board guides and monitors the affairs of SmartPay on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board operates under a Board Charter which will be available on the Company's website.

Delegation

The Board has delegated day to day responsibility for the leadership and management of the Company to the Managing Director, who is required to do so in accordance with Board direction and within the guidelines agreed in the Annual Budget and Strategic Plan.

Board Composition and Focus

The Board currently comprises three non executive directors (including the chairman) and one executive director. The board recognises the importance of independent directors in ensuring an optimal balance between board members who are able to bring a wide range of business experience and skills and those with direct company knowledge and operational responsibility. It has two independent directors, one of whom is the chairman. Individual Board members work directly with management on major initiatives. The Board generally meets six to eight times a year (or more often as required) to review its operations and performance.

Committees

Board committees add to the effectiveness of the Board by being able to inject a more detailed analysis of key issues and help to bring a degree of efficiency to decision making. The Board has recently reviewed its committee structure and Board Charter and have approved the terms of reference for three committees. 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 committee's terms of reference require it to consist of three directors, at least two of whom must be independent. They review financial data and facilitate the annual audit. Its Board approved terms of reference will be available on the Company's website.
Its members are:

- Wayne Johnson (Chair of the committee)
- John Seton
- Greg Barclay

This committee replaces the previously constituted Finance and Audit Committee. This committee meets at least 4 times a year.

Members throughout the year were:

- Murray Henshall (resigned 31 March 2010)
- Wayne Johnson
- John Seton (appointed 1 April 2010)

Risk and Compliance Committee

This is a newly constituted committee, its terms of reference require it to consist of a minimum of two directors. Its role is to ensure controls are in place to minimise business risk and to require and monitor legislative and regulatory compliance and will meet at least 4 times a year. Its Board approved terms of reference will be available on the Company's website.

Members:

- Greg Barclay (Chair of the Committee)
- Wayne Johnson

Remuneration and Appointments Committee

The committee's terms of reference require it to consist of two non-executive directors of the Company. It is constituted to approve appointments and terms of remuneration for senior executives of the Company, review and agree terms of any bonus incentive or share option scheme. It meets at least once a year. The Managing Director submits recommendations to the committee for consideration. Its Board approved terms of reference will be available on the Company's website.

Members throughout the year were:

- John Seton (Chair of the Committee)
- Murray Henshall (resigned 31 March 2010)
- Greg Barclay (appointed 1 April 2010)

Director Board Meeting Attendance

Directors meeting attendance is monitored and, as required by the constitution, if a director misses more than three consecutive meetings without leave being granted by resolution of the board the position is vacated.

Insider Trading

All directors and management have endorsed the insider trading procedure as issued under the Securities Amendment Act 1988 which sets the criteria for dealing in securities by directors and employees.

Director re-election

Under the terms of the constitution, one third of directors (two) are required to retire by rotation at the annual meeting of the Company but may seek re-election at that meeting.

Recognising Risk

SmartPay takes a proactive approach to risk management and reviews major decisions and deals with a view to every potential risk that the Company may be exposed to as a result. The Board is responsible for ensuring that risks, and opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the board.

Risk mitigation strategies are updated on an ongoing commercial basis.




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 Limited and Group as at 31 March 2010 and the results of their operations and cash flows for the year ended 31 March 2010.

The Directors consider that the financial statements of the Company and the Group have been prepared using accounting policies appropriate to the Company and Group circumstances, consistently applied 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 Company and Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

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 Company and Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of SmartPay Limited for the year ended 31 March 2010.

This annual report is dated 30 June 2010 and is 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

John Seton
Chairman

Ian Bailey
Managing Director

audit report

Audit Report to the Shareholders of Smartpay Limited

We have audited the financial statements on pages 16 to 53. The financial statements provide information about the past financial performance of Smartpay Limited (the company) and its subsidiaries (together, the group) and the financial position of the company and group as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 20 to 29.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 31 March 2010 and of the results of their operations and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the circumstances of company and group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

An associated company, Hayes Knight (NZ) Limited, carried out tax consultancy services for the company and group. Hayes Knight Audit and its associates have no other relationships with, or interests in, Smartpay Limited or its subsidiaries.

Emphasis of Matter – Going Concern

Without qualifying our opinion, we draw your attention to note 3(c) on page 30, which explains that finance facilities will require repayment by the group before 31 March 2011. The group intends to seek new finance or renew existing facilities as well as raise additional funds through debt and equity in order to enable the group to continue their current operations. Whilst the directors are confident in the company's ability to obtain finance and or equity, the need to refinance creates a material uncertainty which may cast doubt about the group's ability to continue as a going concern.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 16 to 53
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the SmartPay Limited and group as at 31 March 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 30 June 2010 and our unqualified opinion is expressed as at that date.

Hayes Knight Audit

Hayes Knight Audit
Auckland, New Zealand

HAYES KNIGHT | AUDIT

statement of **comprehensive income**

for the year ended 31 March 2010

	NOTE	GROUP 2010 $000	GROUP RESTATED 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Continuing operations					
Revenue	6	39,388	35,462	-	558
Cost of sales		28,319	33,030		-
Gross Profit		11,069	2,432	-	558
Gain on sale of fixed assets		11	2	-	-
Other income		2	-	-	-
Expenditure					
Administration expenses		780	593	142	136
Communications		600	331	-	-
Consultancy services		34	765	-	154
Employee costs		6,310	1,742	327	-
Marketing expenses		214	62	9	7
Occupancy costs		427	155	15	-
Other costs		535	518	320	164
Travel and accommodation		148	37	2	2
	7	9,048	4,203	815	463
Earnings before interest, tax, depreciation and amortisation		2,034	(1,769)	(815)	95
Interest revenue		6	14	240	225
Depreciation and amortisation		(2,279)	(1,042)	-	-
Finance costs	7	(2,409)	(680)	(904)	(206)
Goodwill Impairment		-	(419)	-	-
Loss on investment		-	(70)	-	(70)
		(4,682)	(2,197)	(664)	(51)
Profit/(loss) before tax		(2,648)	(3,966)	(1,479)	44
Tax benefit/(expense)	8	2	1,094	141	(21)
Profit/(loss) for the period from continuing operations of owners		(2,646)	(2,872)	(1,338)	23
Other comprehensive income		-	-	-	-
Total comprehensive income of owners		(2,646)	(2,872)	(1,338)	23
Earning per share from continuing operations attributable to the equity holders of the Company during the year.	9				
Basic earnings/(loss) per share - cents		(0.36)	(0.50)		
Diluted earnings/(loss) per share - cents		(0.35)	(0.50)		

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 53 form part of the financial statements.

statement of **changes in equity**

for the year ended 31 March 2010

	GROUP			PARENT		
	SHARE CAPITAL $000	RETAINED DEFICITS $000	TOTAL $000	SHARE CAPITAL $000	RETAINED DEFICITS $000	TOTAL $000
Balance at 1 April 2008	10,308	(4,563)	5,745	23,168	(8,928)	14,240
Total comprehensive income of owners (restated)		(2,872)	(2,872)		23	23
Contributions from owners recognised directly in equity	3,871		3,871	3,872		3,872
Total changes in equity (restated)	3,871	(2,872)	999	3,872	23	3,895
Balance at 31 March 2009 (restated)	14,179	(7,435)	6,744	27,040	(8,905)	18,135
Total comprehensive income of owners		(2,646)	(2,646)		(1,338)	(1,338)
Share options recognised for value received	1,033		1,033	1,033		1,033
Contributions from owners recognised directly in equity	4,228		4,228	4,228		4,228
Total changes in equity	5,261	(2,646)	2,615	5,261	(1,338)	3,923
Balance at 31 March 2010	19,440	(10,081)	9,359	32,301	(10,243)	22,058

Reconciliation of Group Opening Retained Earnings and Total Equity

	RETAINED DEFICITS $000	TOTAL EQUITY $000
Balance 31 March 2009 as reported in 2009 annual report	(7,982)	6,197
Impact of change in accounting policy on 2009	547	547
Restated 31 March 2009	(7,435)	6,744

The change in accounting policy had no impact on the Parent company.

See note 2.z and note 9 for full details of the impact of the change in accounting policy.

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 53 form part of the financial statements.

statement of financial position

as at 31 March 2010

		GROUP		PARENT	
	NOTE	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Current assets					
Cash and bank balances	10	914	101	-	-
Trade and other receivables	11	7,659	2,050	487	29
Inventories	12	2,197	324	-	-
Group advances	28	-	-	9,938	6,336
Total current assets		10,770	2,475	10,425	6,365
Non-current assets					
Receivables	13	2,540	445	-	-
Investments in subsidiary companies	14	-	-	14,067	14,067
Property, plant and equipment	16	3,902	3,275	-	-
Computer software and development	17	9,164	2,591	-	-
Goodwill	18	5,350	5,350	-	-
Deferred tax	19	114	108	120	-
Total non-current assets		21,070	11,769	14,187	14,067
Total assets		31,840	14,244	24,612	20,432
Current liabilities					
Bank overdrafts	10	14	45	-	-
Trade payables and accruals	20	5,445	3,260	554	276
Provisions	21	2,755	-	-	-
Income tax payable	22	33	11	-	-
Borrowings	23	12,716	2,916	2,000	2,000
Total current liabilities		20,963	6,232	2,554	2,276
Non-current liabilities					
Borrowings	23	1,518	1,268	-	-
Deferred tax	19	-	-	-	21
Total non-current liabilities		1,518	1,268	-	21
Total liabilities		22,481	7,500	2,554	2,297
Net assets		9,359	6,744	22,058	18,135
Equity					
Share capital	24	19,440	14,179	32,301	27,040
Retained deficits		(10,081)	(7,435)	(10,243)	(8,905)
Total equity		9,359	6,744	22,058	18,135

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 53 form part of the financial statements.

statement of **cash flows**

for the year ended 31 March 2010

		GROUP		PARENT	
	NOTE	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Cash flows from operating activities					
Receipts from customers		33,512	34,497		
Interest received		6	14		
Payments to suppliers & employees		(35,944)	(36,117)		
Interest paid		(1,303)	(819)		
Income taxes paid		-	(118)		
Net cash inflow/(outflow) from operating activities	25	(3,729)	(2,543)	-	-
Cash flows from investing activities					
Proceeds from disposal of assets		11	9		
Purchase of property, plant & equipment		(232)	(1,441)		
Development of computer software		(1,056)	(569)		
Investment in subsidiaries	15	(6,261)	(52)		
Proceeds from sale of investments		-	45		
Cash acquired on purchase of subsidiaries	15	43	-		
Net cash inflow/(outflow) from investing activities		(7,495)	(2,008)	-	-
Cash flows from financing activities					
Proceeds from borrowings		11,459	279		
Repayments of borrowings		(3,619)	-		
Shares issued		4,228	3,713		
Share issue costs		-	(267)		
Net cash inflow/(outflow) from financing activities		12,068	3,725	-	-
Net increase/(decrease) in cash equivalents		844	(826)	-	-
Add opening cash equivalents		56	882		
Closing cash equivalents		900	56	-	-
Reconciliation of closing cash equivalents to the balance sheet:					
Cash and cash equivalents		914	101		
Bank overdraft		(14)	(45)		
Closing cash equivalents		900	56	-	-

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 53 form part of the financial statements.

notes to the **financial statements**

for the year ended 31 March 2010

1. General Information

SmartPay Limited (the "Parent") is a New Zealand company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Parent is an issuer in terms of the Financial Reporting Act 1993. 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 Limited comprise the Parent and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The Parent is a profit-oriented entity. SmartPay Limited is a leading provider of technology products and services to merchants and retailers in New Zealand.

In August 2009 SmartPay Limited purchased control of the payments business of ProvencoCadmus Limited in exchange for cash. This involved the acquisition of part of the assets of the ProvencoCadmus business in New Zealand and 100% of the shares of Cadmus Australia Pty Limited, Cadmus Payment Solutions Pty Limited, Product Rentals Pty Limited, Provenco Communications Technologies Pty Limited, Provenco Solutions Pty Limited and Provenco Technology Pty Limited.

2. Summary of Significant Accounting Policies

a. Statement of Compliance

The Parent is a reporting entity for the purposes of the Financial Reporting Act 1993 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 1993.

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

The financial statements were authorised for issue by the Directors on 30 June 2010.

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.

c. Functional and Presentation Currency

The financial statements are presented in New Zealand dollars ($), which is the Parent's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

d. Accounting Judgments 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 3 for a discussion of judgements in applying the accounting policies, and major sources of estimation uncertainty.

e. Adoption of New and Revised Standards and Interpretations

i) Standards and interpretations effective in the current period

No new standards adopted had a measurement impact on the Group. No new standards have been adopted early.

Standards with a disclosure impact:

- NZ IAS 1 Presentation of Financial Statements (revised 2007)
  This has introduced terminology changes (including revised

titles for the financial statements), and changes in the format and content of financial statements. It also requires the financial position for the earliest period to be shown where a new accounting policy is retrospectively adopted.

- NZ IFRS 8 Operating Segments
  This is a disclosure standard which adopts a 'management approach' where segment information is presented on the same basis as that used for internal reporting.

Other standards that have become operative in the current period have had little or no impact on the Group.

- NZ IFRS 2 Share based Payment: Vesting Conditions and Cancellations
- NZ IAS 23 Borrowing Costs (revised 2007)
- NZ IAS 27 Consolidated and Separate Financial Statements amendment
- NZ IAS 32 Financial Instruments: Presentation amendments
- Improvements to NZ IFRS 2008
- NZ Specific Omnibus Amendments 2008-01

ii) Standards on Issue not yet adopted

	Effective Date
NZ IFRS 3 Business Combinations (revised 2008)	1 July 2009
NZ IAS 27 Consolidated and Separate Financial Statements (revised 2008)	1 July 2009
NZ IAS 24 Related Party Disclosures (revised 2009)	1 January 2011
NZ IFRS 9 Financial Instruments	1 January 2013

There are also a number of minor changes amending various standards including the annual Improvement Standards that have various implementation dates that are applicable for accounting periods commencing after 1 July 2009 to 1 January 2011 including NZ IFRIC Interpretations.

The Directors anticipate the only standard expected to have an impact on future financial statements of the Group is NZ IFRS 3 which requires the cost of professional fees associated with future acquisitions to be expensed. The standards will have some disclosure requirements.

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

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 in the parent company's financial statements.

i) 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 plus any costs directly attributable to the business combination.

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.t 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.

notes to the **financial statements** (continued)

for the year ended 31 March 2010

2. Summary of Significant Accounting Policies (continued)

g. Foreign Currencies

i) Foreign Currency Transactions

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

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

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

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

ii) Foreign Operations

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

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

h. Comparatives

When the presentation or classification of items is changed, comparative amounts are reclassified unless the reclassification is impractical.

The Group has changed its accounting policy on the revenue recognition for rental agreements entered into with its customers. A summary of the financial impact is set out in note 9. The comparatives for 2009 have been adjusted where applicable. No rental transactions occurred prior to 1 April 2008 and therefore there is no impact on the reported Statement of Financial Position at 31 March 2008. Accordingly, no opening Statement of Financial Position as at 31 March 2008 is represented in these financial statements.

There have been no other presentation or classification changes in the current period.

i. 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.

The following specific recognition criteria must also be met before revenue is recognised:

i) Sale of Goods

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.

ii) Rendering of services

Revenue from installation and ongoing maintenance of hardware is recognised when the service is performed and the rewards can be measured reliably.

iii) Rental agreements

Rental agreements are entered into by the Group with its customers for EFTPOS machines where substantially all the risks and rewards are considered to have transferred to the customer. As a consequence the contracts are recognised as a sale of the machines and as a financing transaction. The income from the sale of the machine is recognised according to 2.i.(i) above and the financing 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.

For a small number of rental agreements, acquired through the acquisition of the payments business from ProvencoCadmus Limited, the income is recognised over the remaining term of the contract.

iv) Interest 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 interest 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.

v) Dividends

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

j. Share-based Payment Transactions

i) Equity settled transaction

The Group provides 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.

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 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 income statement 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 income statement 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.

k. Finance Costs

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

l. 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 Sheet date. Current tax assets and liabilities are the tax balances due from or owing to taxation authorities.

notes to the **financial statements** (continued)

for the year ended 31 March 2010

2. Summary of Significant Accounting Policies (continued)

ii) Deferred Tax

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax asset to be utilised. Unrecognised deferred income 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 income 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 sheet 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 deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to off-set 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 balance sheet.

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

m. 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.

n. Financial Assets

Financial assets classified at fair value through profit and loss are recognised at fair value. In the case of investments not at fair value through profit and loss, these are initially recorded at fair value plus directly attributable transaction costs.

Financial assets are classified into the following categories:

- held-to maturity investments
- available-for-sale financial assets
- loans and receivables

The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

i) 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.

Finance receivables are amounts due from customers who have taken out rental agreements at the time of taking possession of their machines. See note 2.i. (iii).

ii) Impairment of Financial Assets

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified.

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 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.

iii) 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.

o. Inventories

Inventories are valued at the lower of cost and net realisable value after due consideration for excess and obsolete items. Costs are assigned on the basis of standard costs which are reassessed periodically as the costs change.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

p. Property, Plant and Equipment

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

2. Summary of Significant Accounting Policies (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets and charged to profit or loss as follows:

- Terminal and 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.

iv) Disposal

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 profit or loss in the year the asset is de-recognised.

q. 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 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 profit or loss.

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

r. Intangibles

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

i) Computer 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 five 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

Other 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, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

iii) Research and Development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in statement of comprehensive income when incurred.

s. 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.

t. 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.

u. 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.

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.

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

v. 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.

2. Summary of Significant Accounting Policies (continued)

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 income statement 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 the balance sheet 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 finance costs.

i) 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 Parent, 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 Parent, 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

i) Fair Value Methodologies

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) 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.

z. Changes in Accounting Policies

There has been one change in accounting policy during the year. The Group has changed its policy in respect of the recognition of revenue for rental agreements entered into with its customers. This change was made to better reflect the timing of earnings from rental agreements. As a result income is recognised at the time the rental agreement is entered into as all the risks and rewards are transferred to the customer at that time as against the previous policy of spreading the income over the life of the agreement.

The comparatives for 2009 have been adjusted to reflect the impact of the change in accounting policy. As noted in note 2.h above the opening position at 1 April 2008 remains as reported at 31 March 2008.

The impact of the change in accounting policy is detailed in note 9.

3. Significant Accounting Judgments, Estimates and Assumptions

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, 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 judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

a. Significant Accounting Judgments

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 the rental agreements with customers for EFTPOS machines.

iii) Acquisition Accounting

The Directors considered the asset allocation of the acquisition price paid for the assets of the payments business of ProvencoCadmus. The allocation was based on a combination of external valuation and replacement cost of the assets acquired (primarily software) to determine the fair value of the assets. Any commitments were assessed and provided for where an obligation existed at the date of acquisition. The Directors did not know the vendor's book value of any of the New Zealand assets acquired.

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 18.

ii) Allowance for Impairment Loss on Trade 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. Trade receivables have been disclosed at the carrying value in note 11.

iii) Deferred tax asset

A small deferred tax benefit has been recognised historically and is considered appropriate based on the expected results for the next year. No tax losses have been recognised in the current year.

iv) Estimation of Useful Lives of Assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in notes 16 and 17.

v) Provisions

A number of provisions (see note 21) have been established where the Group has a present obligation requiring an outflow of resources. The Directors have assessed the likelihood and timing of the obligations maturing in the future and provided for those.

c. Going Concern

The financial statements have been prepared under the going concern assumption. The directors are of the opinion that the Group is a going concern on the basis of the expected renewal of existing finance facilities of $7,700,000 (as detailed in note 29) prior to their maturity over the next twelve months.

Post balance date the Group has successfully raised a further $1,270,000 of equity. Further negotiations are also underway with a number of potential investors and funders and encouraging indications have been received to date.

Whilst the directors are confident in the Group's ability to obtain finance and or equity, the need to refinance creates uncertainty as to the validity of the continued use of the going concern assumption.

If the Group were unable to refinance its existing facilities under similar terms, and pay debts as and when they become due and payable, adjustments would have to be made to reflect the situation that assets may need to be realised and liabilities extinguished, other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet.

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise loans, shareholder loans, overdrafts, and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and finance receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, and credit risk. The Board reviews and agrees policies for managing each of these risks as summarized below.

a. Market Risk

i) Foreign Currency Risk

The Group and Parent operations are predominantly in New Zealand and therefore the exposure to foreign exchange risk is minimal.

ii) Cash Flow and Fair Value Interest Rate Risk

As the Group and Parent have no significant financial assets subject to floating interest rates, the Group and Parent's income and operating cash flows are substantially independent of changes in market interest rates on interest bearing assets.

The Group and Parent's interest rate risk arises from its borrowings. The borrowings are largely short term fixed interest loans that will require refinancing within the next twelve months. There is a risk that the interest on the refinanced debt is higher or lower than the interest rates currently obtained (refer to note 29)

b. Credit Risk

In the normal course of business, the Group and Parent incur credit risk from trade receivables and transactions.

No collateral is required in respect of financial assets. Management have a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

There is no concentration of customers.

c. Liquidity Risk

The Group will be required to refinance $7,700,000 of its borrowing within the next twelve months. The Group is currently negotiating with various interested parties and has introduced a share purchase plan for its existing shareholders to raise further capital. The Group does not foresee any difficulties in refinancing its borrowings.

d. Fair Values

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

5. Segment Information

The Group has adopted NZ IFRS 8 Operating Segments with effect from 1 April 2009. Management has determined the operating segments of the business based on the information that is used for control and decision making purposes. 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, 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. There is no discrete management information by any segmentation of the business except some geographical reporting primarily for internal control purposes between New Zealand and Australia.

Management assesses the performance of the two geographical segments using a measure of profit before financing, depreciation and amortisation costs. This also excludes the effects of non recurring expenditure from the operating segments such as restructuring costs, legal expenses and impairment when the impairment is the result of an isolated non-recurring event.

GEOGRAPHICAL SEGMENTS	NEW ZEALAND		AUSTRALIA		TOTAL	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000	2010 $000	RESTATED 2009 $000
Sales - external	37,793	35,462	1,595	-	39,388	35,462
Sales - inter segment	485	-	-	-	485	-
Operating earnings (EBITDA)	2,030	(1,769)	4	-	2,034	(1,769)
Interest income	6	14	-	-	6	14
Finance costs	(2,408)	(680)	(1)	-	(2,409)	(680)
Profit / loss before tax	(2,635)	(3,966)	(13)	-	(2,648)	(3,966)
Computer software and development asset	9,164	2,591	-	-	9,164	2,591
Total assets	29,415	14,244	2,425	-	31,840	14,244
Total liabilities	(20,031)	(7,500)	(2,450)	-	(22,481)	(7,500)
Capital expenditure	1,288	2,010	-	-	1,288	2,010
Depreciation and amortisation expense	2,263	1,042	16	-	2,279	1,042

Revenue by product line is shown in note 6

notes to the **financial statements** (continued)

for the year ended 31 March 2010

6. Revenue

An analysis of the revenue for the year for continuing operations is as follows:

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Revenue from the sale of goods	10,289	970	-	558
Prepaid telephony & calling card income	22,100	31,017	-	-
Revenue from rendering services	3,832	3,149	-	-
Rental	2,384	294		
Finance	525	-		
Other revenue	258	32	-	-
	39,388	35,462	-	558
Intercompany interest received	-	-	240	225

7. Expenditure

The following items of expenditure are included in the Statement of Comprehensive Income:

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Finance Cost				
Interest on bank overdrafts and borrowings	1,019	605	365	206
Interest on other external borrowings	466	-		-
Interest on finance leases	5	5		-
Share option amortisation	539	-	539	-
Interest on shareholder loans	70	70		-
Finance transaction fees amortisation	310	-		-
	2,409	680	904	206
Other Costs				
Auditors fees:				
Audit fees to the principal auditor	130	44	18	-
Taxation services - consultancy - to the principal auditor	10	15		
Depreciation:				
Terminal and computer equipment	1,302	683		
Furniture, fixtures and office equipment	7	10		
Amortisation of software	970	349		
Bad debts	10	88		
Provision for impairment of receivables	93	137		
Directors fees	109	119	109	119
Foreign exchange losses	26	-		
Share based payments	98	130	-	45
Operating lease payments	196	91		

8. Taxation Expense / (Benefit)

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Income tax (benefit)/expense comprises:				
Current income tax	4	-	-	-
Deferred tax	(6)	(1,094)	(141)	21
Income tax (benefit)/expense	(2)	(1,094)	(141)	21
Reconciliation between charge for year and accounting profit				
Profit/(loss) before tax	(2,648)	(3,966)	(1,479)	44
Income tax at 30%	(794)	(1,189)	(444)	13
Add/(deduct) the tax effect of:				
Goodwill impairment	-	125	-	-
Non-deductible expenses	244	50	204	21
Prior year over/(under) accrual adjustments	-	(80)	-	(13)
Tax losses not recognised	548		99	
Income tax (benefit)/expense	(2)	(1,094)	(141)	21

The tax rate used in the above reconciliation is the corporate tax rate applicable at 31 March 2010 of 30% payable on taxable profits under New Zealand and Australian tax law.

9. Earnings per Share

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

	GROUP	
	2010 $000	2009 $000
Profit/(loss) for the period	(2,646)	(2,872)
Weighted average number of shares	729,008	570,161
Diluted weighted average number of shares	746,548	570,161
Basic earnings/(loss) per share - cents 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.	(0.36)	(0.50)
Diluted earnings/(loss) per share - cents 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.	(0.35)	(0.50)

notes to the **financial statements** (continued)

for the year ended 31 March 2010

Impact of Changes in Accounting Policies

Changes in the Group's accounting policies during the year are described in detail in note 2.z. To the extent that those changes have had an impact on results reported for 2010 and 2009, they have had an impact on the amounts reported for earnings per share.

The impact of the change in accounting policy has been to:

	GROUP	
	2010 $000	2009 $000
Statement of Comprehensive Income		
Increase revenue	4,522	1,336
Increased cost of sales	2,076	652
Increase EBITDA	2,446	684
Increase depreciation and amortisation	436	98
Reduce loss before tax	2,882	782
Reduce tax benefit	865	235
Reduce loss for the period	2,017	547

The total loss reported for the year ended 31 March 2009 was $3,419,000 which has been restated by $547,000 to $2,872,000 in the 2010 comparatives. If the accounting policy had not been changed the total loss reported for 2010 would have been $2,017,000 higher at $4,663,000.

Statement of Financial Position		
Increase in total finance receivable	4,522	1,336
Decrease in property, plant & equipment	(1,640)	(554)
Reduce deferred tax asset	865	235
Reduce retained deficit	2,017	547

Using the old policy of accounting for rental agreements the table below shows the basic and diluted earnings per share:

	BASIC EARNINGS PER SHARE		DILUTED EARNINGS PER SHARE	
	2010 Cents per Share	2009 Cents per Share	2010 Cents per Share	2009 Cents per Share
Earnings per share	(0.64)	(0.60)	(0.62)	(0.60)

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		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Cash at bank and in hand	914	101	-	-
Bank overdraft - secured	(14)	(45)	-	-
Total cash and bank balances	900	56	-	-

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		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Accounts receivable	1,889	894	-	-
Finance receivable	5,247	891	-	-
Less impairment provision on receivables	(257)	(164)	-	-
Prepayments	743	174	411	3
GST	-	156	76	26
Other receivables	37	99	-	-
	7,659	2,050	487	29

The Group does not hold any collateral in respect of the balances above. In respect of the finance receivables the Group manages its receivables in line with its approved credit control procedure.

Trade receivables are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired.

notes to the financial statements (continued)

for the year ended 31 March 2010

12.Inventories

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Raw materials at cost	691	25	-	-
Finished goods at cost	1,548	299		
Less provision for impairment	(42)	-	-	-
	2,197	324	-	-

Suppliers of some inventory items maintain a claim of ownership until the goods are paid for.

13.Non Current Receivables

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Total finance receivables	7,787	1,336	-	-
less current portion of finance receivables	(5,247)	(891)	-	-
Non current finance receivables	2,540	445	-	-

An allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. At year end there is no provision for impairment on Finance Receivables. Finance receivables are generally recoverable evenly over a 3 to 4 year period and are initially recorded at their discounted value using a market discount rate for similar activities (currently 17%).

14.Investments

The cost of investments in subsidiaries owned by the parent company are:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Subsidiaries				
SmartPay New Zealand Limited	-	-	6,000	6,000
Software International Limited	-	-	480	480
Card Processing Services Limited	-	-	2,086	2,086
Retail Radio Limited	-	-	1,850	1,850
Merchant IP Services Limited	-	-	1,755	1,755
FIVO Limited	-	-	1,880	1,880
MIPS Financial Services Limited	-	-	16	16
SmartPay Cadmus Limited	-	-	-	-
	-	-	14,067	14,067

- **SmartPay Cadmus Limited**

  was established in August 2009 with a nominal capital to acquire the New Zealand payments business of ProvencoCadmus Limited and some of its Australian entities.

- **Merchant IP Services Limited ("MIPS")**

  was acquired on 31 March 2008. In December 2008 settlement of the earn-out provision was agreed with the issuance of 10,000,000 shares with a fair value of $100,000.

- **FIVO Limited**

  was acquired on 31 March 2008. In December 2008 settlement of the earn-out provision was agreed with the issuance of 10,000,000 shares with a fair value of $100,000 and 12 cash payments of $18,250 per month.

- **Inventis Limited**

  is listed on the Australian Stock Exchange. The shares were sold during the year ended 31 March 2009 incurring a loss of $70,000

The consolidated financial statements include the financial statements of SmartPay Limited and the subsidiaries listed in the following table.

	EQUITY INTEREST		PLACE OF INCORPORATION	ACTIVITIES
	2010	2009		
Subsidiaries				
SmartPay Cadmus Limited	100%	-	NZ	Product and services
SmartPay New Zealand Limited	100%	100%	NZ	Product and services
Software International Limited	100%	100%	NZ	Software ownership
Retail Radio Limited	100%	100%	NZ	Non-trading
Merchant IP Services Limited	100%	100%	NZ	Non-trading
FIVO Limited	100%	100%	NZ	Non-trading
Sampro Limited	100%	100%	NZ	Non-trading
NetPay Limited	100%	100%	NZ	Non-trading
MIPS Financial Services Limited	100%	100%	NZ	Rental of equipment
Fonefill Limited	100%	-	NZ	Non-trading
Next Generation Networks Limited	100%	-	NZ	Non-trading
SmartPay Transaction Delivery Services Limited	100%	-	NZ	Financing
SmartPay Technologies Limited	100%	100%	NZ	Non-trading
Cadmus Australia Pty Limited	100%	-	Aust	Product and services
Merchant IP Financial Services Pty Limited	100%	-	Aust	Rental
Cadmus Payment Solutions Pty Limited	100%	-	Aust	Product and services
SmartPay Ethos Limited	100%	-	NZ	Software ownership
Product Rentals Pty Limited	100%	-	Aust	Rental of equipment
Provenco Solutions Pty Limited	100%	-	Aust	Non-trading
Provenco Technology Pty Limited	100%	-	Aust	Non-trading
Provenco Communication Technologies Pty Limited	100%	-	Aust	Non-trading

notes to the **financial statements** (continued)

for the year ended 31 March 2010

15.Business Combinations

2010

On 19 August 2009 the New Zealand assets of ProvencoCadmus Limited's payments division were acquired by SmartPay Cadmus Limited together with 100% of the shares in the Australian legal entities associated with this business, in exchange for cash. The shares were acquired in Cadmus Australia Pty Limited, Cadmus Payment Solutions Pty Limited, Product Rentals Pty Limited, Provenco Communications Technologies Pty Limited, Provenco Solutions Pty Limited and Provenco Technology Pty Limited. The Directors did not know the book values of the assets acquired in ProvencoCadmus Limited.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

FAIR VALUE ON ACQUISITION	TOTAL
	$'000
Net assets acquired	
Cash and cash equivalents	43
Receivables	243
Inventory	2,098
Property, plant and equipment	251
Intangible assets	4,815
Trade and other payables	(300)
Provisions	(1,000)
	6,150

PURCHASE CONSIDERATION	TOTAL
	$'000
Cash paid	5,889
Direct costs relating to the acquisition	261
	6,150
Fair value of net identifiable assets	6,150
Goodwill	-

The acquisition was financed by debt proceeds of $4,295,000 and part of the proceeds of a cash issue of shares of $1,705,000.

NET CASH IMPACT OF ACQUISITION	TOTAL
	$'000
Purchase consideration settled in cash	
19 August 2009	3,000
17 November 2009	3,000
Direct costs relating to the acquisition	261
Total cash costs per cash flow statement	6,261
Less cash balances acquired	(43)
Net cash impact of acquisition	6,218

The cash paid of $6,000,000 has been discounted to $5,889,000 to take into account the deferred settlement of the second tranche paid on 17 November 2009.

2009

FAIR VALUE ON ACQUISITION	FIVO	MIPS	MIPS FINANCIAL SERVICES	TOTAL
	$000	$000	$000	$000
Property, plant and equipment			164	164
Goodwill	319	100	43	462
Trade and other receivables			94	94
Trade and other payables			(155)	(155)
Advance			(34)	(34)
Borrowings			(96)	(96)
Net assets acquired	319	100	16	435
Purchase consideration settled in:				
Cash	36	-	16	52
Deferred cash - accrual	183	-	-	183
Shares	100	100	-	200
	319	100	16	435

notes to the **financial statements** (continued)

for the year ended 31 March 2010

16.Property, Plant and Equipment

	FURNITURE, FIXTURES AND OFFICE EQUIPMENT AT COST		TERMINALS & COMPUTER EQUIPMENT AT COST		TOTAL	
	2010 $000	2009 $000	2010 $000	RESTATED 2009 $000	2010 $000	RESTATED 2009 $000
Opening carrying value	33	39	3,242	3,867	3,275	3,906
Additions	24	10	1,332	-	1,356	10
Disposals	-	(6)	(40)	(84)	(40)	(90)
Acquisitions	95	-	79	142	174	142
Depreciation	(67)	(10)	(796)	(683)	(863)	(693)
Closing carrying value	85	33	3,817	3,242	3,902	3,275
Reconciled to:						
Cost	175	56	6,261	4,552	6,436	4,608
Less accumulated depreciation	(90)	(23)	(2,444)	(1,310)	(2,534)	(1,333)
Closing carrying value	85	33	3,817	3,242	3,902	3,275

Numeria Leasing Limited (until repaid in 2010), Auckland Finance Limited and FE Securities Limited have first specific security over a number of terminals with respect to their respective loan agreements.

The directors have considered impairment, as outlined in note 18. The testing concluded no impairment had occurred.

17.Computer Software and Development

Computer software and development costs are intangible assets.

	COMPUTER SOFTWARE AND DEVELOPMENT		MERCHANT ACQUISITION		TOTAL	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Opening carrying value	2,500	2,209	91	139	2,591	2,348
Additions	1,215	569			1,215	569
Acquisitions	6,815	22			6,815	22
Amortisation	(1,409)	(300)	(48)	(48)	(1,457)	(348)
Closing carrying value	9,121	2,500	43	91	9,164	2,591
Reconciled to:						
Cost	11,245	3,213	240	240	11,485	3,453
Less accumulated amortisation and impairment	(2,124)	(713)	(197)	(149)	(2,321)	(862)
Closing carrying value	9,121	2,500	43	91	9,164	2,591

The directors have considered impairment, as outlined in note 18. The testing concluded no impairment had occurred.

a. Significant Computer Software and Development

i) Ethos Software

The Group purchased the Ethos software for $2,000,000 during the year. The carrying amount at 31 March 2010 was $1,864,000 (2009: $nil). The software is installed in all terminals manufactured in New Zealand. It will be fully written off in 8 years.

ii) ARMS

The ARMS software was originally purchased but has been subsequently developed further by the Group from its own resources, to manage and account for the prepaid and topup revenues. It has a carrying value of $1,500,000 and a remaining life of 7 years.

iii) Other Internally Developed Software

Other internally developed software to operate and manage the Cadmus Terminals has a carrying value of $4,800,000 and has a remaining life of up to 3 years.

notes to the **financial statements** (continued)

for the year ended 31 March 2010

18.Goodwill

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Opening value net of accumulated impairment	5,350	5,307	-	-
Business acquisitions	-	43	-	-
Additional earn-out purchase payment	-	419	-	-
Impairment	-	(419)	-	-
	5,350	5,350	-	-
Reconciled to:				
Cost	5,769	5,769	-	-
Less accumulated impairment	(419)	(419)	-	-
	5,350	5,350	-	-

At 31 March 2010 the directors tested the goodwill for impairment. The impairment testing was performed over the New Zealand business on the basis that there is only one cash generating unit consistent with the business segmentation. 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. See below.

During 2009 goodwill arose on a further payment for Merchant IP Services Limited and FIVO Limited as settlement of the earn-out provisions in the respective purchase and sale agreements. An impairment of $419,000 occurred during 2009 as a result of the change in the discount rate and the forecast financial performance.

a. Impairment

The value in use methodology uses an internal discounted cash flow model using cash flows for the next five years plus a terminal value. The discount rate applied was 13.2% on the unleveraged post-tax nominal cash flows including capital expenditure. With the purchase of the ProvencoCadmus assets changing the scale of the SmartPay business the forecasts have used carefully assessed growth rates for the next two years taken from forecasts prepared by an external consultant and endorsed by the Directors. For the succeeding three years the growth rates as assessed by management from past experience and industry knowledge have been used. These split income between low margin Prepaid Top Up Card revenue and Technology Services. Set out below are the growth assumptions factored into the cash flow models. Costs have used similar assumptions and factor in a change in sourcing hardware.

		2011	2012	2013	2014	2015
Prepaid Top Up Revenue		-17%	+6%	+2%	+2%	+2%
Technology Services	- Inflation	+2%	+2%	+2%	+2%	+2%
	- Growth	-	+7%	+5%	+5%	+5%

The -17% in Prepaid Top Up Revenue results from an internal assessment of this business to cull non performing customers.

A terminal value using the 2015 stable state (ie no growth above 2% inflation) cash flow has been included.

Based on the above assumptions, the valuation supports the value of the intangible assets and goodwill of the Group.

Any adverse changes in actual performance of the products and services for the year ended 31 March 2011, or future rates of growth, costs or the estimated terminal value will reduce the calculated recoverable amount and may result in recognition of impairment in the carrying values of assets in future years.

b. Sensitivities

The following table shows the effect on the recoverable amount of the New Zealand business (in $millions).The most material assumptions used in the calculation of the value in use are the 13.2% discount rate and the sales growth of 7% (2% inflation and 2013-2015 growth of 5%). For example if the discount rate is increased to 14.2% and sales growth reduced from 7% to 5% the value in use reduces by $1.7 million.

SALES GROWTH	DISCOUNT RATES IN $ MILLIONS						
	16.2%	15.2%	14.2%	13.2%	12.2%	11.2%	10.2%
10%	(1.1)	(0.3)	0.5	1.4	2.3	3.2	4.3
9%	(1.5)	(0.7)	0.1	0.9	1.8	2.8	3.8
8%	(1.9)	(1.2)	(0.4)	0.5	1.3	2.3	3.3
7%	(2.3)	(1.6)	(0.8)	-	0.9	1.8	2.8
6%	(2.8)	(2.0)	(1.3)	(0.5)	0.4	1.3	2.3
5%	(3.2)	(2.5)	(1.7)	(0.9)	(0.1)	0.8	1.8
4%	(3.6)	(2.9)	(2.2)	(1.4)	(0.5)	0.3	1.3
3%	(4.0)	(3.3)	(2.6)	(1.8)	(1.0)	(0.1)	0.8
2%	(4.5)	(3.8)	(3.1)	(2.3)	(1.5)	(0.6)	0.3
1%	(4.9)	(4.2)	(3.5)	(2.8)	(2.0)	(1.1)	(0.2)
0%	(5.3)	(4.7)	(4.0)	(3.2)	(2.4)	(1.6)	(0.7)

An adverse change of greater than $5,100,000 in the above sensitivity analysis will impair the recoverable amount of the goodwill.

notes to the financial statements (continued)

for the year ended 31 March 2010

19.Deferred Tax Asset/(Liability)

MOVEMENTS IN DEFERRED TAX	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of year	108	(986)	(21)	-
Charge/(credit) to profit and loss	6	1,094	141	(21)
	-	-		-
Balance at end of the year	**114**	**108**	**120**	**(21)**
Deferred tax balance comprises:				
Employee entitlements	97	38		-
Receivables impairment provision	77	49		-
Impairment provisions	278	55	120	(21)
License fee	514	577		-
Property plant and equipment	(786)	(865)		-
Computer software and development	(318)	(350)		-
Tax losses recognised	252	604		-
Total Deferred Tax Balance	**114**	**108**	**120**	**(21)**

a. Tax Losses

The Group has aggregated net taxable losses of $4,510,095 as at 31 March 2010 (31 March 2009: $2,815,000). Tax losses amounting to $737,000 (31 March 2009 $1,083,000) have been recognised in the balance sheet as deferred tax. It is expected that the tax losses will be utilised over the next two years, consistent with the assumptions and forecast used for impairment testing as outlined in note 18. Subject to IRD confirmation following the filing of the year end tax return and maintaining the required shareholder continuity, these losses are available to carry forward in aggregate from the individual companies within the Group.

20.Trade Payables and Accruals

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Trade payables	3,326	2,172	154	3
Other payables	-	266	-	-
GST	19	-	-	-
Accruals	1,000	632	268	194
Directors fees	132	79	132	79
Employee entitlements	968	111	-	-
	5,445	3,260	554	276

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

21.Provisions

Provisions totalling $2,755,000 relate to the Australian acquisition,and a maintenance provision and warranty claims provision on equipment in a subsidiary company.

	AUSTRALIAN COSTS		MAINTENANCE		WARRANTY		TOTAL	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Opening balance	-	-	-	-	-	-	-	-
Recognised on acquisition	2,289	-	1,222	-	50	-	3,561	-
Costs recognised against provision	(250)	-	(556)	-	-	-	(806)	-
	2,039	-	666	-	50	-	2,755	-

- A provision has been created against the finance receivable held by the Australian subsidiaries at the date of acquisition, effectively writing down the carrying value of the finance receivable in the Australian subsidiaries. Although it is anticipated that the receivables will be fully recovered the associated costs will diminish the value of the receivable. These costs will be evenly incurred over the remaining term of the receivables.
- A provision has been created in respect of the liabilities for maintenance on terminal equipment at the customer site for all customers acquired at the date of acquisition. It is anticipated that the costs will be incurred over the next twelve months.
- A provision for warranty cost in respect of faulty equipment supplied have been made in 2010. It is anticipated that the warranty costs will largely be covered by manufacturers warranty.

notes to the financial statements (continued)

for the year ended 31 March 2010

22.Income Tax Payable/(Asset)

TAX BALANCES IN CURRENT ASSETS AND LIABILITIES	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Balance at beginning of year - liability	**11**	**129**	**-**	**-**
Recognised on acquisition	31	-	-	-
Current year charge/(credit)	4	-	-	-
Payments and RWT credits	(13)	(118)	-	-
Balance at end of the year - liability	**33**	**11**	**-**	**-**

Imputation Credit Account Balances

Neither the Parent company nor any of the subsidiary companies have any imputation credit account movements or balances.

23.Borrowings

TAX BALANCES IN CURRENT ASSETS AND LIABILITIES	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Unsecured - at amortised cost				
Current	38	38	-	-
Non-current	-	-	-	-
	38	**38**	**-**	**-**
Secured - at amortised cost				
Current	12,678	2,878	2,000	2,000
Non-current	1,518	1,268	-	-
	14,196	**4,146**	**2,000**	**2,000**
Total Borrowings	**14,234**	**4,184**	**2,000**	**2,000**
Represented by:				
FBL Finance Limited	2,000	2,000	2,000	2,000
FE Investments Limited	3,681	529	-	-
TM Finance Limited	5,112	-	-	-
Cadmus Development Limited (in receivership)	1,680	-	-	-
Numeria Leasing Limited	-	84	-	-
Galileo Investments Trustee Limited	573	503	-	-
Auckland Finance Limited	1,060	918	-	-
Riverhorse Holdings Limited (unsecured)	38	38	-	-
Other borrowings	90	112	-	-
Total Borrowings excluding arrangement fees	14,234	4,184	2,000	2,000
The following arrangement fees have been deducted from the debt above.				
Arrangement fees	835	-	-	-
Amortisation of arrangement fees	(193)	-	-	-
	642	**-**	**-**	**-**

a. Summary of Borrowing Arrangements

FBL Finance Limited ("FBL") has provided a loan of $2 million to SmartPay Limited at an interest rate of 17.95%, with an expiry date of 30 September 2010. Security is by way of a guarantee and a first-ranking general security from each of the Company's subsidiaries excluding SmartPay Cadmus Limited.

The trustees of the KCW Trust ("KCW") hold an indirect beneficial interest in 50% of the issued shares in FBL, the shares being held through a bare trustee relationship. KCW is a shareholder in SmartPay Limited.

Auckland Finance Limited has provided a loan facility to MIPS Financial Services Limited. SmartPay Limited is the guarantor of the facility and is secured over terminal assets and related receivable balances. The interest rate is 14.95% and the expiry date of the facility is 30 September 2010 but with monthly reviews.

FE Investments Limited ("FEI") has provided funding based on a number of rental contracts at an interest rate of 16%. FEI have security over rental contracts. The repayment dates match the relevant rental contract income. The rental contracts have been assigned to FEI. The principal is repaid throughout the term of the rental contract and the final payment is 31 July 2013.

Numeria Leasing Limited ("Numeria") has provided funding to SmartPay New Zealand Limited which was secured over terminal assets and related receivable balances. This has been repaid in 2010.

Cadmus Developments Limited (in Receivership) completed a sale of Ethos Software to SmartPay Ethos Limited. The purchase price has been funded by the vendor and is interest free with security over the software licence. The principal is paid off by way of quarterly instalment based on Ethos installation undertaken by SmartPay.

TM Finance Limited has provided funding to SmartPay Cadmus Limited which is secured by way of a first ranking general security over all of the assets and undertakings of SmartPay Cadmus Limited. The interest rate varies depending on the drawdown (between 12% and 16%). The repayment dates are 17 August 2010 and 14 October 2010.

The loan from Galileo Investments Trustee Limited ("Galileo") was re-structured on 7 October 2008. The loan principal accrues interest at 15%. The loan and interest are only repayable on 30 September 2010 with the prior consent by FBL Finance Limited. The loan is subordinated to the FBL Finance Limited loan and there is security over the assets of Software International Limited. Galileo is a shareholder in SmartPay Limited. Murray Henshall who is a majority shareholder in Galileo was also a director of SmartPay Limited until 31 March 2010.

The Riverhorse Holdings Limited loan was acquired with the acquisition of MIPS Financial Services Limited and accrues interest at 20% per annum. Ian Bailey is a shareholder in Riverhorse Holdings Limited and SmartPay Limited. He is also the Managing Director of SmartPay Limited.

notes to the financial statements (continued)

for the year ended 31 March 2010

24.Share Capital

SHARE CAPITAL	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Opening balance	14,179	10,307	27,040	23,168
Share Issue - proceeds	2,584	3,713	2,584	3,713
Share Issue - costs	-	(267)	-	(267)
Options exercised	1,584	-	1,584	-
Acquisition of subsidiaries:				
Merchant IP Services	-	100	-	100
FIVO	-	100	-	100
Acquisition of businesses:				
Vigilant software & IP	-	75	-	75
Share based payments:				
Consultancy services	98	80	98	80
Share options	-	60	-	60
Employee remuneration	-	11	-	11
Value of share options issued to debt holders	995	-	995	-
Total shares issued during the year	5,261	3,872	5,261	3,872
Closing balance	19,440	14,179	32,301	27,040
Represented by:				
Issued shares	19,440	14,232	32,301	27,093
Treasury stock shares	-	(53)	-	(53)
	19,440	14,179	32,301	27,040

The share based payment of $98,000 for consultancy services was expensed in a subsidiary company but settled in a share allocation by the Parent.

NUMBER OF SHARES ON ISSUE	GROUP		PARENT	
	2010 000's	2009 000's	2010 000's	2009 000's
Opening balance	654,919	309,398	654,919	309,398
Shares issued	178,895	345,521	178,895	345,521
Closing balance	833,814	654,919	833,814	654,919

SHARE OPTIONS	GROUP		PARENT	
	2010 000's	2009 000's	2010 000's	2009 000's
Opening balance	-	-	-	-
Options issued	174,766	-	174,766	-
Options exercised	(79,238)	-	(79,238)	-
Closing balance	95,528	-	95,528	-

The share options convert into 1 share for each option granted. The exercise price of the converted options was $0.02 per share. The exercise price on the remaining options is $0.05 per share. The fair value attributed to the options issued during the year that were attributable to share based payments was $995,000 (2009: $nil)

a. 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 ProvencoCadmus assets this has been amended to reflect the significantly different scale of the Group. The assumptions used were:

	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of options issued (000's) as compensation for finance facilities	60,490	20,026	61,000
Risk-free interest rate	3%	3%	3%
Exercise price (per share)	2 cents	5 cents	5 cents
Share price at measurement date	1.5 cents	4.2 cents	4.4 cents
Volatility	183%	68%	68%
Life of options	5 months	12 months	8 months
Exercise on or before	19 Jan 2010	12 Nov 2010	14 Oct 2010
Dividend yield	-	-	-
Fair value	0.55cents	0.90cents	0.79cents

The options that were fair valued were issued as part of the consideration for the TM Finance Limited finance facility with the fair value part of the effective interest rate of the facility.

notes to the **financial statements** (continued)

for the year ended 31 March 2010

25.Operating Cash Flows Reconciliation

	GROUP		PARENT	
	2010 $000	RESTATED 2009 $000	2010 $000	2009 $000
Profit/(loss) for the period	(2,646)	(2,872)	(1,338)	23
Add/(deduct) non-cash items:				
Depreciation & amortisation	2,279	1,042	-	-
Loss on investment	-	70	-	70
Share based payments	637	76	539	45
Deferred tax	(6)	(1,094)	(141)	21
Impairment of goodwill	-	419	-	-
Add/(deduct) changes in working capital items:				
Trade and other receivables	(5,123)	371	(458)	(94)
Inventories	392	210	-	-
Payables and accruals	734	(765)	278	(65)
Provision for current tax	4	-	-	-
Group advances	-	-	1,120	-
Net cash inflow/(outflow) from operating activities	(3,729)	(2,543)	-	-

26.Commitments and Contingencies

OPERATING LEASE COMMITMENTS	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Within one year	240	62	-	-
After one year but not more than five years	25	-	-	-
After more than five years	-	-	-	-
	265	62	-	-

The Group leases a commercial property with office and warehouse premises situated in Wairau Road which has a right of renewal in January 2011 for a further 4 years and small office premises in Wellington.

The Group also leases various items of office machinery under cancellable operating lease agreements

Guarantees

The Group has provided bank guarantees in favour of Telecom and Vodafone to the value of $300,000 each.

27. Related Parties

Parent and Ultimate Controlling Party

The immediate parent and controlling party of the Group is SmartPay 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 are associated and key management personnel of the Group are also related parties.

a. Subsidiaries

Material transactions within the Group are loans and advances to and from Group companies and interest payments. Some of the inter company group loans are interest bearing, repayable on demand and disclosed as a current liability.

Refer to note 23 for details of guarantees provided by the Parent and subsidiary companies and cross guarantees between subsidiary companies. At balance date the amount owed by subsidiary companies was $9,938,000 (2009: $6,336,000) see note 28.

b. Other transactions with directors and key management or entities related to them

Claymore Law provided legal services to the SmartPay Group of companies on normal commercial terms amounting to $261,000 (2009: $171,000). John Seton and Greg Barclay are principals of Claymore Law Partnership and directors of SmartPay Limited (Greg Barclay was appointed 1 April 2010).

Ian Bailey is a director and shareholder of Riverhorse Holdings Limited and the managing director and shareholder of SmartPay Limited. A subsidiary of the Group entered into a loan agreement with Riverhorse Holdings Limited. The balance at 31 March 2010 was $38,000 (2009: $38,000).

Ian Bailey provided consulting services to the SmartPay Group of companies on normal commercial terms amounting to $296,000 (2009: $200,000). The Company entered into a consulting services agreement with Ian Bailey comprising $300,000 per annum cash component, and the issuance of 8 million of shares in 2010 depending on specific financial performance targets being achieved for the 2010 financial year however no shares were issued during the year ended 31 March 2010.

Murray Henshall is a director and shareholder of Galileo Investments Trustee Limited ("Galileo") and was a director (resigned in March 2010) and shareholder of SmartPay Limited. A subsidiary of the Group entered into a loan agreement with Galileo which at 31 March 2010 had a balance of $573,000 (2009: $503,000).

John Nimmo is a consultant to the Group and a shareholder of SmartPay Limited, provided consulting services to the Group on normal commercial terms amounting to $86,000. In addition he received 33,190,693 options during the year as part of an association with TM Finance Limited.

Eileen Somerville is a shareholder of SmartPay Limited and a director and shareholder of Cabochon Marketing Limited who provides consulting services to the Group on normal commercial terms amounting to $59,000 and entered into a loan agreement with a subsidiary company which at 31 March 2010 had a balance of $50,000.

Peter Wales is a former Commercial Manager and a shareholder of SmartPay Limited, provided consulting services to the Group on normal commercial terms amounting to $121,000 and share based payments of $22,000

Holland Corporation is a shareholder of SmartPay Limited and has provided consulting services to the Group on normal commercial terms amounting to $392,000. Peter Holland is a principal of Holland Corporation and a director and ultimate owner of TM Finance Limited. TM Finance Limited has provided debt funding to the Group. Refer to note 23.

Linc Burgess is the Chief Executive Officer of the Group, and is a director and shareholder of Manaia Management Limited which has provided consulting services to the Group on normal commercial terms amounting to $153,000.

Mark Bogle is a former Commercial Manager of SmartPay Limited and shareholder who provided consulting services to the Group on normal commercial terms amounting to $7,000 plus share based payments of $35,000.

c. Key management and director compensation.

Key management personnel comprises employees who are part of the Senior Management Team. Key management personnel compensation comprised short term benefits for the year ended 31 March 2010 of $449,000 (2009: $373,000). Directors fees were $109,000 (2009: $119,000).

28.Group Advances

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Amounts owing by subsidiaries:				
SmartPay New Zealand Limited	-	-	5,556	5,633
Software International Limited	-	-	703	703
SmartPay Cadmus Limited	-	-	3,667	-
Cadmus Payment Solutions Pty Limited	-	-	12	-
Total group advances	**-**	**-**	**9,938**	**6,336**

29.Financial Instruments

CATEGORIES OF FINANCIAL INSTRUMENTS	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Financial assets				
Cash and bank balances	914	101	-	-
Trade and other receivables	10,199	2,495	487	29
Group advances	-	-	9,938	6,336
Investments in subsidiary companies	-	-	14,067	14,067
	11,113	**2,596**	**24,492**	**20,432**
Financial liabilities				
Bank overdrafts	14	45	-	-
Financial liabilities at amortised cost	19,679	7,444	2,554	2,276
	19,693	**7,489**	**2,554**	**2,276**

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

a. Foreign Currency Exchange Risk Management

The Group has an exposure to the Australian dollar through its ownership of Australian subsidiaries. The exposure is minimal as the Group's operations are predominantly carried out in New Zealand.

The Group does not hedge these exposures.

b. Credit Risk

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

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Maximum exposure to credit risk at balance date is:				
Bank balances (net of overdrafts)	900	56	-	-
Trade and other receivables	10,199	2,495	487	29

No collateral is required in respect of financial assets. The Group manages its financial receivables in line with its approved credit control procedures. There are no significant concentrations of credit risk for the parent or group. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

c. Interest Rate Risk

At 31 March 2010 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) would have been $131,000 lower or $130,000 higher.

d. Liquidity Risk

The Group's debt is split between interest only (Group A) and debt where the principal is repaid over the term of the debt (Group B)

Group A debt will require refinancing within the next twelve months. Group B debt will be repaid over the next twelve months and beyond from funds received from Finance Receivables.

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

	TOTAL	WITHIN 12 MONTHS	WITHIN 1 TO 2 YEARS	WITHIN 2 TO 5 YEARS
FBL Finance Limited	2,000	2,000		
TM Finance Limited	5,112	5,112		
Galileo Investments Trustee Limited	573	573		
Total Group A Debt	7,685	7,685	-	-
Auckland Finance Limited	1,060	1,060		
FE Investments Limited	3,681	2,704	434	543
Cadmus Developments Limited (in receivership)	1,680	1,139	541	
Riverhorse Holdings Limited (unsecured)	38	38		
Other borrowings	90	90		
Total Group B Debt	6,549	5,031	975	543
Total Debt	14,234	12,716	975	543
Expected Interest	1,356	1,200	69	87

30.Subsequent Events

Subsequent to 31 March 2010, the Government has announced a reduction in the company tax rate from 30% to 28% effective for years beginning on or after 1 April 2011. The financial effects of this change has not yet been quantified.

On 29th April 2010 11,991,845 ordinary shares were issued. These were issued at $0.033356 per security, being a 15% discount on the volume weighted average price for the 5 days preceding the date of issue for a total issue price of $400,000. The shares were issued for cash and the total number of shares in existence after the issue was 845,805,951.

The Group has introduced a share purchase plan for existing shareholders whereby shares could be purchased at a discount to the share price on a specified date. The maximum value of shares that can be acquired by an individual shareholder is $15,000. The offer having closed realised $870,000.

statutory information

Directors and Former Directors

At 31 March 2010 the directors holding office were John Seton, Ian Bailey, Murray Henshall and Wayne Johnson. Following the balance date Murray Henshall resigned as a director of the Company (resignation date 31 March 2010) and Greg Barclay was appointed as a director of the Company (appointment date 1 April 2010).

At the annual meeting of shareholders held on 29 July 2009 John Seton and Ian Bailey stood for re-election and were re-elected by the shareholders as Directors of the Company.

Independent Directors

In accordance with the requirements of the Listing Rules the Board has determined that John Seton and Wayne Johnson are Independent Directors.

Subsidiary Company Directorships

At 31 March 2010, subsidiary companies had directors as follows:

New Zealand Subsidiary Companies	Director
MIPS Financial Services Limited	John Seton, Ian Bailey , Wayne Johnson[6]
SmartPay Cadmus Limited	John Seton[1], Ian Bailey[1], Murray Henshall[1, 3]
SmartPay Ethos Limited	John Seton[1], Ian Bailey[1], Murray Henshall[1, 3]
SmartPay Transaction Delivery Services Limited	John Seton[2], Ian Bailey[2], Murray Henshall[4, 3], Wayne Johnson[4]
Software International Limited	John Seton, Ian Bailey, Murray Henshall[5, 3]
Fonefill Limited	John Seton, Ian Bailey
SmartPay New Zealand Limited	John Seton, Ian Bailey
Sampro Limited	John Seton, Ian Bailey
Merchant IP Services Limited	John Seton, Ian Bailey
Next Generation Network Limited	John Seton, Ian Bailey
SmartPay Technologies Limited	John Seton, Ian Bailey
Retail Radio Limited	John Seton, Ian Bailey
FIVO Limited	John Seton, Ian Bailey
Net Pay Limited	John Seton, Ian Bailey

Australian Subsidiary Companies	Director
Merchant IP Financial Services Pty Limited	John Seton[6], Ian Bailey[6], Murray Henshall[7, 5, 3],
Cadmus Payment Solutions Pty Limited	John Seton[1], Ian Bailey[1], Murray Henshall[7, 5, 3], Wayne Johnson[1]
Product Rentals Pty Limited	John Seton[1], Ian Bailey[1], Murray Henshall[7, 5, 3], Wayne Johnson[1]
Provenco Communication Technologies Pty Limited	John Seton[1], Ian Bailey[1], Murray Henshall[7, 5, 3], Wayne Johnson[1]
Cadmus Australia Pty Limited	John Seton[1], Ian Bailey[1], Murray Henshall[7, 5, 3], Wayne Johnson[1]
Provenco Solutions Pty Limited	John Seton[1], Ian Bailey[1], Murray Henshall[7, 5, 3], Wayne Johnson[1]
Provenco Technology Pty Limited	John Seton[1], Ian Bailey[1], Murray Henshall[7, 5, 3], Wayne Johnson[1]

Directors' Interests

The Directors have declared interests in the following entities:

Director	Interest	Entity
Murray Henshall (resigned 31 March 2010)	Director	Galileo Investments Trustee Limited
John Seton	Director	Olympus Pacific Minerals Inc (TSX/ASX:OYM)
	Chairman	Mud House Wine Group Limited
	Director	Manhattan Corporation Limited (ASX:MHC)
	Former Principal/ Independent Consultant	Claymore Law Partnership
	Director	Numerous private companies
Wayne Johnson	Chairman	Nobleman Ventures Pty Limited
	Director	Tasman Pacific Capital Pty Limited
	Director	Baroda Hill Investments Limited
	Director	Ibarra Investments Limited
	Director	Greater Bendigo Gold, Mining Limited (ASX)
	Chairman	Cape Range Limited (ASX)
Ian Bailey	Director	Riverhorse Trustee Limited
	Director	Riverhorse Holdings Limited
	Director	Riverhorse Consulting Limited
	Director	Riverhorse Limited
	Director	Riverhorse Investments Limited
Greg Barclay (appointed 1 April 2010)	Principal	Claymore Law Partnership
	Director	Numerous private companies

1 Appointed 17 August 2009
2 Appointed 20 May 2009
3 Resigned 31 March 2010
4 Appointed 25 May 2009
5 Appointed 29 September 2009
6 Appointed 25 September 2009
7 Alternate Director to Ian Bailey

statutory information (continued)

Information Used by Directors

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

Director and Officer Interests in Shares of the Company

Directors

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

Director	Name of shareholder	Nature of relevant interest	Number of shares acquired in period	Ordinary shares Balance at 31/03/2010
Ian Bailey	Riverhorse Trustee Limited	Owned beneficially	4,349,923	72,309,940
Murray Henshall	Murray Henshall and Victoria Jane Henshall and Cyril Warren McKenzie (Whakarua Account)	Trustee and beneficial interest	4,591,368	20,391,368
	Galileo Investments Ltd	Owned by associated parties	-	75,783,334
Wayne Johnson	Wayne Johnson	Owned beneficially	-	122,121
	Baroda Hills Investments Ltd	Owned by associated parties	-	4,987,493
John Seton	John Andrew Gowans Seton and Patrick James McHugh as trustees of the Ngatapa Trust ('the Ngatapa Trust")	Trustee, no beneficial interest in the trust	3,333,334	10,838,493
	Gregor John Barclay and Frederika Elfriede Crawford as trustees of the KCW Trust ('the KCW Trust")	Potential beneficiary under a discretionary trust	3,333,334	11,756,667

In addition Greg Barclay made an initial disclosure on his appointment as director of the Company on 1st April 2010 as follows:

Name of shareholder	Nature of relevant interest	Ordinary shares Number at 01/04/2010
Gregor John Barclay and Frederika Elfriede Crawford as trustees of the KCW Trust ('the KCW Trust")	Trustee, no beneficial interest in the Trust	71,832,918
Gregor John Barclay and Maria Anne McElwee as trustees of the Abergeldie Trust ('the Abergeldie Trust")	Trustee, no beneficial interest in the Trust	11,756,667
John Andrew Gowans Seton and Patrick James McHugh as trustees of the Ngatapa Trust ('the Ngatapa Trust")	Potential beneficiary under a discretionary trust	10,838,493

Officers

Officers of the Company include anyone who reports directly to the Board or the Managing Director along with anyone who reports to them. All employees are required to follow the Company's policy and procedure on Share Trading when they trade in the shares of the Company. Officers held interests in the following shares as at the balance date:

Officer	Name of shareholder	Nature of relevant interest	Securities held Balance as at 31/03/2010
Andrew Barnard Sales Manager	Andrew Roy Barnard	Owned beneficially	1,459,719
Linc Burgess Chief Executive Officer	Manaia Management Limited	Owned by associated parties	13,533,333
	Lincoln John Burgess and Anne Marie Burgess (Burgess Family Account)	Trustee and beneficial interest	5,400,000
James Eliasen Dealer Manager	James David Eliasen	Owned Beneficially	1,367,044
John Evans GM Technology	John Haydn Evans	Owned Beneficially	600,000
Pat McCammon Corporate Sales	Patrick John McCammon	Owned Beneficially	200,000
	Patrick McCammon and North Harbour Trustee Company Limited	Owned Beneficially	22,956,840
Robert McCutcheon Operations Manager	Robert McCutcheon and Tamsin McCutcheon	Owned Beneficially	1,001,485
Lauren Midgley Management Accountant	Lauren Michelle Midgley	Owned Beneficially	622,599

Directors' Interests in Options of the Company

Directors held interests in the following options as at the balance date:

Director	Name of shareholder	Nature of interest	Number of shares acquired/(disposed)	Securities held Balance as at 31/03/2010
Murray Henshall (resigned 31 March 2010)	Murray Henshall and Victoria Jane Henshall and Cyril Warren McKenzie (Whakarua Account)	Trustee and beneficial interest	March 2010 Options 1,530,456 (1,530,456)	0
	Murray Henshall and Victoria Jane Henshall and Cyril Warren McKenzie (Whakarua Account)	Trustee and beneficial interest	November 2010 Options 3,333,333	3,333,333

statutory information (continued)

Listing

The ordinary shares of SmartPay Limited are listed on the securities exchange operated by the New Zealand Exchange Limited (NZX).

Investors Enquiries

Shareholders should address any queries regarding the operations of the Company to Mr John Seton, Chairman of the board at the Company's business address. Shareholders with administrative enquiries relating to their holdings should address these to Computershare Investor Services Limited, Private Bag 92119, Auckland,

Employee Remuneration

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

Remuneration ranges	Employees
$100,000 - $110,000	2
$110,000 - $120,000	2
$120,000 - $130,000	2
$150,000 - $160,000	1

Directors' Remuneration

The fees and remuneration have been entered into the interests register. The total remuneration and other benefits earned by each director during the year were:

Director	2009	2010
R Parkinson (resigned 20/08/2008)	17,000	Nil
Greg Barclay (appointed 1 April 2010)	n/a	n/a
Murray Henshall (resigned 31 March 2010)	32,000	32,000
Wayne Johnson	30,000	32,000
John Seton	40,000	45,000
Total	102,000	109,000

Ian Bailey as managing director received a remuneration package totaling $296,000 ($275,000 in 2009).

Shareholders have previously approved a maximum of $140,000 per annum for directors' fees.

Directors' Insurance

The Group has arranged policies of Directors and Officers Liability Insurance which is underwritten by Vero Liability Insurance Limited, which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors.

other disclosures

Directors' Indemnity

The Company has entered into a Deed of Indemnity whereby it has agreed to indemnify directors to the maximum extent permitted by the Companies Act 1993.

Subsidiary Company Changes

New Companies

During the year the following companies were incorporated as subsidiary companies:

Subsidiary	Incorporated
SmartPay Transaction Delivery Services Limited	25 May 2009
SmartPay Cadmus Limited	17 August 2009
SmartPay Ethos Limited	17 August 2009
Merchant IP Financial Services Pty Limited	25 Sept 2009

Audit Fee

Particulars of the audit fees paid during the year are set out on page 32.

Post Balance Date Events

Issue of Shares

On 29th April 11,991,845 ordinary shares were issued. These were issued at $0.033356 per security, being a 15% discount on the volume weighted average price for the 5 days preceding the date of issue for a total issue price of $400,000. The shares were issued for cash and the total number of shares in existence after the issue was 845,805,951.

Share Purchase Plan

On 28th May the board of directors of SmartPay Limited ("SmartPay") invited the Company's NZ resident shareholders to participate in the SmartPay Share Purchase Plan Offer ("the SPP"). The SPP provided Eligible Shareholders an opportunity to participate in a capital raising by SmartPay and enabled them to subscribe for up to NZ$15,000 of new fully paid ordinary shares in the capital of SmartPay, without paying brokerage. The SPP closed on 16 June 2010; 26,082,252 Ordinary shares were issued on 23 June 2010 bringing the total issued capital of the company to 871,888,203. Securities were issued at $0.033356 per Security for a total issue price of $870,000.

Summary of Waivers

NZX Regulation Decision - SPY Waiver 6.2.2(b) - 14 July 2009

The Company applied for and was granted a waiver from the requirements in Rule 6.2.2(b) to provide and Appraisal Report with the notice of meeting seeking retrospective approval of the issue of shares to River Horse.

NZX Regulation Decision - SPY Waiver 9.1.1 (b) - 21 August 2009

The Company applied for and was granted a waiver from the requirements in Rule 9.1.1 (b) to seek shareholder approval for the acquisition of ProvencoCadmus' payments business from the receivers.

shareholder and option holder **statistics**

as at 31 May 2010

Distribution of Shareholders

SIZE OF HOLDING	SHAREHOLDERS	%	NUMBER OF SHARES	%
1-4,999	187	18.78	411,911	0.05
5,000-9,999	74	7.43	490,548	0.06
10,000 – 49,999	276	27.71	6,361,197	0.75
50,000 – over	459	46.08	838,542,295	99.14
Total	996	100%	845,805,951	100%

Distribution of Option Holders

SIZE OF HOLDING	OPTION HOLDERS	%	NUMBER OF OPTIONS	%
100,000 – 499,999	11	34.37	2,551,498	2.67
500,000 – 999,999	5	15.63	3,959,226	4.14
1,000,000 – 9,999,999,999	16	50.00	89,017,094	93.19
Total	32	100%	95,527,818	100%

Registered Address of Shareholders

	HOLDER COUNT	COUNT %	HOLDING QUANTITY	QUANTITY %
New Zealand	949	95.29	830,632,004	98.29
Malaysia	7	0.70	10,914,709	1.29
Australia	35	3.51	2,031,268	0.24
Singapore	1	0.10	50,000	0.01
Switzerland	1	0.10	75,000	0.01
United Arab Emirates	1	0.10	2,000,000	0.24
United Kingdom	2	0.20	102,970	0.01
	996	100.00	845,805,951	100.00

Registered Address of Option Holders

	HOLDER COUNT	COUNT %	HOLDING QUANTITY	QUANTITY %
New Zealand	32	100%	95,527,818	100%

Substantial Security Holders

The following persons were substantial security holders (as defined in the Securities Markets Act 1988) in SmartPay Limited as at 31 May 2010 in respect of the number of voting securities set opposite their name:

	NUMBER OF VOTING SECURITIES	% OF CAPITAL
Southbury Group Limited	74,151,592	8.77
Galileo Investments Trustee limited	75,783,334	8.96
River Horse Trustee Limited	72,309,940	8.55
Gregor John Barclay and Frederika Elfriede Crawford (KCW Account)	71,832,918	8.49
Chapter 52 Trustee Limited	59,960,016	7.09
National Communications Corporation Ltd	44,611,050	5.27

The total number of issued voting securities of SmartPay at this date was 845,805,951.

Twenty Largest Registered Shareholders

NAME OF SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
Galileo Investments Trustee Limited	75,783,334	8.96
Southbury Group Limited	74,151,592	8.77
River Horse Trustee Limited	72,309,940	8.55
Gregor John Barclay and Frederika Elfriede Crawford (KCW Account)	71,832,918	8.49
Chapter 52 Trustee Limited	59,960,016	7.09
National Communications Corporation Ltd	44,611,050	5.27
Dave Wetherell and Trish Wetherell and Pravir Tesiram (Jewell Family Account)	28,487,983	3.37
John Albert Nimmo	25,652,280	3.03
Gregory Kevin Molloy and Claymore Trustees Limited (Cicero Account)	23,915,291	2.83
Patrick Mccammon and North Harbour Trustee Company Ltd	22,956,840	2.71
Walter Mick George Yovich	20,678,365	2.44
Murray Henshall and Victoria Jane Henshall and Cyril Warren Mckenzie (Whakarua Account)	20,391,368	2.41
Walker & Hall Fine Gifts Limited	18,433,450	2.18
Ross Purdy	16,106,820	1.90
Manaia Management Limited	13,533,333	1.60
Gregor John Barclay and Maria Anne Mcelwee (Abergeldie Account)	11,756,667	1.39
John Andrew Gowans Seton and Patrick James McHugh as trustees of the Ngatapa Trust ('the Ngatapa Trust")	10,838,493	1.28
Craw Limited (C W Account)	10,290,192	1.22
Babbelbek Finance Limited	8,250,066	0.98
VLT Investments Limited	7,992,896	0.95
Top 20 Holders	637,932,894	75.42

shareholder and option holder **statistics** (continued)

as at 31 May 2010

Twenty Largest Registered Option Holders

NAME OF OPTION HOLDER	NUMBER OF OPTIONS	% OF ISSUED OPTIONS
John Albert Nimmo	22,079,398	23.11
CW Finance Limited	18,000,000	18.84
Minvest Securities (New Zealand) Ltd	17,000,000	17.80
Anthony James Thorpe and Marilyn Ruth Thorpe and David Alistair Thorpe (AJ & MR Thorpe Investment Custodial Services Limited)	6,250,000	6.54
Investment Custodial Services Limited	5,553,290	5.81
Gregory Kevin Molloy and Claymore Trustees Limited (Finn MacCool Account)	5,000,000	5.23
Murray Henshall and Victoria Jane Henshall and Cyril Warren Henshall (Whakarua Account)	3,333,333	3.49
Nimmo Trustee Limited	3,300,000	3.45
Dave Wetherell and Trish Wetherell and Pravir Tesiram (Jewell Family Account)	2,639,485	2.76
Babbelbek Finance Limited	2,500,000	2.62
Hubbard Churcher Trust Management Limited	2,111,588	2.21
Craw Limited (CW Account)	1,250,000	1.31
Brian Harrison	879,828	0.92
Terence Roland Harrison and Grant Lindsay Curry (TR Harrison Family Account)	879,828	0.92
Terry Jew and David Wetherell (Jew Family Account)	879,828	0.92
Dagger Nominees Limited	791,845	0.83
United Asset Management Limited	527,897	0.55
John Alan Stuart Dow	439,914	0.46
Brian John Mills and Margaret Sylvia Mills	351,931	0.37
Jillian Elizabeth Ross	263,948	0.28
Joshua David Pengelly	263,948	0.28
Total	94,296,061	98.71

smartpay directory

Registered Office

SmartPay Limited
182-190 Wairau Road, Glenfield
PO Box 100 490, North Shore Mail Centre,
Auckland 0745, New Zealand

Telephone: +64-9 442 2700
Facsimile: +64-9 442 2722
Email: sales@smartpay.co.nz
Website: www.smartpay.co.nz

Australian Office

Level 2, 3 Carlingford Road
Epping, Sydney, NSW 2121

Board

John Seton – Chairman and Independent Director
Ian Bailey – Managing Director and Director
Wayne Johnson – Independent Director
Greg Barclay - Director

Management

Ian Bailey – Managing Director
Linc Burgess – Chief Executive Officer

Auditors

Hayes Knight Audit
470 Parnell Road, Parnell, Auckland

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142

Telephone: +64 9 488 8700
Email: enquires@computershare.co.nz

Solicitors

Claymore Law
Level 2, 63 Fort Street, Auckland

SMARTPAY LIMITED

www.smartpay.co.nz