smartpay 2012

smartpay holdings limited annual report

welcome

to SmartPay's annual report.

We design, develop and implement innovative payment solutions for customers in New Zealand and Australia. SmartPay aims to add value to its clients' businesses, providing a total payments solution. We know the products, the industry and the technology - inside and out.

Contents

about smartpay

SmartPay is a listed company on the New Zealand stock exchange (nzx:spy), and a leader in electronic commerce in Australasia with more than 31,000 users.

We are a one-stop-shop offering a variety of advanced payment and data management solutions for retail, business payment and transactional processing requirements.

our business

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

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

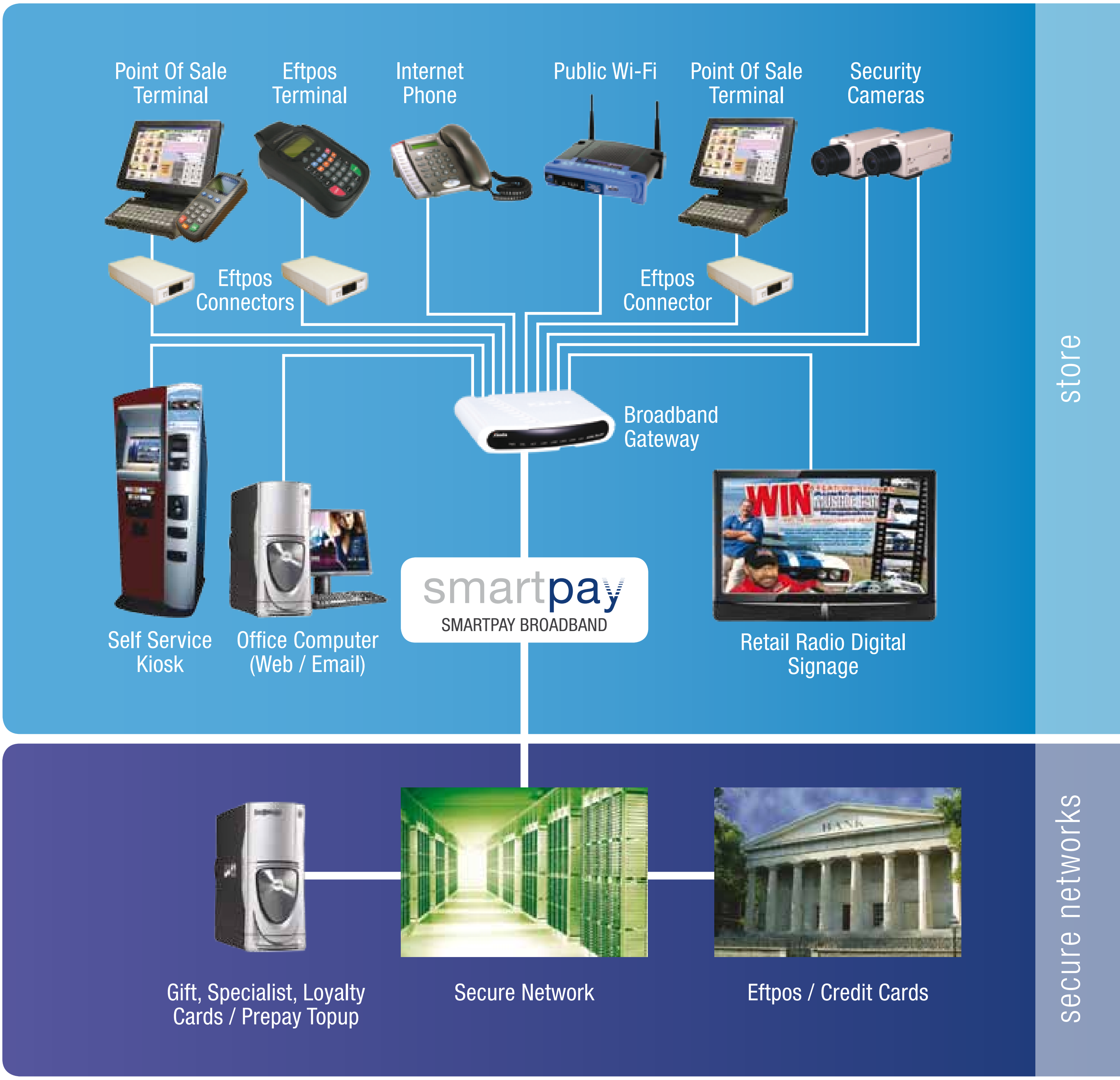
- Wi-Fi and GPRS
- VoIP telephony
- GPRS wireless terminals
- IP-PBX hardware

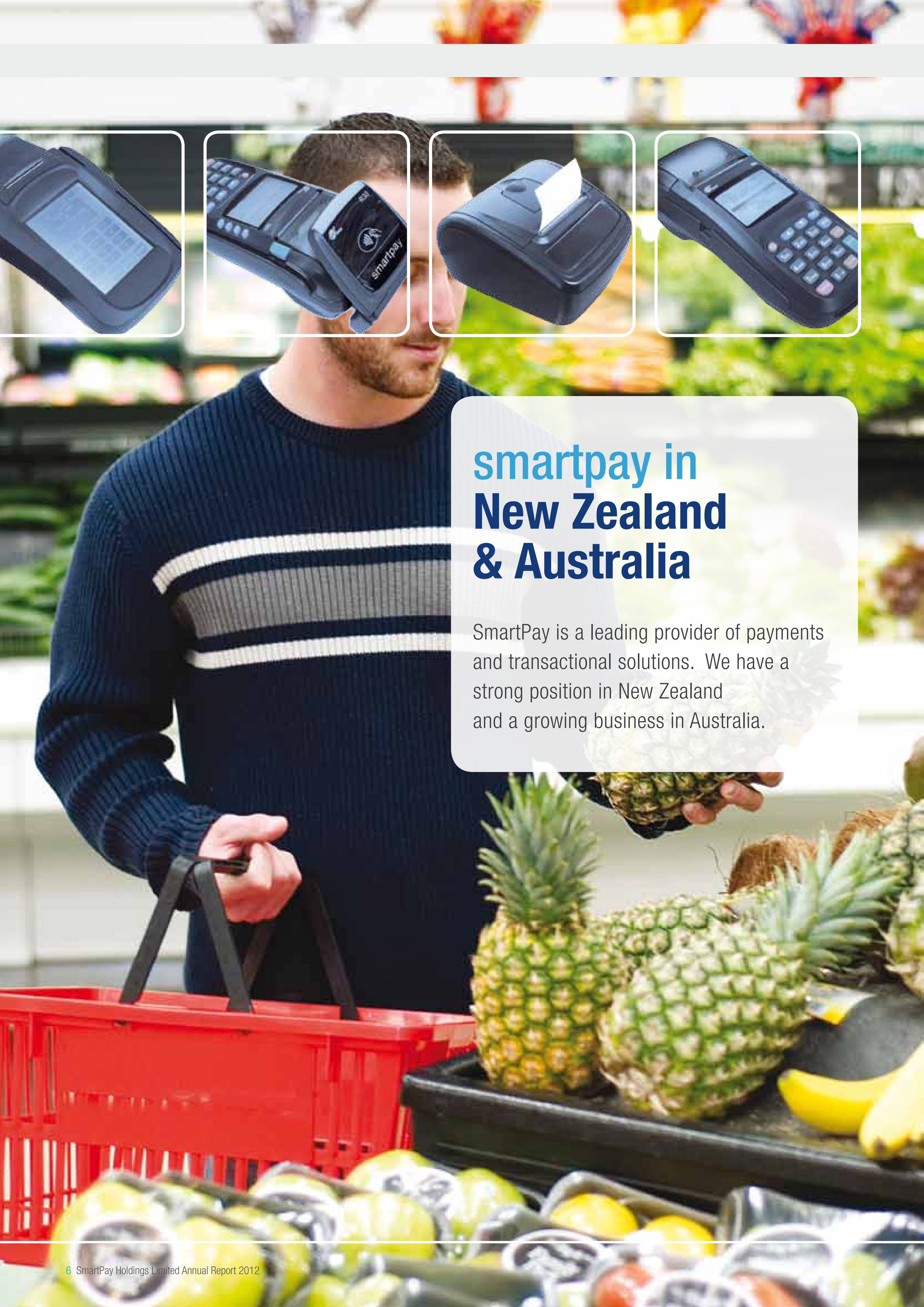
Marketing Media

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

merchant infrastructure

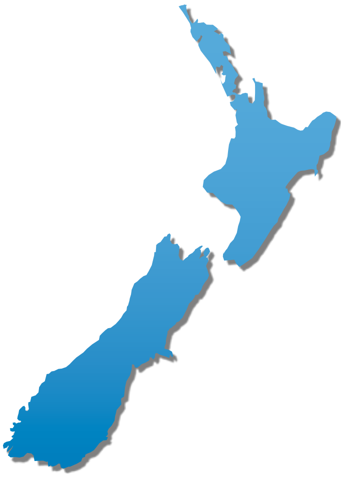
SmartPay provides services to its customer base earning recurring and repeatable revenue streams – using broadband as a delivery mechanism.

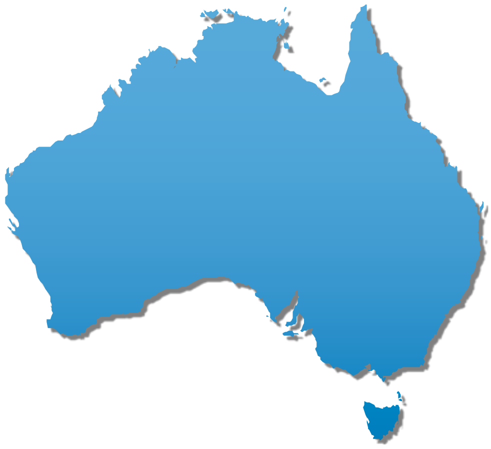




smartpay in **New Zealand & Australia**

SmartPay is a leading provider of payments and transactional solutions. We have a strong position in New Zealand and a growing business in Australia.





new zealand

- More than 20,000 users
- one of New Zealand's leading providers of technology services for merchants and retailers
- Electronic commerce leader providing payment products, Wi-Fi services, internet banking products, in-store marketing media products and telephony services
- Strong relationships with taxi companies
- Large share of the corporate market
- In house team that can develop applications to operate on EFTPOS networks
- Marketing the PAX range of EFTPOS products at the forefront of compliance and security standards
- Listed on the NZX.

australia

- Approximately 6 years' experience in the market
- Growing customer base
- 7,000 terminals installed in taxi fleets
- Terminals installed with a major regional bank
- Pursuing an ASX listing

chief executive officer's **report**

When I joined SmartPay in January of this year I saw a significant opportunity to build on the solid operational foundation already in place to grow a substantial cross-Tasman payments business.

At the same time recognising that the business faced some immediate challenges which needed to be addressed before it would be able to properly capitalise on these opportunities, the most pressing of which were its business model and funding structure. The financial result reported here is reflective of these challenges and in particular the impacts of the following main components:

1. A maturing of the growth in the New Zealand terminal market following the completion of an industry wide terminal upgrade cycle which saw strong growth in the business in the prior period.
2. Under the current business model we recognise the majority of revenue from rental contracts at the time of signing the contracts. While the business model generated significant revenue and profits in the previous periods where the market was characterised by strong growth through the large volume of terminals deployed to meet the industry upgrade program, once this was completed the growth slowed dramatically making it difficult to continue to generate the level of new contracts necessary to maintain the previous level of revenue.
3. Slower than expected growth into the Australian market, largely due to funding constraints.
4. The significant restructure of the business which included significant write-downs of balance sheet items to ensure that the business goes forward into the new business model, after the capital raising, with a strong balance sheet.

The total value of these adjustments amounts to $6.1m of which:

- $3.1m is reflected as a reduction in EBITDA including:
  - write downs / write offs of stock ($1.5m);
  - write downs / write offs of a number of other items including capital raising fees; legal and consulting fees; employee restructuring costs ($1.6m in aggregate);
- $3m is reflected as costs below EBITDA including:
  - write downs / write offs of software ($1.4m)
  - write down in the value of our FIVO Wifi assets ($0.5m);
  - write off of finance charges capitalised under the previous model.

Importantly these adjustments are predominately non-cash in nature.

It is worth noting that the consolidated result masks the positive progress we have achieved in our Australian business over the period with Australian revenue up 105% to $6.3m.

This is pleasing progress particularly given the challenging financial constraints of the company over the period.

Restructure and Recapitalisation Substantially Complete

What I identified when I joined SmartPay was a business with an enviable position in the New Zealand and Australian payments industry and which through its significant deployed terminal fleet should be generating a significant level of cash flow and profit. However this wasn't the case due to a combination of the structure of the balance sheet and the revenue recognition policy which left the company exposed with limited financial resources to grow outside the maturing New Zealand market.

The opportunity I saw was to restructure the business through a combination of a balance sheet restructure / recapitalisation and a change in the business model to retain the monthly contracted cash flows from terminal rentals within the business.

I am pleased that in a relatively short period of time we have achieved what we set out to do. We have secured over NZ$13m of new equity and NZ$20m debt commitments to facilitate the complete recapitalisation and restructure of the business. We have also secured a further NZ$5m in banking facilities to support our immediate growth opportunities.

The funds raised under the equity placement and new debt facilities form the final piece of a recapitalisation plan that will see a complete restructure of the balance sheet including the repayment of high priced securitisation and mezzanine debt. We also intend to redeem / convert the company's convertible notes. On this basis the only debt on the balance sheet post the recapitalisation will be the new banking facilities which are at a very competitive interest rate.

The effect of this recapitalisation will be to significantly reduce the company's cost of capital and de-risk the business by maintaining the contracted monthly rental cash flows from the company's extensive EFTPOS terminal fleet within the business. This will result in a move away from the previous model of lumpy, unpredictable cash flow to an annuity style recurring cash flow model.

The high cost of capital of the previous funding model meant that a significant amount of the value generated by the business was going to our debt financiers with very little remaining for shareholders. We are now able to move to a model of maintaining the contracted rental cash flows within the business which results in smoother, sustainable, annuity style cash flow and sets the foundation for profitable growth and real shareholder value.

Consistent with this change in the nature of our business we will also be reviewing our accounting policy to determine if we can recognise our rental revenue when received which will move the company to a stronger position with sustainable revenue and cashflow.

This signals a significant and immediate turn-around of our business which will unlock immediate value for shareholders and position the business for the tremendous growth opportunity we have ahead of us, particularly in Australia which is a market I have direct experience in and is our key focus for growth.

In addition to the recapitalisation of the business, we have made a number of other significant changes to our business which strengthen it and position it for growth, including:

- board changes, including the proposed appointment of a new Australian based industry focused Chairman; and
- senior management changes including the appointment of a new Chief Operating Officer.

Summary and Outlook

It cannot be over emphasised that this is a 'good news' story. The financial result reported here was simply a necessary conclusion to the previous model to enable the positive re-launch of the business to capitalise on a growing market opportunity. This is supported by our ability to complete the significant capital raising at a premium to the immediately preceding trading levels.

As a significant participant in the New Zealand payments industry and with a growing profile into Australia, SmartPay is now better placed than ever to capitalise on an increasing opportunity set.

This is a complete re-launch of the business off a very solid operational foundation. We will go forward with a new senior management team, a new Chairman, new board members, a number of new and supportive shareholders and a restructured balance sheet.

> "It cannot be over emphasised that this is a 'good news' story."

With all these positive changes in place the business is now correctly structured and well resourced for growth.

Of course this is only the first step in a much broader strategy to create value for all shareholders. The next step is to add scale to extract the benefits of the operational leverage inherent in the existing platform.

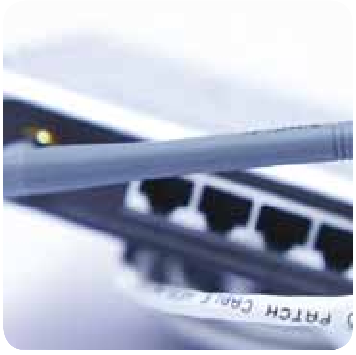
In terms of the broader strategy, the opportunity into Australia is real and sizable. This is expected to include strong organic growth which will in all likelihood be accelerated through strategic acquisitions aimed at fast tracking our capability, resources and scale into this market which has the potential to significantly exceed our current New Zealand business in terms of scale over time.

The focus in New Zealand is to continue to build on our strong market position with a particular focus on extracting incremental value from our extensive existing merchant base.

Our business has an enviable reputation for technology innovation, a function of our existing IP base and our internal technology development capability. This is a core differentiator and will form the basis for the delivery of additional revenue generating products to our existing and growing merchant base.

Bradley Gerdis
Chief Executive Officer



directors' **report**

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of SmartPay Holdings Limited (the Parent) and the Parent and its subsidiaries (the Group) as at 31 March 2012 and the results of their operations and cash flows for the year ended 31 March 2012.

The Directors consider that the financial statements of the Parent and the Group have been prepared using accounting policies appropriate to the Parent 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 Parent 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 controls 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 Parent and Group and to prevent and detect fraud and other irregularities.

The Directors note that there has been no material change in the nature of the business undertaken by the Parent and Group in the past year.

The Directors are pleased to present the financial statements of the Parent and the Group for the year ended 31 March 2012.

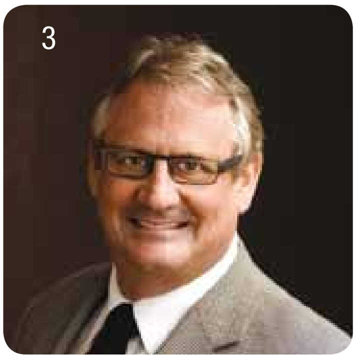
Further information required by the Companies Act 1993 is set out under the Statutory Information on page 55.

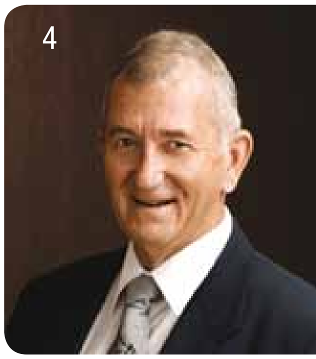
This annual report is dated 29 June 2012 and is signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Directors,

Wayne Johnson
Chairman

Greg Barclay
Chairman





directors' **profiles**

1 Wayne Johnson

Chairman and 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 managed 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 experience in mergers and acquisitions, corporate advisory and general business development to the board. Wayne manages Nobleman Ventures, his own boutique corporate advisory firm, and an ASX broker in Australia where he holds the position of Deputy Executive Chairman.

2 Greg Barclay

Non-Independent Director

Greg joined the board of Smartpay in April 2010. He is an Auckland lawyer and is a founding partner in commercial law firm Claymore Partners which was formed fifteen years ago.

He is a past or present director of a number of New Zealand companies. Currently he is chairman of the Pacific Forest Products Group (New Zealand's largest log export and marketing company) and chairs leading sport and event management company, Experience Group Limited. He is also a director of Rugby Sales Limited (which played a lead role in the travel and hospitality programme at RWC 2011).

Greg has been a director of Northern Districts Cricket since 2007 and was appointed chairman last year. He is also a member of the New Zealand Institute of Directors.

3 Ian Bailey

Resigned as a director with effect from 30th May 2012

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.

4 John Nimmo

Independent Director

John has had over 20 years' experience as Chief Executive of manufacturing, marketing, exporting and distribution businesses with turnovers of up to $100 million. In conjunction with Ian Bailey, John was a founder of Cadmus Technology Ltd (CTL) listing it on the NZX in November 2000. He served as Commercial Director until his retirement in December 2007, prior to the merger with Provenco.

In July and August 2009 he assisted SmartPay with the purchase of the payments division of ProvencoCadmus and provided consultancy services to SmartPay until his appointment to the board in December 2010. He continues to provide independent advice to a wide range of businesses and entrepreneurs.

John is a Fellow of The Chartered Institute of Secretaries and has an MBA (with distinction) from Massey University.

corporate governance **statement**

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 New Zealand Institute of Chartered Accountants 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 is available on the Company's website.

Delegation

The Board 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 the Board Charter, Board direction and within the guidelines agreed in the Annual Budget and Strategic Plan.

Board Composition and Focus

The Board normally 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 once a month 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 regularly reviews it's 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 are available on the Company's website.

Members:

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

Risk and Compliance Committee

The committee's terms of reference require it to consist of a minimum of two directors. It's 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. It's Board approved terms of reference are available on the Company's website.

Members:

- Greg Barclay (Chairman 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. It's Board approved terms of reference are available on the Company's website.

Members:

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

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.

	27/4/11	24/5/11	21/6/11	30/6/11	26/7/11	24/8/11	22/9/11	2/11/11	23/12/11	9/2/12	14/3/12
Wayne Johnson	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ian Bailey	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Apologies
Greg Barclay	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
John Nimmo	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Apologies	Yes	Yes	Yes

Insider Trading

The Board has approved an Insider Trading Policy and Procedure in line with 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. At the annual meeting of shareholders held on 30th September 2011 Ian Bailey and John Nimmo stood for re-election and were re-elected by the shareholders as Directors of the Company, subsequently Ian Bailey resigned with effect from 30 May 2012.

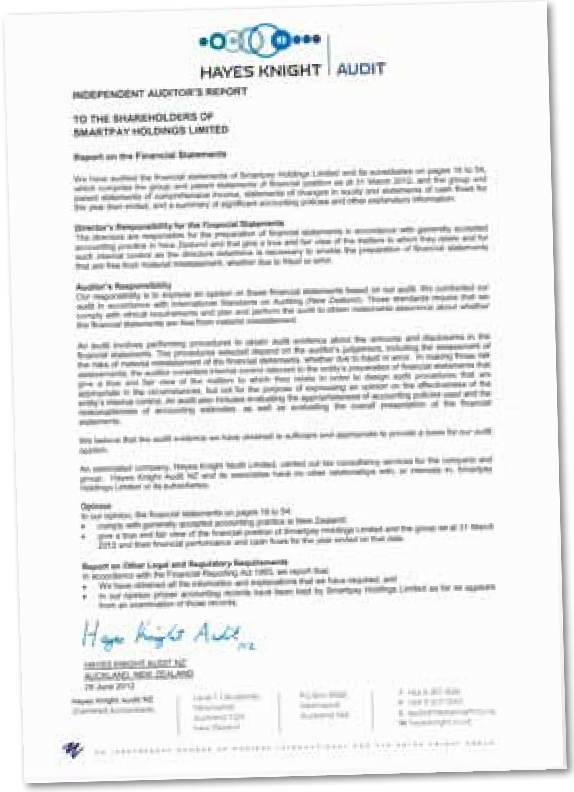
Recognising Risk

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.

audit report

Independent Auditor's Report to the Shareholders of SmartPay Limited


HAYES KNIGHT | AUDIT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SMARTPAY HOLDINGS LIMITED

Report on the Financial Statements

We have audited the financial statements of Smartpay Holdings Limited and its subsidiaries on pages 16 to 54, which comprise the group and parent statements of financial position as at 31 March 2012, and the group and parent statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director's Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements on pages 16 to 54:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of Smartpay Holdings Limited and the group as at 31 March 2012 and their financial performance and cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required; and
- In our opinion proper accounting records have been kept by Smartpay Holdings Limited as far as appears from an examination of those records.

Hayes Knight Audit NZ

Hayes Knight Audit NZ
29 June 2012

HAYES KNIGHT | AUDIT

financial statements

statement of comprehensive income

for the year ended 31 March 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Continuing operations					
Revenue	6	28,946	47,339	-	-
Cost of sales	7	19,218	26,751	-	-
Gross Profit		9,728	20,588	-	-
Gain on sale of fixed assets		1	1	-	-
Other income		11	9	-	-
Expenditure					
Administration expenses		1,726	1,429	192	-
Communications		757	1,004	-	12
Consultancy services		330	260	205	198
Employee costs		7,168	8,969	730	279
Marketing expenses		72	263	-	-
Occupancy costs		813	739	-	-
Other costs		575	545	420	194
Travel and accommodation		253	234		-
	7	11,694	13,443	1,547	683
Earnings before interest expense, tax, depreciation and amortisation (EBITDA)		(1,954)	7,155	(1,547)	(683)
Depreciation and amortisation	7	(3,568)	(3,774)	-	-
Interest expense and related costs	7	(5,285)	(4,120)	844	108
Plant and equipment impairment	16	(500)	-	-	-
Software impairment	17	(1,419)	-	-	-
		(10,772)	(7,894)	844	108
Profit/(loss) before tax		(12,726)	(739)	(703)	(575)
Tax credit/(expense)	8	625	846	19	(46)
Profit/(loss) for the year from continuing operations of owners		(12,101)	107	(684)	(621)
Other comprehensive income					
Foreign currency translation differences for foreign operations	25	(12)	(22)	-	-
Total comprehensive income of owners		(12,113)	85	(684)	(621)
Earnings per share from continuing operations attributable to the equity holders of the company during the year.	9				
Basic earnings/(loss) per share - cents		(9.74) cents	0.11 cents		
Diluted earnings/(loss) per share - cents		(9.74) cents	0.11 cents		

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 54 form part of the financial statements.

statement of changes in equity

for the year ended 31 March 2012

	GROUP				PARENT		
	SHARE CAPITAL $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	RETAINED DEFICITS $000	TOTAL $000	SHARE CAPITAL $000	RETAINED DEFICITS $000	TOTAL $000
Balance at 31 March 2010	19,440	-	(10,081)	9,359	32,301	(10,243)	22,058
Total comprehensive income	-	(22)	107	85	-	(621)	(621)
Convertible notes issued - equity component	50	-	-	50	50	-	50
Share options recognised at fair value	259	-	-	259	259	-	259
Shares issued	7,682	-	-	7,682	7,682	-	7,682
Total changes in equity	7,991	(22)	107	8,076	7,991	(621)	7,370
Balance at 31 March 2011	27,431	(22)	(9,974)	17,435	40,292	(10,864)	29,428
Total comprehensive income	-	(12)	(12,101)	(12,113)	-	(684)	(684)
Convertible notes issued - equity component	63	-	-	63	63	-	63
Share options recognised at fair value	395	-	-	395	395	-	395
Shares issued	2,696	-	-	2,696	2,696	-	2,696
Total changes in equity	3,154	(12)	(12,101)	(8,959)	3,154	(684)	2,470
Balance at 31 March 2012	30,585	(34)	(22,075)	8,476	43,446	(11,548)	31,898

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 54 form part of the financial statements.

statement of **financial position**

as at 31 March 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current assets					
Cash and bank balances	10	3,871	2,331	-	-
Trade and other receivables	11	11,705	11,129	79	247
Inventories	13	2,244	3,605	-	-
Group advances	29	-	-	21,856	17,232
Total current assets		17,820	17,065	21,935	17,479
Non-current assets					
Receivables	14	13,112	12,252	-	-
Investments in subsidiary companies	15	-	-	14,067	14,067
Property, plant and equipment	16	1,513	2,584	-	-
Computer software and development	17	4,504	8,469	-	-
Goodwill	18	5,350	5,350	-	-
Deferred tax	19	1,582	961	93	74
Total non-current assets		26,061	29,616	14,160	14,141
Total assets		43,881	46,681	36,095	31,620
Current liabilities					
Bank overdrafts	10	29	-	-	-
Trade payables and accruals	20	5,839	6,117	332	264
Provisions	21	50	1,788	-	-
Income tax payable	22	49	53	-	-
Borrowings	23				
Group A - Corporate		9,367	4,846	3,865	-
Group B - Rental Book		13,362	5,860	-	-
Total current liabilities		28,696	18,664	4,197	264
Non-current liabilities					
Borrowings	23				
Group A - Corporate		-	1,794	-	1,928
Group B - Rental Book		6,709	8,788	-	-
Total non-current liabilities		6,709	10,582	-	1,928
Total liabilities		35,405	29,246	4,197	2,192
Net assets		8,476	17,435	31,898	29,428
Equity					
Share capital	24	30,585	27,431	43,446	40,292
Foreign currency translation reserve	25	(34)	(22)	-	-
Retained deficits		(22,075)	(9,974)	(11,548)	(10,864)
Total equity		8,476	17,435	31,898	29,428

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 54 form part of the financial statements.

statement of **cash flows**

for the year ended 31 March 2012

		GROUP		PARENT	
	NOTE	2012 $000	2011 $000	2012 $000	2011 $000
Cash flows from operating activities					
Receipts from customers		26,959	33,592	-	-
Interest received		4	10	-	-
Payments to suppliers & employees		(29,837)	(41,974)	-	-
Interest paid		(3,779)	(3,534)	-	-
GST received / (paid)		(371)	146	-	-
Net cash inflow/(outflow) from operating activities	26	(7,024)	(11,760)	-	-
Cash flows from investing activities					
Proceeds from disposal of assets		1	1	-	-
Purchase of property, plant & equipment		(62)	(19)	-	-
Development of computer software		(389)	(1,499)	-	-
Net cash (outflow) from investing activities		(450)	(1,517)	-	-
Cash flows from financing activities					
Proceeds from borrowings		13,476	13,072	-	-
Repayments of borrowings		(5,925)	(6,084)	-	-
Shares issued		1,513	7,963	-	-
Share issue costs		(79)	(243)	-	-
Net cash inflow from financing activities		8,985	14,708	-	-
Net increase in cash equivalents		1,511	1,431	-	-
Add opening cash equivalents		2,331	900	-	-
Closing cash equivalents		3,842	2,331	-	-
Reconciliation of closing cash equivalents to the balance sheet:					
Cash and cash equivalents		3,871	2,331	-	-
Bank overdraft		(29)	-	-	-
Closing cash equivalents	10	3,842	2,331	-	-

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 20 to 54 form part of the financial statements.

notes to the **financial statements**

for the year ended 31 March 2012

1 General Information

SmartPay Holdings Limited (the "Parent" - previously SmartPay Limited) 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 Holdings Limited comprise the Parent and its subsidiaries (together referred to as the "Group").

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

2 Summary of Significant Accounting Policies

a. Statement of Compliance

The Parent is a reporting entity for the purposes of the Financial Reporting Act 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 29 June 2012.

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

e. Adoption of New and Revised Standards and Interpretations

i) Standards and Interpretations Effective in the Current Period

No new standards have been adopted in the current period that had a measurement impact on the Group. No new standards have been adopted early.

Standards with a disclosure impact include:

- NZ IAS 24 Related Party Disclosures (revised 2009)
  Various disclosure changes have been made under this standard but had virtually no impact on the disclosures of the Group.
- Other Clarifications
  There have been a number of other clarifying amendments to various standards which have not had a material impact on the Group in 2012.

ii) Standards on Issue Not Yet Adopted

	EFFECTIVE DATE*
FRS 44 New Zealand Additional Disclosures	1 July 2011
NZ IFRS 9 Financial Instruments	1 January 2015
NZ IFRS 10 Consolidated Financial Statements	1 January 2013
NZ IFRS 11 Joint Arrangements	1 January 2013
NZ IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
NZ IFRS 13 Fair Value Measurement	1 January 2013

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

Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory however none are expected to have a material impact on the measurement or recognition policies of the Group. There may be further disclosures required by those standards.

f. Consolidation

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

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

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

Investments in subsidiaries are recorded at cost in the Parent company's financial statements.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. From 1 April 2010 any costs directly attributable to the business combination are expensed in the Statement of Comprehensive Income.

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

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

g. Foreign Currencies

i) Foreign Currency Transactions

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

ii) Foreign Operations

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

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

h. Comparatives

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

There have been only minor presentation or classification changes in the current period.

i. 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 the installation and on-going maintenance of hardware is recognised when the service is performed and the rewards can be measured reliably. A large part of support or maintenance service is expected to be provided in the first 12 months subsequent to installation.

iii) Rental Agreements

Rental agreements are entered into by the Group with its customers for EFTPOS terminals and bundled software 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 terminals and as a finance lease transaction. The income from the sale of the terminal is recognised according to 2.i.(i) above and the finance lease transaction is recognised based on the net present value of the future cash flows over the term of the agreement using the effective interest method. Any service aspect of the rental agreements is separated and recognised in accordance with the above policy.

For a small number of rental agreements, where the risks and rewards have not been transferred, and acquired through the acquisition of the payments business from ProvencoCadmus Limited, the income is recognised over the remaining term of the contract as operating lease income.

iv) Finance Income

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

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 Holdings Limited (market conditions) if applicable.

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

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

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

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

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

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 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

2 Summary of Significant Accounting Policies (continued)

is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to 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 Statement of Financial Position.

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.
- financing activities are the fund raising activities of the Group from both owners and financiers. Any dividends paid are classified as part of financing activities.

n. Financial Assets

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

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

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

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

The Group has the following classifications:

i) Financial Assets at Fair value through Profit & Loss

This category has two sub categories

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

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

ii) Loans and Receivables

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

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

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

iii) Impairment of Financial Assets

Collectability of trade receivables and finance lease receivables are reviewed on an on-going basis. Trade receivables that are known to be uncollectible are written off when identified. Finance lease receivables that are known to be uncollectible will have the terminal repossessed and the debt written off.

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

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

iv) 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. Derivative Financial Instruments

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

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

p. 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.

q. 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 the Statement of Comprehensive Income as incurred.

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

- 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.

i) 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 the Statement of Comprehensive Income in the year the asset is de-recognised.

r. Leases

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

2 Summary of Significant Accounting Policies (continued)

i) Group as Lessor

Refer to notes 2.i.(iii) and 2.n.(ii).

ii) Group as Lessee

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

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

s. Intangibles

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

i) 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 three to ten years. Amortisation commences once the computer software is available for use.

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

ii) Intangible Assets Acquired in a Business Combination

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 (including any adjustment to previous provisionally assessed fair values), intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

iii) Research and Development

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

t. Impairment of Non-financial Assets Other Than Goodwill

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

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

u. Goodwill

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

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

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

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

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

v. Financial Liabilities and Equity Instruments

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

i) Equity Instruments

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

ii) Financial Liabilities

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

Preference shares, which are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised in the Statement of Comprehensive Income as interest expense.

Compound financial instruments issued by the Parent comprise convertible notes that can be converted to share capital at the option of the holder and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound equity instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

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

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

w. Provisions and Employee Leave Benefits

i) Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present

2 Summary of Significant Accounting Policies (continued)

obligation at balance date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in interest costs.

ii) Employee Leave Benefits

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

x. Earnings Per Share

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

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

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

y. Fair value of financial assets and liabilities

Fair Value Methodologies

Fair value is 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:

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) 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 value.

In respect of borrowings with maturities greater than 12 months the carrying values are considered to approximate fair value.

z. Changes in Accounting Policies

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

3 Significant Accounting Judgements, Estimates and Assumptions

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

a. Significant Accounting Judgements

i) Impairment of Non-Financial Assets Other Than Goodwill

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

Indications of impairment were considered for:

- The condition and future possibilities of disposal of inventory was assessed resulting in the write down or write off of inventory.
- The individual software assets were considered individually and based on the utilisation of the Ethos software, which was installed in New Zealand made terminals only, this was considered to be impaired as most of the terminals are now imported. Refer to note 17.
- Impairment of the FIVO hardware was considered and the carrying value written down. Refer to note 16.

ii) Revenue Recognition

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

iii) Recovery of Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences and tax losses as the Directors consider that it is probable that future taxable profits will be available to utilise those temporary differences. The decision to recognise the asset is based on the judgement of the likely timing and level of future taxable profits over the next 2 to 3 years as assessed by Directors from the forecasts calculated by management from time to time. Utilisation of New Zealand tax losses requires that the shareholder continuity remains above 49%. Given the fact that currently shareholder continuity is 61% it is not anticipated that this will reduce to below 49% within the next 2 years. These are reassessed regularly as circumstances change.

iv) Provisions

Judgements were required to determine the likely levels of provisioning required for the Australian equipment technology upgrade provision established as part of the asset allocation in the acquisition accounting of Provenco Cadmus in 2010. This has been established using the experience gained over the time since acquisition. See note 21.

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 and Lease Receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. Assessment is based on supportable past collection history and historical write-offs of bad debts. Receivables have been disclosed at the carrying value in notes 11 and 14.

iii) Deferred Tax Asset

A deferred tax benefit has been recognised historically. This year this has been considered in the context of the sizable tax losses incurred. As a result no deferred tax benefit has been recognised on the current year tax losses. The deferred tax asset that is recognised is based on the estimated utilisation of tax losses as explained above in note 3.a.(iii) and is considered appropriate based on the expected results for the next 2 to 3 years.

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), and lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation and amortisation charges are included in notes 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. See additional comment in note 3.a.(iv) above.

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

for the year ended 31 March 2012

3 Significant Accounting Judgements, Estimates and Assumptions (continued)

c. Going Concern

The financial statements have been prepared under the going concern assumption. Following from approval of the Special General Meeting held on 28th of June 2012, the recapitalisation and new borrowings approved are proceeding with the fulfilment of the remaining procedural conditions. Subject to these being finalised the Directors have concluded there is sufficient cash flows to meet SmartPay's commitments and ensure all 'current' corporate debt can be repaid. Refer to note 31 for debt and capital movements post balance date.

4 Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise convertible notes, loans, overdrafts, cash, receivables and foreign exchange forward rate agreements. 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 accounts receivable, finance lease receivables and trade payables, which arise directly from its operations.

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

a. Market Risk

(i) Foreign Currency Risk

The Group's operations are predominantly in New Zealand but from 2011/12 with growing Australian business operations the exposure to foreign exchange risk has grown. To help manage this risk Australian dollar forward rate agreements were entered into from April 2011. See note 12.

(ii) Cash Flow and Fair Value Interest Rate Risk

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

The Group's interest rate risk arises from its borrowings. The Group A Corporate debt borrowings are largely fixed interest loans with varying maturity dates. In the last 12 months $4.8 million of Corporate debt has been refinanced and a further $9.4 million will require refinancing within the next twelve months. There is a risk that the interest on the refinanced debt could be higher than the interest rates currently obtained (refer to note 30d), however it is anticipated the interest rate will be lower in some cases.

b. Credit Risk

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

Management have a credit policy in place and the exposure to credit risk is monitored on an on-going basis with the review of payment history of both accounts receivable and finance lease receivables. The review of both types of accounts takes place daily with active measures taken to collect outstanding amounts and prevent them becoming non performing accounts. On the lease rental receivables the EPTPOS terminals remain the property of the Group and in New Zealand a financing statement is registered under the Personal Property Securities Act 1999 in respect of each terminal and repossession can be undertaken in the event of default of the debt.

Refer to note 30c for more explanation on determining objective evidence that an impairment has occurred and an analysis of accounts overdue and concentrations of credit risk.

With financial institutions the Group deals with high credit quality organisations in placing its cash and deposits and with other financial instruments it uses.

c. Liquidity Risk

Liquidity risk arises from the financial liabilities of the Group and the ability to meet their obligations to repay their financial liabilities as and when they fall due. The objective is to maintain a balance between continuity of funding and committed available credit lines. See note 24 for more information on the Group's Capital Management processes.

The Group manages its liquidity by forecasting and monitoring the total cash flows on a daily, monthly and annual basis (refer to note 30e). New debt facilities are currently under negotiation and the Directors do not foresee any issues in maintaining sufficient cash to meet its commitments.

d. Fair Values

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

5 Segment Information

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 interest, 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.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

The inter segment sales are for EFTPOS terminals and bundled software sold by New Zealand to Australia at wholesale prices.

GEOGRAPHICAL SEGMENTS	NEW ZEALAND		AUSTRALIA		ELIMINATION		TOTAL	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Sales - external								
Sales of goods	9,042	24,141	4,747	2,095	(3,508)	(1,663)	10,281	24,573
Prepaid telephony	11,837	15,891	-	9	-	-	11,837	15,900
Rendering services	2,996	4,089	1,139	561	-	-	4,135	4,650
Finance lease income	1,683	929	432	392	-	-	2,115	1,321
Other	578	867	-	28	-	-	578	895
Total segment sales	**26,136**	**45,917**	**6,318**	**3,085**	**(3,508)**	**(1,663)**	**28,946**	**47,339**
Operating earnings (EBITDA)	(2,255)	7,019	301	136	-	-	(1,954)	7,155
Depreciation and amortisation expense	(3,563)	(3,757)	(5)	(17)	-	-	(3,568)	(3,774)
Interest expense and related costs	(5,191)	(4,120)	(94)	-	-	-	(5,285)	(4,120)
Impairment losses on fixed assets & software	(1,919)	-	-	-	-	-	(1,919)	-
Profit / loss before tax	**(12,928)**	**(858)**	**202**	**119**	**-**	**-**	**(12,726)**	**(739)**
Finance receivables	16,068	14,942	6,340	3,168	-	-	22,408	18,110
Computer software and development asset	4,504	8,469	-	-	-	-	4,504	8,469
Total assets	38,792	43,569	11,090	4,391	(6,001)	(1,279)	43,881	46,681
Total liabilities	(30,778)	(27,689)	(10,628)	(2,836)	6,001	1,279	(35,405)	(29,246)
Capital expenditure	451	1,518	-	-	-	-	451	1,518
Impairment losses on accounts receivable	204	596	76	-	-	-	280	596

In New Zealand no customer represents more than 10% of total revenues so there is no concentration of customers. In Australia three customers make up 92% of sales, one of those represents 48% of total Australian revenues.

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

for the year ended 31 March 2012

6 Revenue

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Revenue from the sale of goods	10,281	24,573	-	-
Prepaid telephony & calling card income	11,837	15,900	-	-
Revenue from rendering services	4,135	4,650	-	-
Operating lease income	512	858	-	-
Finance lease income	2,115	1,321	-	-
Other revenue	66	37	-	-
	28,946	**47,339**	**-**	**-**

7 Expenditure

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Interest and related costs				
Intercompany interest received	-	-	(1,213)	(1,000)
Other interest received	(4)	(10)	-	-
Interest on bank overdrafts and borrowings	3,253	2,677	-	279
Interest on convertible notes	182	32	182	32
Interest on redeemable preference shares	10	-	-	-
Share option amortisation	-	574	-	574
Interest on shareholder loans	-	-	-	-
Finance transaction fees amortisation	1,844	847	187	7
	5,285	**4,120**	**(844)**	**(108)**
Other specific costs included in cost of sales and expenditure				
Auditors fees:				
Audit fees to the principal auditor	78	100	-	15
Taxation services - consultancy to an affiliate company of the principal auditor	17	9	-	-
Other fees to an affiliate company of the principal auditor [1]	-	13	-	-
Depreciation:				
Terminal and computer equipment	616	738	-	-
Furniture, fixtures and office equipment	17	29	-	-
Amortisation of software	2,935	3,007	-	-
Write off fixed assets	-	570	-	-
Bad debts	503	103	-	-
Provision (reversal) for impairment of receivables	(241)	284	-	-
Provision for impairment of finance lease receivables	18	209	-	-
Impairment of inventory	682	-	-	-
Reversal of impairment charge on service stock [2]	-	(695)	-	-
Reversal of impairment provision for Australian technology upgrades	(1,076)	(306)	-	-
Directors' fees	136	136	136	136
Foreign exchange losses	27	149	21	-
Share based payments	395	91	395	-
Operating lease payments	615	405	-	-

1 Other fees include financial reporting and advisory services   2 Service stock represents units returned to SmartPay which are refurbished and subsequently re-deployed.

8 Taxation Expense / (Credit)

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Income tax (benefit)/expense comprises:				
Current income tax	(4)	-	-	-
Deferred tax	(621)	(846)	(19)	46
Income tax (credit)/expense	**(625)**	**(846)**	**(19)**	**46**
Reconciliation between charge for year and accounting profit				
Profit/(loss) before tax	**(12,726)**	**(739)**	**(703)**	**(575)**
Income tax at 28% / 30%	(3,563)	(222)	(197)	(173)
Add/(deduct) the tax effect of:				
Non-deductible expenses	122	109	225	184
Australian tax rate difference	4	-		-
Change in tax rate from 30c to 28c	-	66	-	5
Prior year over/(under) accrual adjustments	(4)	1		-
Tax losses not recognised	2,816	-	(47)	30
Tax losses recognised	-	(800)		-
Income tax (credit)/expense	**(625)**	**(846)**	**(19)**	**46**

The tax rate used in the above reconciliation is the corporate tax rate applicable at 31 March 2012 payable on taxable profits under New Zealand (28%) and Australian tax law (30%). The rate for the year ended 31 March 2011 was 30% for both countries adjusted for the impact on deferred tax for the reduction in the New Zealand tax rate to 28%. The parent company current year tax liability of $47,000 has been offset by losses from other group companies.

9 Earnings per Share

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

	GROUP	
	2012 $000	2011 $000
Basic earnings/(loss) per share - cents		
Profit/(loss) for the period	(12,101)	107
Weighted average number of shares (‘000)	124,159	100,736
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.	**(9.74)**	**0.11**
Diluted earnings/(loss) per share - cents		
Diluted weighted average number of shares		
Weighted average number of shares from above (‘000)	124,159	100,736
Weighted average number of shares attributable to the share options and convertible notes (‘000)	28,489	1,548
Diluted weighted average number of shares (‘000)	152,648	102,284
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. The calculation excludes the impact of 30,000,000 shares (2011 9,000,000 shares - after consolidation) potentially issuable as a result of the convertible notes on issue during the year. The impact of the convertible notes was not dilutive. For 2012 the share options were not dilutive so the calculation excludes the impact of 39,000,000 shares potentially issuable. In 2011 the options were included.	**(9.74)**	**0.11**

On 23rd May 2011 the Parent completed a 1:10 consolidation of its ordinary shares (see note 24) so the 2011 comparative weighted average number of shares have been restated to reflect the reduction in share numbers.

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	
	2012 $000	2011 $000	2012 $000	2011 $000
Cash at bank and in hand	3,871	2,331	-	-
Bank overdraft - secured	(29)	-	-	-
Total cash and bank balances	**3,842**	**2,331**	**-**	**-**

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	
	2012 $000	2011 $000	2012 $000	2011 $000
Accounts receivable	1,357	2,003	-	-
Less impairment provision on receivables	(359)	(608)	-	-
Finance lease receivable	9,296	5,858	-	-
Accrued revenue	968	3,176	-	-
Prepayments	129	381	3	171
GST	292	274	76	76
Other receivables	22	45	-	-
Total trade and other receivables	**11,705**	**11,129**	**79**	**247**

An allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired.

The Group manages its receivables in line with its approved credit control procedures. Refer to note 4b and note 30c.

Trade receivables are generally on 30-60 day terms and are all part of current assets. Some receivables relating to Telephony have weekly terms.

12 Derivative Financial Instruments

The Group have entered into forward currency hedging contracts covering Australian dollar receipts from customers that have been used as security for New Zealand dollar interest bearing loans from FE Investments Ltd (FE). The contracts are in a subsidiary company - the Parent has no derivative financial instruments. The contracts provide cover for the Australia dollar receipts that are required to be repaid to FE in New Zealand dollars through to March 2015.

The average rates are:	2012	2011
Sell A$ maturity from 0 - 12 months	0.7690	-
Sell A$ maturity from 1 - 5 years	0.7784	-

Fair Value

The Group estimates the fair value of its derivatives using inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), this method is known as Level 2. The Group values these by comparing the contracted rate to the market rates for contracts with the same or similar lengths of maturity and accruing for the difference. At 31 March 2012 the fair value of the contracts was negligible (2011: Nil). The face value of the contracts at 31 March 2012 were:

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Assets				
Face Value of derivatives used as cover for revenue - current	1,110	-	-	-
Face Value of derivatives used as cover for revenue - term	1,485	-	-	-

The face value of the derivatives is the New Zealand dollar value of Australian receipts covered by forward exchange contracts.

13 Inventories

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Raw materials	28	457	-	-
Finished goods	1,855	2,388	-	-
Service stock	361	760	-	-
Total inventories	**2,244**	**3,605**	**-**	**-**

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

Service stock represents units returned to SmartPay, which are refurbished and subsequently re-deployed. Service stock is valued at current market value.

All the inventory has security over it through general security agreements over the assets of the Parent and certain subsidiaries.

14 Non-Current Receivables

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Total finance lease receivables	22,408	18,110	-	-
less current portion of finance lease receivables	(9,296)	(5,858)		
Non-current finance lease receivables	**13,112**	**12,252**	**-**	**-**

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

for the year ended 31 March 2012

14 Non-Current Receivables (continued)

Finance Lease Receivable	CURRENT	1-5 YEARS	TOTAL
2012			
Finance leases - gross receivable	11,261	14,595	25,856
less unearned finance income	(1,764)	(1,461)	(3,225)
	9,497	13,134	22,631
less provision for impairment of finance leases	(201)	(22)	(223)
Total finance lease receivables	**9,296**	**13,112**	**22,408**
2011			
Finance leases - gross receivable	7,618	13,782	21,400
less unearned finance income	(1,586)	(1,495)	(3,081)
	6,032	12,287	18,319
less provision for impairment of finance leases	(174)	(35)	(209)
Total finance lease receivables	**5,858**	**12,252**	**18,110**

Finance lease receivables relate to EFTPOS terminals, and bundled software, leased to the lessee as an integrated solution with a non-cancellable lease for predominately 3 or 4 year periods. The lessee in most cases is required to provide a guarantor. There is no residual value. The lessee is required to provide insurance on the terminals. All the significant risks and rewards of ownership are passed to the lessee. Lease payments are made monthly during the term of lease.

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

An allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. Finance lease receivables are generally recoverable evenly over a 3 to 4 year period and are initially recorded at their discounted value using a market discount rate for similar activities (currently and last year 8.25%).

Some finance receivables are used as security for Group B loan facilities (see note 23). The balances are used as part of general security arrangements.

15 Investments

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Subsidiaries				
SmartPay New Zealand Limited	-	-	6,000	6,000
Software International Limited	-	-	480	480
SmartPay Technologies 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
Total investments	**-**	**-**	**14,067**	**14,067**

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

	EQUITY INTEREST		PLACE OF INCORPORATION	ACTIVITIES
	2012	2011		
Subsidiaries				
SmartPay Cadmus Limited	100%	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%	100%	NZ	Non-trading
Next Generation Networks Limited	100%	100%	NZ	Non-trading
SmartPay Investments Limited	100%	100%	NZ	Financing
SmartPay Rentals Limited	100%	100%	NZ	Financing
SmartPay Transactions Limited	100%	100%	NZ	Financing
SmartPay HL Limited	100%	-	NZ	Non-trading
SmartPay Saffill Limited	100%	-	NZ	Financing
SmartPay Transaction Delivery Services Limited	100%	100%	NZ	Financing
SmartPay Technologies Limited	100%	100%	NZ	Non-trading
SmartPay Subscriptions limited	100%	100%	NZ	Financing
SmartPay Australia Pty Limited	100%	100%	Aust	Product and services
Merchant IP Financial Services Pty Limited	100%	100%	Aust	Rental
Cadmus Payment Solutions Pty Limited	100%	100%	Aust	Product and services
SmartPay Ethos Limited	100%	100%	NZ	Software ownership
Product Rentals Pty Limited	100%	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

- SmartPay Rentals Limited

  was established in August 2010 with a nominal capital to provide funding for the Group's rental book.

- SmartPay Transactions Limited

  was established in February 2011 with a nominal capital to provide funding for the Group's rental book.

- SmartPay HL Limited

  was established in February 2012 with a nominal capital and is non-trading.

- SmartPay Saffill Limited

  was established in August 2011 with a nominal capital to provide funding lines to the Group.

- SmartPay Subscriptions Limited

  was established in November 2010 with a nominal capital to provide funding lines for the Group's rental book.

- SmartPay Investments Limited

  was established in February 2011 with a nominal capital to provide funding lines through the issue of redeemable preference shares.

- Provenco Solutions Pty Limited
  Provenco Technology Pty Limited
  Provenco Communication Technologies Pty Limited

  were de-registered with effect from 11 April 2011

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

for the year ended 31 March 2012

16 Property, Plant and Equipment

	FURNITURE, FIXTURES AND OFFICE EQUIPMENT AT COST		TERMINALS & COMPUTER EQUIPMENT AT COST		TOTAL	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Opening carrying value	56	85	2,528	3,817	2,584	3,902
Additions	-	-	62	19	62	19
Disposals	-	-	-	(570)	-	(570)
Depreciation	(17)	(29)	(616)	(738)	(633)	(767)
Impairment	-	-	(500)	-	(500)	-
Closing carrying value	39	56	1,474	2,528	1,513	2,584
Reconciled to:						
Cost	173	179	5,656	5,594	5,829	5,773
Less accumulated depreciation	(134)	(123)	(3,682)	(3,066)	(3,816)	(3,189)
Less accumulated impairment	-	-	(500)	-	(500)	-
Closing carrying value	39	56	1,474	2,528	1,513	2,584

FE Securities Limited have first specific security over a number of terminals with respect to their respective loan agreements. Some fixed assets have security over them through general security agreements over the assets of the Parent and certain subsidiaries.

The directors have considered impairment and determined that the hardware relating to the FIVO internet business was impaired based on its current value assessed for a potential sale and have written $500,000 off its book value in addition to the normal year's depreciation to its estimated value in use. The carrying value of the FIVO hardware at 31 March 2012 is $193,000 (2011: $808,000) with a depreciable period of 2 years remaining. All other fixed assets were reviewed and directors 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	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Opening carrying value	8,463	9,934	6	43	8,469	9,977
Additions	389	1,499	-	-	389	1,499
Amortisation	(2,929)	(2,970)	(6)	(37)	(2,935)	(3,007)
Impairment	(1,419)	-	-	-	(1,419)	-
Closing carrying value	4,504	8,463	-	6	4,504	8,469
Reconciled to:						
Cost	13,946	13,556	240	240	14,186	13,796
Less accumulated amortisation	(8,023)	(5,093)	(240)	(234)	(8,263)	(5,327)
Less accumulated impairment	(1,419)	-	-	-	(1,419)	-
Closing carrying value	4,504	8,463	-	6	4,504	8,469

The directors have considered impairment, as outlined in notes 3b(i) and 18.

Significant Computer Software and Development

(i) Ethos software

The Group purchased the Ethos software for $2,000,000 during 2010. The carrying amount at 31 March 2012 was $Nil (2011: $1,642,000). The software was installed in all EFTPOS terminals manufactured in New Zealand. Following the cessation of manufacturing and the reduction in maintenance of the Cadmus terminals in New Zealand this software has been written off as it is no longer being installed in new terminals. It originally had a life of 8 years and would have been fully written off in 6 years (2011: 7 years). The Ethos software is secured under the loan agreement with Cadmus Developments Limited (in Receivership) (note 23).

(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 top-up revenues. It has a carrying value of $1,060,000 (2011: $1,275,000) and a remaining life of 5 years (2011: 6 years).

(iii) Other Internally Developed Software

Other internally developed software to operate and manage the EFTPOS terminals has a carrying value of $2,306,000 (2011: $3,943,000) and has a remaining average life of 2 years (2011: 3 years).

18 Goodwill

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Opening value net of accumulated impairment	5,350	5,350	-	-
Business acquisitions	-	-	-	-
Additional earn-out purchase payment	-	-	-	-
Impairment	-	-	-	-
Closing carrying value	5,350	5,350	-	-
Reconciled to:				
Cost	5,769	5,769	-	-
Less accumulated impairment	(419)	(419)	-	-
Closing carrying value	5,350	5,350	-	-

At 31 March 2012 and 2011 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 group of cash generating units 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.

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% (2011: 15.0%) on the unleveraged post tax nominal cash flows including capital expenditure. This is higher than the discount rate used within the business which is 11%. This equates to a pre tax discount rate of 18.3% (2011: 18.8%). With the purchase of the ProvencoCadmus assets in 2009 changing the scale of the SmartPay business the forecasts have used two years of history of the enlarged business and carefully assessed growth rates in New Zealand taking into account current industry business conditions for the next three years. These have been endorsed by the Directors. For the succeeding two years zero growth has been used in New Zealand with the business concentrating on Australia. Income has been split 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.

18 Goodwill (continued)

NEW ZEALAND	2013	2014	2015	2016	2017
Prepaid Top Up Revenue	1.4%	0.0%	0.0%	0.0%	0.0%
Technology Services - Inflation	2.0%	2.0%	2.0%	0.0%	0.0%
Technology Services - New terminal numbers	2,500	2,500	2,500	-	-

The NZ focus will move to the version 5.2 terminals that need to be replaced by 2014 and bundling of our other value added services to our customer base. The forecast assumes new annual terminal volumes of 2,500 per annum for 2013 to 2015 in New Zealand. There will be a significant shift in focus for the business to Australia which is outside the scope of the impairment testing calculations as none of the goodwill is attributable to Australia.

The forecast also assumes a significant reduction in New Zealand overhead costs from the business restructuring totalling $1.0 million per annum. A minimal terminal value has been included.

Based on the above assumptions, the valuation supports the value of the Group's property, plant and equipment and intangible assets including goodwill.

Any adverse changes in actual performance of the products and services or 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 tables show the effect on the recoverable amount of the New Zealand business (in $millions) resulting from different discount rates and new terminal volumes. The most material assumptions used in the calculation of the value in use is the 13.2% discount rate. For example if the discount rate is increased to 14.2% the value in use reduces by $0.6 million.

DISCOUNT RATES IN $ MILLIONS

16.2%	14.2%	13.2%	12.2%	10.2%
(1.8)	(0.6)	-	0.7	2.1

Similarly if the number of new terminals increases from 2,500 to 3,000 (an increase of 500) the recoverable amount using the 13.2% discount rate increases by $0.4 million

VOLUME OF TERMINALS IN $ MILLIONS

-1,000	-500	0	500	1,000
(0.8)	(0.4)	-	0.4	0.8

19 Deferred Tax Asset / (Liability)

MOVEMENTS IN DEFERRED TAX	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Opening balance	961	114	74	120
Credit / (charge) to profit and loss	621	847	19	(46)
Balance at end of the year	1,582	961	93	74
Deferred tax balance comprises:				
Employee entitlements	133	135	-	26
Receivables impairment provision	147	210	-	-
Impairment provisions	267	211	93	48
License fee	362	421	-	-
Property plant and equipment	(241)	(647)	-	-
Computer software and development	48	(235)	-	-
Tax losses recognised	866	866	-	-
Total deferred tax balance	1,582	961	93	74

a. Tax losses

The Group has aggregated New Zealand net tax losses of $13,387,000 as at 31 March 2012 (31 March 2011: $3,966,000) and in Australia net taxable losses at the same date of $3,379,000 (31 March 2011: $2,965,000). New Zealand tax losses amounting to $3,093,000 (31 March 2011 $3,093,000) have been recognised in the balance sheet as deferred tax. It is expected that the tax losses recognised will be utilised over the next three years, consistent with the assumptions and forecast used for impairment testing as outlined in note 18. See note 3b(iii) for discussion on the criteria for recognising losses. Subject to IRD confirmation and maintaining the required shareholder continuity, these losses are available to carry forward in aggregate from the individual New Zealand companies within the Group. In Australia a different test is required to carry forward and utilise the losses. This requires that the same business continues to be conducted to maintain the availability of the losses. There are no plans to change the type of business.

20 Trade Payables and Accruals

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade payables	3,458	4,304	-	-
Other payables	24	25	-	-
GST	105	6	-	-
Accruals	1,423	952	-	112
Directors fees	27	62	27	62
Employee entitlements	802	768	305	90
Total trade payables and accruals	5,839	6,117	332	264

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

21 Provisions

The provision of $50,000 at 31 March 2012 relates to the warranty claims provision on equipment in a subsidiary company. Total provisions at 31st March 2011 totalled $1,788,000.

	TECHNOLOGY UPGRADE AUSTRALIAN		TECHNOLOGY UPGRADE NEW ZEALAND		WARRANTY		TOTAL	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Opening balance	1,574	1,974	164	1,019	50	50	1,788	3,043
Exchange adjustment	(102)	82	-	-	-	-	(102)	82
Reassessment of provision required	(1,076)	(306)	-	-	-	-	(1,076)	(306)
Costs recognised against provision	(396)	(176)	(164)	(855)	-	-	(560)	(1,031)
Balance at end of the year	-	1,574	-	164	50	50	50	1,788

- A provision of $2,224,000 was created in 2010 for the technology upgrade costs on terminal equipment that required replacement under contractual terms and became the Group's responsibility at the time of the acquisition of the Australian subsidiaries. Following completion of the replacement programme costs recognised against this provision for the technology upgrades incurred in 2012 were $396,000 (2011: $176,000) and the remaining provision has been reversed by crediting profit and loss by $1,076,000 (2011: $306,000) leaving the balance at balance date of $Nil (2011:$1,574,000).
- A provision of $1,575,000 was created in 2010 in respect of the liabilities for the technology upgrade of New Zealand terminal equipment under the contractual terms for all customers acquired at the date of acquisition. By balance date the remaining costs were incurred.
- A provision for warranty cost in respect of faulty equipment supplied was made in 2010. It is anticipated that the warranty costs will largely be covered by manufacturers warranty.

22 Income Tax Payable (Asset)

TAX BALANCES IN CURRENT ASSETS AND LIABILITIES	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Opening balance	53	33	-	-
Current year charge/(credit)	(4)	-	-	-
Payments and RWT credits	-	20	-	-
Balance at end of the year - liability	49	53	-	-

Imputation credit account balances

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

23 Borrowings

Debt has been split into debt secured over the Rental book and other debt designated as Corporate debt.

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Group A - Corporate Debt				
Unsecured - at amortised cost				
Current	-	28	-	-
Secured - at amortised cost				
Current	9,367	4,818	3,865	-
Non-current	-	1,794	-	1,928
	9,367	6,612	3,865	1,928
Total corporate debt	9,367	6,640	3,865	1,928
Group B - Rental Book Debt				
Secured - at amortised cost				
Current	13,362	5,860	-	-
Non-current	6,709	8,788	-	-
Total rental book debt	20,071	14,648	-	-
Total Borrowings	29,438	21,288	3,865	1,928
Represented by:				
Convertible notes	3,865	1,278	3,865	1,278
Pakihi Pension Scheme	-	650	-	650
Bendigo Bank	3,683	-	-	-
FE Investments Limited	7,990	5,291	-	-
TM Finance Limited	2,380	4,583	-	-
Cadmus Development Ltd (in receivership)	1,061	1,173	-	-
Finance Now	5,829	5,003	-	-
Kiwibank	2,677	3,181	-	-
Saffill Securities Limited	850	-	-	-
Subscriptions bulk funding facility	455	-	-	-
Riverhorse Holdings Limited (unsecured)	-	28	-	-
Other borrowings	648	101	-	-
Total Borrowings excluding arrangement fees	29,438	21,288	3,865	1,928
The following arrangement fees have been deducted from the debt above.				
Arrangement fees	2,277	1,840	-	-
Amortisation of arrangement fees	(1,844)	(595)	-	-
	433	1,245	-	-

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

for the year ended 31 March 2012

a. Summary of borrowing arrangements

The Parent issued 4,000,000 10% convertible notes at an issue price of $1.00 per convertible note, in five tranches - 1,000,000 notes on 16 December 2010, 350,000 notes on 16 February 2011, 650,000 notes on 28 April 2011, 1,000,000 notes on 1 December 2011 and 1,000,000 notes on 27 February 2012. They are redeemable in full on 15 February 2013 if not previously converted into ordinary shares.

The convertible notes are convertible at anytime at the option of the holder into ordinary shares of the Parent at 15.0 cents per share on 3,000,000 convertible notes and 10 cents per share on the remaining 1,000,000 convertible notes. The 4,000,000 convertible notes would convert into 30,000,000 shares. The notes are convertible by the holder prior to and including the 15 February 2013. The values of the liability component and the equity conversion component were determined at the issuance of the notes at their issue price. The Parent may elect to redeem the convertible notes early. The convertible notes represent the debt portion of a compound financial instrument of the Parent and are secured with a general security agreement granting the holders a security interest over the Group's assets. The obligations are also guaranteed by certain of the Group's subsidiaries.

	GROUP AND PARENT	
	2012 $000	2011 $000
Face value of convertible notes	4,000	1,350
less Equity component (note 24)	(113)	(50)
Liability component on initial recognition	**3,887**	**1,300**
Fees	(22)	(22)
Liability component	**3,865**	**1,278**

Finance Now has provided funding based on a number of rental contracts at an interest rate of 13.1%. Finance Now have security over rental contracts. The repayment dates match the relevant rental contract income. The facility has a termination date of 17 June 2012 however an agreement has been reached on an extension. The rental contracts have been assigned to Finance Now. The principal is repaid throughout the term of the rental contracts and the final payment is now extended to 30 September 2015.

Kiwibank has provided funding based on rental contracts at an interest rate of 8.1%. Kiwibank have security over rental contracts. The repayment dates match the relevant rental contract income. The rental contracts have been assigned to Kiwibank. The principal is repaid throughout the term of the rental contract and the final payment is 30 Sept 2014. The facility has a termination date of 31 August 2015.

FE Investments Limited and FE Securities Limited (jointly "FEI") have provided funding based on a number of rental contracts at an interest rate of 16% and 17.5% and funding for general purposes. FEI have security over rental contracts for $6,136,000 of the debt. 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 25 March 2015.

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. The principal is paid off by way of quarterly instalment based on the number of Ethos installations undertaken by the Group, however is due in its entirety by August 2012.

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 also vary depending on the drawdown however all funding is due to be repaid by 30 September 2012.

Saffill Securities Limited has provided funding based on a number of rental contracts at an interest rate of 15%. Saffill has security over rental contracts. The repayment dates match the relevant rental contract income. The facility matures on 25 August 2014 and 9 September 2014. The rental contracts have been assigned to Saffill.

Bendigo Bank has provided funding based on a number of rental contracts at an interest rate of 8.45%. The debt is denominated in Australian dollars of $2.9 million. Bendigo has security over rental contracts. The repayment dates match the relevant rental contract income. The facility matures on 30 March 2015.

Subscriptions bulk funding facility was undertaken through SmartPay Subscriptions Limited to provide funding for the rental book. The funding was undertaken at 10.95% and has been repaid subsequent to balance date.

24 Share Capital

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Opening balance	27,431	19,440	40,292	32,301
Share Issue - proceeds	2,763	7,845	2,763	7,845
Share Issue - costs	(79)	(243)	(79)	(243)
Convertible notes equity component	63	50	63	50
Share based payments:				
Consultancy services	-	29	-	29
Employee remuneration	12	62	12	62
Value of share options issued to debt holders	-	248	-	248
Value of share options issued to directors and for consultancy services	395	-	395	-
Total shares issued during the year	3,154	7,991	3,154	7,991
Balance at end of the year	30,585	27,431	43,446	40,292

In the year to 31 March 2012 the share based payments of $12,000 (2011: $91,000) were expensed in a subsidiary company but settled in a share allocation by the Parent. Included in the Share Issue - proceeds is the capitalisation of debt of $1,250,000 (2011:$Nil)

a Ordinary Shares

As at 31 March 2012 there were 148,117,638 ordinary shares on issue. On 23 May 2011 there was a 1 for 10 consolidation of shares which reduced the number of shares on issue from 1,203,713,912 at 31 March 2011 to 120,371,407 shares. All ordinary shares are fully paid and rank equally with one vote attaching to each share. The ordinary shares have no par value. Ordinary shares are considered equity.

MOVEMENTS IN THE NUMBER OF ORDINARY SHARES ON ISSUE	GROUP AND PARENT	
	2012 000's	2011 000's
Opening balance	1,203,714	833,814
Share consolidation 1 for 10	(1,083,343)	-
Shares issued	27,747	369,900
Balance at end of the year	148,118	1,203,714

b Share Options

The effect of the share consolidation on the 23 May 2011 on the options was that the number of shares over which the options can be exercised shall be divided by 10 and the exercise price of each option will be multiplied by 10.

MOVEMENTS IN THE NUMBER OF SHARE OPTIONS ON ISSUE	GROUP AND PARENT	
	2012 000's	2011 000's
Opening balance - weighted average exercise price per share: 2012: 3.3c (2011: 5.0c)	35,122	95,528
Options issued - weighted average exercise price per share: 2012: 22.8125c (2011: 3.3c)	50,000	36,681
Options lapsed - weighted average exercise price per share: 2012 : 50.0c (2011: 5.0c)	(35,122)	(97,087)
Closing balance - weighted average exercise price per share: 2012: 22.8125c (2011: 3.3c)	50,000	35,122
Weighted average remaining contractual life of outstanding options (years)	4.35	0.5

The share options in 2011 converted into 1 share for each option granted. During 2011 36,681,364 options were issued at 3.3356c. The 35,122,000 options still outstanding at 31 March 2011, as a result of the share consolidation changed to convert into one tenth of a share at a share price of 33.356c each. All these options lapsed on 30 September 2011. Options issued during 2012 totalled 50,000,000 and if exercised will convert into 32,000,000 shares at an average price of 22.8125c (2011:3.3356c). All these options remain outstanding at 31 March 2012. The fair value attributed to the options issued during the year that related to share based payment arrangements was $395,000 (2011:$249,000). No options were forfeited during 2012 (2011:Nil).

MOVEMENTS IN THE NUMBER OF DIRECTORS INCENTIVE SHARE OPTIONS ON ISSUE	GROUP AND PARENT	
	2012 000's	2011 000's
Opening balance - weighted average exercise price per share: 2012: Nil (2011: Nil)	-	-
Options issued - weighted average exercise price per share: 2012: 0.45 (2011: Nil)	70,000	-
Closing balance - weighted average exercise price per share: 2012: 0.45c (2011: Nil)	**70,000**	**-**
Weighted average remaining contractual life of outstanding options (years)	3.0	-

The Directors Incentive Share Options were issued in May 2011 and convert into 7,000,000 ordinary shares at a weighted average exercise price of 45.0c per share. All options were still outstanding at 31 March 2012.

Options Issued Alongside Share Capital

The following share options were granted during the 2011 and 2012 that did not relate to a share based payment arrangement:

2012 - 10,000,000 share options were issued to Haymaker (see Note 28b on Bradley Gerdis) in conjunction with a placement of ordinary shares on 21 December 2011 and are excluded from the fair value calculation.

2011 - Nil

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 in the 2010 financial year this has been amended to reflect the significantly different scale of the Group. The assumptions used were:

	DIRECTORS INCENTIVE OPTIONS		MANAGEMENT		
2012	TRANCHE 1	TRANCHE 2	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of options issued (000) as performance incentive to directors and management					
Number of options fair valued (000)	35,000	35,000	20,000	10,000	10,000
Number of shares	3,500	3,500	2,000	10,000	10,000
Risk-free interest rate	4.4%	4.4%	4.4%	3.3%	3.3%
Exercise price (per share)	40.0c	50.0c	40.0c	20.0c	30.0c
Share price at measurement date	22 cents	22 cents	22 cents	10.5 cents	10.5 cents
Volatility	50%	50%	50%	50%	50%
Life of options	35 months	59 months	59 months	48 months	60 months
Exercise on or before	31/3/14	31/3/16	31/3/16	31/3/17	31/3/18
Dividend yield	-	-	-	-	-
Fair value	0.41 cents	0.56 cents	6.36 cents	2.47 cents	1.50 cents

Management tranches were issued to Ian Bailey and Bradley Gerdis - refer to note 28b.

The options issued in 2012 above that have been valued were issued as part of the directors and chief executives incentive schemes and have been expensed through profit and loss.

2011	TRANCHE 1	TRANCHE 2	TRANCHE 3
Number of options issued (000) as compensation for finance			
Number of options fair valued (000)	23,081	12,041	1,559
Risk-free interest rate	2.6%	2.6%	2.6%
Exercise price (per share)	3.3356c	3.3356c	3.3356c
Share price at measurement date	3.3 cents	2.9 cents	2.9 cents
Volatility	62%	58%	58%
Life of options	12 months	10 months	1 month
Exercise on or before	30/9/11	30/9/11	31/12/10
Dividend yield	-	-	-
Fair value	0.82 cents	0.49 cents	0.08 cents

The options on issue in 2011 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.

c Convertible Notes on issue

Refer to note 23 Borrowings, for the terms attaching to the convertible notes. Convertible notes are regarded as debt until they are converted into ordinary shares.

Capital Management

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

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

To maintain or alter the capital structure the Group has the ability to issue new shares, decide whether to pay a dividend to shareholders and what size that may be, reduce or increase debt or sell assets. Management are constantly adjusting the capital structure to take advantage of favourable borrowing rates and increase the number of shares on issue to maintain reasonable gearing ratios during periods of expansion. Subsequent to balance date a re-capitalisation and debt restructure plan was announced to repay high interest mezzanine debt and provide additional resources for expansion. Refer to note 31.

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Total borrowings (see note 23)	29,438	21,288	3,865	1,928
less Cash and cash equivalents (see note 10)	(3,842)	(2,331)	-	-
Net debt	**25,596**	**18,957**	**3,865**	**1,928**
Total Equity	**8,476**	**17,435**	**31,898**	**29,428**
Total Capital	34,072	36,392	35,763	31,356

There are covenants in place which vary for different debt facilities. The principal covenants relating to the rental book debts are:

i) maintaining minimum levels of finance receivable balances to cover borrowing levels - for example at the end of each quarter the ratio that the security value bears to the aggregate outstanding amount (plus unpaid interest at such time) is not less than 1.2:1. This ratio varies for different borrowings.

ii) number of contracts in default is not more than 5% of the total contracts

25 Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all exchange rate differences arising from translating the financial statements of the foreign currency operations (see Note 2 g (ii)). Movements are shown in the Statement of Changes in Equity.

26 Operating Cash Flows Reconciliation

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit/(loss) for the period	(12,101)	107	(684)	(621)
Add/(deduct) non-cash items:				
Depreciation & amortisation	3,568	3,774	-	-
Share based payments	395	665	395	574
Financing costs and bad debts	1,844	(352)	-	-
Deferred tax	(625)	(846)	(19)	46
Provisions	(1,738)	(1,255)	-	-
Impairment charges	1,919	570	-	-
Add/(deduct) changes in working capital items:				
Trade and other receivables	(1,436)	(13,469)	-	-
Inventories	1,361	(1,496)	-	-
Payables and accruals	(207)	522	(68)	(290)
Provision for current tax	(4)	20	-	-
Group advances	-	-	376	291
Net cash inflow/(outflow) from operating activities	(7,024)	(11,760)	-	-

27 Commitments and Contingencies

OPERATING LEASE COMMITMENTS	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Within one year	628	524	-	-
After one year but not more than five years	1,646	2,013	-	-
After more than five years	-	-	-	-
Total operating lease commitments	2,274	2,537	-	-

The Group leases a commercial property with office and warehouse premises situated in Wairau Road which was renewed during 2011 and has a right of renewal in January 2016 for a further 4 years and small office premises in Sydney.

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 (2011: $300,000 each).

The Group had a bond with the New Zealand Stock Exchange which was repaid in October 2011 in respect of listing costs associated with the issue of redeemable preference shares. At 31 March 2012 $Nil (2011:$30,000)

28 Related Parties

Parent and ultimate controlling party

The immediate parent and controlling party of the Group is SmartPay Holdings Limited.

Identity of related parties with whom material transactions have occurred.

Note 15 identifies all entities within the Group. All those entities are related parties of the Parent. In addition, the directors, companies with which the directors and key management are associated and key management personnel of the Group are also related parties.

a. Subsidiaries

During the year the Company and various subsidiary companies advanced and repaid loans amongst themselves by way of internal loan accounts. In presenting the financial statements of the Group these inter company transactions and accounts have been eliminated. Some of the inter company group loans are interest bearing, repayable on demand and disclosed as a current liability. The loan balances outstanding between the Company and its subsidiaries totalling $21,856,000 (2011: $17,232,000) are shown in note 29.

During the year interest of $1,213,000 (2011: $1,000,000) was charged by the Parent to subsidiary companies and a further $2,200,000 (2011: $463,000) was charged between subsidiary companies. The rate of interest charged is sufficient to cover the cost to the companies making the loans.

In addition there are operating transactions and recovery of expenses between subsidiary companies undertaken in the normal course of business and provided on commercial terms.

During the year sales and purchases between subsidiary companies totalled $8,262,000 (2011: $12,412,000) along with a fixed asset and software usage charge of $1,338,000 (2011: $222,000) and expenses recovered of $1,261,000 (2011: $1,176,000) which were eliminated from the Group financial statements.

Refer to Note 23 for details of guarantees provided by the Parent and subsidiary companies and cross guarantees between subsidiary companies.

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

Claymore Law provided legal services to the Group on normal commercial terms amounting to $382,000 (2011: $351,000).

Greg Barclay is a principal of Claymore Law Partnership and director of SmartPay Holdings Limited. The balance outstanding at 31 March 2012 was $154,000 (2011: $78,000).

Greg Barclay is also a director and principal of Ngatapa Trust, and provided consulting services in relation to directors' fees on normal commercial terms amounting to $38,000 (2011: $38,000). In addition he received 20,000,000 options (2011: Nil) as part of the directors' incentive scheme.

Ian Bailey is a director and shareholder of Riverhorse Holdings Limited and the Managing Director and shareholder of SmartPay Holdings Limited. Subsequent to balance date he resigned as Managing Director. A subsidiary of the Group entered into a loan agreement with Riverhorse Holdings Limited. The balance at 31 March 2012 was $Nil (2011: $28,000) and interest expensed during the year ended 31 March 2012 was $3,000 (2011: $5,000).

Ian Bailey provided consulting services to the Group on normal commercial terms amounting to $305,000 (2011: $305,000). The company entered into a consulting services agreement with Ian Bailey comprising $305,000 per annum cash component, and a $90,000 bonus. The bonus was not paid. Ian Bailey resigned from his position of managing director on 30 May 2012. The Company signed a restrictive covenant on 10 January 2012 to the value of $305,000 restraining him from competing with the Company for a period of 12 months. During 2011 Ian Bailey received 20,000,000 share options which can be converted into 2,000,000 shares at 40 cents per share on or before 31/03/16.

Bradley Gerdis is the Chief Executive Officer and a shareholder of SmartPay Holdings Limited. He is also a director and shareholder of Active Capital Partners Limited (ACP), an Australian company, which in December 2011 entered into a consultancy contract with SmartPay Holdings Limited subsidiary SmartPay Australia PTY Limited, the material terms of which are:

- Bradley Gerdis is to initially act as Chief Executive Officer of the Company and will transition to Managing Director.
- ACP will be paid an annual fee initially of A$272,500 and on Bradley Gerdis's appointment to managing director will be paid a fee to A$381,500.
- ACP will be paid a short term incentive of between 25% and 50% of the annual base fee solely at the discretion of the Company's Board.
- ACP is entitled to a long term incentive bonus in the form of share options or payment in lieu of options. ACP has nominated Haymaker Investments Ltd Pty Limited (HIL) as the recipient of these options.

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

for the year ended 31 March 2012

- The contract can be terminated by either party on 12 weeks notice which if the Company initiates termination will require a termination fee of 6 months of the annual fee then payable. There is also change of control event clause which will require 100% of the short term incentive to be paid. There are also other termination events.

ACP has been paid $101,000 in the period to 31 March 2012.

HIL is a shareholder of the Company and Bradley Gerdis has an interest in these shares by virtue of being a potential beneficiary of a discretionary trust. HIL holds 10,000,000 ordinary shares as well as 30,000,000 share options which can be converted into 30,000,000 shares -10,000,000 can be converted at 15 cents per share by 31/12/14, 10,000,000 at 20 cents per share by 31/3/17 and 10,000,000 at 30 cents per share by 31/3/18.

Murray Henshall is a director and shareholder of Galileo Investments Trustee Limited (“Galileo”) and is a shareholder of SmartPay Holdings Limited. Galileo has provided funding to a subsidiary of the Group through the TM Finance Facility. At 31 March 2012 there was a balance of $Nil (2011: $535,000) owed to Galileo under this facility. During the year interest of $71,000 (2011: $73,000) was expensed.

Wayne Johnson is a director and shareholder of SmartPay Holdings Limited and is a director and shareholder of Noblemen Ventures Limited. He has provided consulting services to the Group on normal commercial terms amounting to $204,000 (2011: $70,000). He is also a director and shareholder of Baroda Hill Investments Limited, and provided consulting services in relation to directors fees on normal commercial terms amounting to $60,000 (2011: $45,000). In addition Baroda received 30,000,000 options (2011 Nil) as part of the directors incentive scheme which would entitle it to 3,000,000 shares - 1,500,000 at 40 cents per share by 31/3/14 and 1,500,000 at 50 cents per share by 31/3/16.

John Nimmo is a shareholder and director of SmartPay Holdings Limited. During the year he provided consulting services to the Group on normal commercial terms amounting to $38,000 (2011: $166,000). In addition he received 20,000,000 options (2011: 9,915,120) during the year as part of the directors' incentive scheme which would entitle him to 2,000,000 shares - 1,000,000 at 40 cents per share by 31/3/14 and 1,000,000 at 50 cents per share by 31/3/16. John Nimmo has provided funding to the Group as part of the TM Finance facility amounting to $990,000 (2011: $990,000). During the year interest of $141,000 (2011: $188,000) was expensed.

Holland Corporation is a shareholder of SmartPay Holdings Limited and has provided consulting services to the Group on normal commercial terms amounting to $5,000 (2011: $37,000). Peter Holland is a principal of Holland Corporation and a director and ultimate shareholder of TM Finance Limited. TM Finance Limited has provided debt funding to the Group. Refer to Note 23.

Linc Burgess is the Special Projects Manager, and is a director and shareholder of Manaia Management Limited which has provided consulting services to the Group on normal commercial terms amounting to $180,000 (2011: $170,000).

Pat McCammon is the Corporate Sales manager of the Group and is a director and shareholder of Life Management Limited which has provided consulting services to the Group for the base and commission on normal commercial terms. The base amounted to $191,000 (2011: $170,000) and the commission of $167,000 is to be paid as to 50% in cash and 50% in shares.

c. Key management and director compensation.

Key management personnel comprises employees who are part of the Management Team as identified in the directory on page 63 of this report excluding the following members who are consultants (Bradley Gerdis, Ian Bailey and Linc Burgess) whose details are included above in Note 28b. Key management personnel compensation comprised short term benefits and share instruments for the year ended 31 March 2012 of $1,032,000 (2011: $702,000). Directors remuneration was $746,000 (2011: $531,000) - for details refer to the Statutory Information Directors Remuneration. Subject to the achievement of performance targets Nil share options (2011: 2,500,000) could be issued to key management personnel (excludes those included in note 28b).

KEY MANAGEMENT COMPENSATION

	2012 $000	2011 $000
Salaries and other short term employee benefits	1,032	640
Share based payments	12	62
	1,044	702

29 Group Advances

	GROUP 2012 000's	GROUP 2011 000's	PARENT 2012 000's	PARENT 2011 000's
Amounts owing by subsidiaries:				
SmartPay New Zealand Limited	-	-	6,060	5,525
Software International Limited	-	-	704	704
SmartPay Cadmus Limited	-	-	13,392	10,771
SmartPay Ethos Limited	-	-	220	220
SmartPay Investments Limited	-	-	342	-
MIPS Financial Services Limited	-	-	27	-
SmartPay Australia Pty Limited	-	-	1100	-
Cadmus Payment Solutions Pty Limited	-	-	11	12
Total group advances	-	-	21,856	17,232

30 Financial Risk Management

a. Financial Instruments by Category

	GROUP LOANS AND RECEIVABLES $000	GROUP MEASURED AT AMORTISED COST $000	GROUP TOTAL $000	PARENT LOANS AND RECEIVABLES $000	PARENT MEASURED AT AMORTISED COST $000	PARENT TOTAL $000
2012						
Financial assets						
Cash and bank balances	3,871	-	3,871	-	-	-
Trade, finance and other receivables	24,817	-	24,817	79	-	79
Group advances	-	-	-	21,856	-	21,856
	28,688	-	28,688	21,935	-	21,935
Financial liabilities						
Bank overdrafts at amortised cost	-	29	29	-	-	-
Trade payables and accruals	-	5,839	5,839	-	332	332
Financial liabilities at amortised cost	-	29,438	29,438	-	3,865	3,865
	-	35,306	35,306	-	4,197	4,197
2011						
Financial assets						
Cash and bank balances	2,331	-	2,331	-	-	-
Trade, finance and other receivables	23,381	-	23,381	247	-	247
Group advances	-	-	-	17,232	-	17,232
	25,712	-	25,712	17,479	-	17,479
Financial liabilities						
Bank overdrafts	-	-	-	-	-	-
Trade payables and accruals	-	6,117	6,117	-	264	264
Financial liabilities	-	21,288	21,288	-	1,928	1,928
	-	27,405	27,405	-	2,192	2,192

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

b. Foreign currency exchange risk management

The Group has an exposure to the Australian dollar through its ownership of Australian subsidiaries and forward rate foreign exchange contracts. Up to 31 March 2011 the exposure was minimal as the Group's operations were predominantly carried out in New Zealand. Since April 2011 forward rate agreements have been entered into to hedge Australian dollar cash flows into New Zealand dollars.

The Group has exposure to the following currencies:

- $US - Purchases of US$3.2 million - exposure to US$ denominated creditors at year end was not significant.
- $Aust - The group has exposure to A$ exchange fluctuations through it's operations in Australia and through it's derivative financial instruments. All significant non-derivative balances denominated in Australian dollars are held in the Australian subsidiaries of the Group, and so reflect the functional currency of the subsidiary.

  The Group's forward exchange contracts (as disclosed in note 12), provide an economic hedge against NZ$ cash inflows from Australian receivables. However these are measured at fair value through profit and loss, and so any exchange rate fluctuation will have an impact on the valuation of these derivatives. A 0.10 increase or decrease in the NZ - Australian dollar cross rate (measured at 0.789 at year end) would have led a $356,000 fair value gain or loss respectively.

c. Credit risk

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Maximum exposure to credit risk at balance date is:				
Cash and cash equivalents	3,842	2,331	-	-
Trade and receivables (net of impairment)	2,117	4,997	3	171
Finance lease receivables (net of impairment)	22,408	18,110	-	-

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

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

The impairment provision comprises the "salvage" category. No impairment is made for overdue payments within the "arrears" and "collections" categories.

	2012		2011	
	%	$000	%	$000
Arrears	0.11	27	0.13	26
Collections	0.41	100	0.22	44
Salvage	0.70	160	0.81	164
		287		**234**

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

Concentration of credit risk

Included within finance receivables are five balances with individual customers that have an amount outstanding in excess of $1 million. Three of these customers represent large NZ corporates' finance receivables. Another two represent Australian corporate customers of the Group's products. These customers have a history of trade with the group.

d. Interest Rate Risk

At 31 March 2012 if interest rates had changed by -/+ 1% from the year end rates with all other variables held constant, the Group's post tax profit for the period (annualised) and equity would have been $263,000 higher or $263,000 lower.

e. 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 5 YEARS
TM Finance Limited	2,380	2,380	-
Convertible notes	3,865	3,865	-
Cadmus Developments Limited (in receivership)	1,061	1,061	-
FE Investments Limited	1,854	1,854	-
Other borrowings	207	207	-
Total Group A Debt	9,367	9,367	-
FE Investments Limited	6,136	4,069	2,067
Bendigo Bank	3,683	1,228	2,455
Subscriptions bulk funding facility	455	455	-
Saffill Securities Limited	850	306	544
Finance Now	5,829	5,829	-
Kiwibank	2,677	1,034	1,643
Other borrowings	441	441	-
Total Group B Debt	20,071	13,362	6,709
Total Debt	29,438	22,729	6,709

MATURITY PROFILE OF FINANCIAL LIABILITIES	TOTAL	WITHIN 12 MONTHS	WITHIN 1 TO 5 YEARS
Group			
2012			
Overdrafts	29	29	-
Trade Payables and accruals	5,839	5,839	-
Future interest payments on borrowings	4,792	2,354	2,438
Borrowings	29,438	22,729	6,709
	40,098	30,951	9,147
2011			
Overdrafts	-	-	-
Trade Payables and accruals	6,117	6,117	-
Borrowings	21,288	10,706	10,582
	27,405	16,823	10,582

MATURITY PROFILE OF FINANCIAL LIABILITIES	TOTAL	WITHIN 12 MONTHS	WITHIN 1 TO 5 YEARS
Parent			
2012			
Trade Payables and accruals	332	332	-
Future interest payments on borrowings	387	387	-
Borrowings	3,865	3,865	-
	4,584	4,584	-
2011			
Trade Payables and accruals	264	264	-
Borrowings	1,928	-	1,928
	2,192	264	1,928

31 Subsequent Events

Following balance date the following debt repayments have been made:

- Donovan Family Trust $225,000
- FE Investments $1,400,000
- Subscriptions bulk funding facility $455,000

On 30 May the Directors announced a recapitalisation and restructure initiative which was approved at a Special General Meeting on 28 June 2012.

- commitments for subscriptions of $13,500,000 of new shares at 11.5 cents
- new banking facilities from ASB Bank of $20,000,000 and $5,000,000 - 3 year term, interest at BKBM (bank bill rate) plus a margin which at present would be a rate of 5.9%, repayable over the term of the loan at $500,000 per quarter.
- high cost debt repayment
- repurchase of the rental book

On 30 May 2012 Ian Bailey announced his resignation from the Board and it was further announced it was proposed that Ivan Hammerschlag would be joining the Board at the proposed Special General Meeting.




statutory information

Directors and Former Directors

At 31 March 2012 the directors holding office were Ian Bailey, Greg Barclay, Wayne Johnson and John Nimmo. During the financial year there were the no appointments or resignations.

At the annual meeting of shareholders held on 30th September 2011 Ian Bailey and John Nimmo stood for re-election and were re-elected by the shareholders as Directors of the Company.

Ian Bailey resigned as a director of Smartpay Holdings Limited and all its subsidiary companies on 30th May 2012.

Independent Directors

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

Subsidiary Company Directorships

At 31 March 2012, subsidiary companies had directors as follows:

NEW ZEALAND SUBSIDIARY COMPANIES	DIRECTOR
MIPS Financial Services Limited	Ian Bailey, Gregor Barclay
SmartPay Cadmus Limited	Ian Bailey, Gregor Barclay
SmartPay Ethos Limited	Ian Bailey, Gregor Barclay
SmartPay Transaction Delivery Services Limited	Ian Bailey, Gregor Barclay, Wayne Johnson
Software International Limited	Ian Bailey, Gregor Barclay
Fonefill Limited	Ian Bailey
SmartPay New Zealand Limited	Ian Bailey, Gregor Barclay
Sampro Limited	Ian Bailey
Merchant IP Services Limited	Ian Bailey
Next Generation Network Limited	Ian Bailey
SmartPay Technologies Limited	Ian Bailey, Gregor Barclay
Retail Radio Limited	Ian Bailey, Gregor Barclay
FIVO Limited	Ian Bailey
Net Pay Limited	Ian Bailey
SmartPay Subscriptions Limited	Ian Bailey, Gregor Barclay, Wayne Johnson
SmartPay Rentals Limited	Ian Bailey, Gregor Barclay
SmartPay Investments Limited	Ian Bailey, Gregor Barclay, John Nimmo
SmartPay Transactions Limited	Ian Bailey, Gregor Barclay, Wayne Johnson, John Nimmo
SmartPay Saffill Limited	Ian Bailey, Gregor Barclay
SmartPay HL Limited	Ian Bailey, Gregor Barclay

statutory information (continued)

AUSTRALIAN SUBSIDIARY COMPANIES	DIRECTOR
Merchant IP Financial Services Pty Limited	Ian Bailey, Gregor Barclay, Wayne Johnson
SmartPay Australia Pty Limited	Ian Bailey, Gregor Barclay, Wayne Johnson
Cadmus Payment Solutions Pty Limited	Ian Bailey, Gregor Barclay, Wayne Johnson
Product Rentals Pty Limited	Ian Bailey, Gregor Barclay, Wayne Johnson

Directors' Interests

The Directors have declared interests in the following entities:

DIRECTOR	INTEREST	ENTITY
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)
	Deputy Executive Chairman	MDS Financial Group 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	Principal	Claymore Partners
	Director	Numerous private companies
	Chairman	Pacific Forest Products Group
	Chairman	Experience Group Limited
	Director	Rugby Sales Limited
	Chairman	Nothern Districts Cricket
John Nimmo	Director	Nimmo Trustee Limited
	Director	Nimrod Group Limited
	Director	Chartered Secretaries New Zealand 2002 Limited

Information Used By Directors

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

Director and Officer Interests in Shares of the Company

Directors

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

DIRECTOR	NAME OF SHAREHOLDER	NATURE OF RELEVANT INTEREST	BALANCE AT 31/03/2011	MOVEMENT IN PERIOD	BALANCE AT 31/03/2012
Ian Bailey	Riverhorse Trustee Limited	Owned beneficially	72,759,634	(65,483,671)#	7,275,963
Wayne Johnson	Wayne Johnson	Owned beneficially	122,121	(109,909)#	12,212
	Baroda Hills Investments Ltd	Owned by associated parties	5,437,187	(4,893,468)#	543,719
Greg Barclay	Gregor John Barclay and Maria Anne McElwee as trustees of the Abergeldie Trust ('the Abergeldie Trust")	Trustee, no beneficial interest in the Trust	12,206,361	(10,985,725)#	1,220,636
	Ngatapa Trustees Ltd	Potential beneficiary under a discretionary trust	11,288,187	(10,159,368)#	1,128,819
John Nimmo	Nimmo Trustee Limited	Director no beneficial interest	4,656,488	(4,190,839)#	465,649

These movements are the result of the 1 for 10 share consolidation that took place on 20th May 2011.

Officers

Officers of the company include anyone who reports directly to the Board or the Managing Director. 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 Ordinary shares as at the balance date:

OFFICER	NAME OF SHAREHOLDER	NATURE OF RELEVANT INTEREST	BALANCE AT 31/03/2011	MOVEMENT IN PERIOD	BALANCE AT 31/03/2012
Bradley Gerdis *Chief Executive Officer*	Haymaker Investments Pty Ltd	Potential beneficiary under a discretionary trust	-	10,000,000	10,000,000

statutory information (continued)

Directors and Officer Interests in Options of the Company

Directors

DIRECTOR	NAME OF HOLDER	NATURE OF RELEVANT INTEREST	TYPE OF OPTION	CONVERSION PRICE PER SHARE	BALANCE AS AT 31/3/2011	MOVEMENT	BALANCE AT 31/3/2012	MAXIMUM NUMBER OF SHARES ON CONVERSION
Wayne Johnson	Baroda Hills Investments Ltd	Owned by associated parties	Directors Incentive Options 2014	$0.40	0	15,000,000	15,000,000	1,500,000
	Baroda Hills Investments Ltd	Owned by associated parties	Directors Incentive Options 2016	$0.50	0	15,000,000	15,000,000	1,500,000
Ian Bailey	River Horse Trustee Ltd	Owned beneficially	March 2016 Options	$0.40	0	20,000,000	20,000,000	2,000,000
John Nimmo	John Nimmo	Beneficial	September 2011	$0.033356	9,915,120	(9,915,120)	0	0
	Nimmo Trustee Ltd	Director no beneficial interest	Directors Incentive Options 2014	$0.40	0	10,000,000	10,000,000	1,000,000
	Nimmo Trustee Ltd	Director no beneficial interest	Directors Incentive Options 2016	$0.50	0	10,000,000	10,000,000	1,000,000
Greg Barclay	Claymore Partners Trustees 2011 Ltd	Held beneficially	Directors Incentive Options 2014	$0.40	0	10,000,000	10,000,000	1,000,000
	Claymore Partners Trustees 2011 Ltd	Held beneficially	Directors Incentive Options 2016	$0.50	0	10,000,000	10,000,000	1,000,000

Officers

OFFICER	NAME OF HOLDER	NATURE OF RELEVANT INTEREST	TYPE OF OPTION	CONVERSION PRICE PER SHARE	BALANCE AS AT 31/3/2011	MOVEMENT	BALANCE AT 31/3/2012	MAXIMUM NUMBER OF SHARES ON CONVERSION
Bradley Gerdis CEO	Haymaker Investments Pty Ltd	Potential Beneficiary under a discretionary trust	December 2014 Options	$0.15	0	10,000,000	10,000,000	10,000,000
	Haymaker Investments Pty Ltd	Potential Beneficiary under a discretionary trust	March 2017 Incentive Options	$0.20	0	10,000,000	10,000,000	10,000,000
	Haymaker Investments Pty Ltd	Potential Beneficiary under a discretionary trust	March 2017 Incentive Options	$0.30	0	10,000,000	10,000,000	10,000,000

Listing

The ordinary shares of SmartPay Holdings 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 Bradley Gerdis, Chief Executive Officer 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	3
$110,000 - $120,000	3
$120,000 - $130,000	1
$170,000 - $180,000	1
$280,000 - $290,000	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	2012	2011
Greg Barclay	38,000	38,000
John Nimmo	38,000	11,255
Wayne Johnson	60,000	44,516
Total	136,000	93,771

At the AGM on 4th October 2010 shareholders approved a maximum of $200,000 per annum for directors' fees.

Other Remuneration

Ian Bailey as managing director received a remuneration package totaling $305,000 ($395,000 in 2011). Following Ian's resignation as Managing Director of the Company the directors have also approved a restraint of trade payment to him totaling $305,000.

Wayne Johnson's corporate advisory company, Nobleman Ventures Pty Limited was appointed to provide corporate advisory services and assist in the capital raising activities of the Company; the fees relating to this activity are $204,000 ($70,000 in 2011). Please refer also to the related parties note to the accounts on page 49.

Directors' Insurance

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

Directors' Indemnity

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

other disclosures

Subsidiary Company Changes

New Companies during the year the following companies were incorporated as subsidiary companies:

SUBSIDIARY	INCORPORATED
SmartPay Saffill Limited	15 Aug 2011
SmartPay HL Limited	21 Feb 2012

The following companies were de-registered with effect from 11 April 2011:

SUBSIDIARY
Provenco Solutions Pty Limited
Provenco Technology Pty Limited
Provenco Communication Technologies Pty Limited

Audit Fee

Particulars of the audit fees paid during the year are set out in note 7, page 32.

Post Balance Date Events

Particulars of post balance date events are set out in note 31 on page 54.

Summary Of Waivers

There were no waivers sought during the period.

Exemptions

The contract entered into with ACP (see note 28b of the financial statements) was a material contract for the purposes of listing rule 9.2.2e and the board relied on the exemption under listing rule 9.2.4d when entering into this contract, a Directors' certificate signed by the independent directors of the company was submitted to the NZX as required.

security holder **statistics**

as at 31 May 2012

Distribution of Shareholders

SIZE OF HOLDING	SHAREHOLDERS	%	NUMBER OF SHARES	%
1-4,999	492	43.89	639,877	0.43
5,000-9,999	135	12.04	864,613	0.58
10,000 – 49,999	304	27.12	6,349,582	4.29
50,000 - 99,999	80	7.14	5,013,310	3.38
100,000 – 499,999	72	6.42	14,851,111	10.03
500,000 – 999,999	14	1.25	9,813,951	6.63
1,000,000 and over	24	2.14	110,585,194	74.66
Total	1,121	100%	148,117,638	100%

Distribution of Option Holders

SIZE OF HOLDING	OPTION HOLDERS	%	NUMBER OF OPTIONS	%
0 – 999,999	-	-	-	-
1,000,000 – 9,999,999,999	5	100	120,000,000	100
Total	5	100%	120,000,000	100%

Distribution of Convertible Note Holders

SIZE OF HOLDING	OPTION HOLDERS	%	NUMBER OF OPTIONS	%
0 – 999,999	-	-	-	-
1,000,000 – 9,999,999,999	1	100	4,000,000	100
Total	1	100%	4,000,000	100%

Registered Address of Shareholders

	HOLDER COUNT	COUNT %	HOLDING QUANTITY	QUANTITY %
New Zealand	1,054	94.02	131,325,641	88.66
Malaysia	8	0.71	1,043,101	0.70
Australia	51	4.55	15,485,599	10.45
Singapore	1	0.09	5,000	0.00
Switzerland	2	0.18	35,000	0.02
United Arab Emirates	1	0.09	200,000	0.14
United Kingdom	4	0.36	23,297	0.02
Total	1,121	100%	148,117,638	100%

Registered Address of Option Holders

	HOLDER COUNT	COUNT %	HOLDING QUANTITY	QUANTITY %
New Zealand	4	80.00	90,000,000	75.00
Australia	1	20.00	30,000,000	25.00
Total	5	100%	120,000,000	100%

Registered Address of Convertible Note Holders

	HOLDER COUNT	COUNT %	HOLDING QUANTITY	QUANTITY %
New Zealand	1	100	4,000,000	100

Substantial Security Holders

The following persons were substantial security holders (as defined in the Securities Markets Act 1988) in SmartPay Holdings Limited as at 31 May 2012 in respect of the number of securities set opposite their name:

	NUMBER OF SECURITIES	% OF CAPITAL
Murray Henshall #	19,644,106	13.26
Galileo Investments Trustee Limited	17,560,000	11.86
Walker & Hall Fine Gifts Limited	10,322,167	6.97
Haymaker Investments Pty Ltd (Haymaker Trust)	10,000,000	6.75
Kim Crawford and Three H Limited and Frederika Elfriede Crawford (KCW A/C)	7,720,637	5.21
Hubbard Churcher Trust Management Limited (Under Statutory Management)	7,714,265	5.21

Murray Henshall's holding is by virtue of his interest in the holdings of Galileo Investments Trustee Limited and Whakarua Trust as disclosed in the Substantial Security Holder Notice dated 14th March 2012.

The total number of issued voting securities of SmartPay at this date was 148,117,638.

Twenty Largest Registered Shareholders

NAME OF SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED CAPITAL
Galileo Investments Trustee Limited	17,560,000	11.86
Walker & Hall Fine Gifts Limited	10,322,167	6.97
Haymaker Investments Pty Ltd (Haymaker Trust)	10,000,000	6.75
Kim Crawford & Three H Limited & Frederika Elfriede Crawford (KCW A/C)	7,720,637	5.21
Hubbard Churcher Trust Management Limited (Under Statutory Management)	7,714,265	5.21
Riverhorse Trustee Limited (Riverhorse A/C)	7,275,963	4.91
Chapter 52 Trustee Limited	5,996,002	4.05
HSBC Nominees (New Zealand) Limited - NZCSD (HKBN90)	5,480,745	3.70
Anthony James Thorpe & Marilyn Ruth Thorpe & David Alistair Thorpe (AJ & MR Thorpe Family A/C)	5,462,503	3.69
Gregory Kevin Molloy & Claymore Trustees Limited (Cicero A/C)	4,891,529	3.30
Walter Mick George Yovich	4,622,015	3.12
National Communications Corporation Ltd	3,040,932	2.05
Dave Wetherell & Trish Wetherell & Pravir Tesiram (Jewell Family A/C)	2,893,768	1.95
Patrick John McCammon & NH Trustees No.2 Limited	2,360,653	1.59
Murray Henshall & Victoria Jane Henshall & Cyril Warren Mckenzie (Whakarua A/C)	2,084,106	1.41
Ross Purdy	1,610,682	1.09
Manaia Management Limited	1,398,303	0.94
Terence Roland Harrison	1,290,000	0.87
Citibank Nominees (New Zealand) Limited - NZCSD (CNOM90)	1,285,310	0.87
Haydalex Pty Limited (Haydalex Super)	1,281,370	0.87
Total	104,290,950	70.41%

security holder **statistics** (continued)

as at 31 May 2012

Five Largest Registered Option Holders

NAME OF OPTION HOLDER	NUMBER OF OPTIONS	% OF ISSUED OPTIONS	DATE OF EXPIRY	MAXIMUM NUMBER OF SHARES OPTIONS CONVERT TO
Baroda Hill Investments Limited	15,000,000	12.5	31 March 2014	1,500,000
Baroda Hill Investments Limited	15,000,000	12.5	31 March 2016	1,500,000
Nimmo Trustee Limited	10,000,000	8.333	31 March 2014	1,000,000
Nimmo Trustee Limited	10,000,000	8.333	31 March 2016	1,000,000
Claymore Partners Trustees (2011) Limited as trustee of the SPY Trust	10,000,000	8.333	31 March 2014	1,000,000
Claymore Partners Trustees (2011) Limited as trustee of the SPY Trust	10,000,000	8.333	31 March 2016	1,000,000
Riverhorse Trustee Limited	20,000,000	16.667	31 March 2016	2,000,000
Haymaker Investments Pty Limited ATF The Haymaker Trust	10,000,000	8.333	31 December 2014	10,000,000
Haymaker Investments Pty Limited ATF The Haymaker Trust	10,000,000	8.333	31 March 2017	10,000,000
Haymaker Investments Pty Limited ATF The Haymaker Trust	10,000,000	8.333	31 March 2018	10,000,000
TOTAL	120,000,000	100		39,000,000

Registered Convertible Note Holder

NAME OF HOLDER	NUMBER OF NOTES	% OF ISSUED
Kate Hellriegel and David James Tattersfield and Joseph Walker Tattersfield and Stephanie Anne Tattersfield (Pakihi Pension Scheme A/C)	4,000,000	100.00

smartpay directory

Registered Office

SmartPay Holdings 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: info@smartpayltd.com
Website: www.smartpayltd.com

Australian Office

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

Board

Wayne Johnson	Chairman & Independent Director
Greg Barclay	Director
John Nimmo	Independent Director
Ian Bailey	Resigned as Director 30 May 2012

Management

Bradley Gerdis	Chief Executive Officer
Rod Severn	Chief Operating Officer
Peter Trengrove	Group Financial Controller
Linc Burgess	Special Projects Manager
Carey Davis	Manager MIPS Financial Services
Andrew MacIntyre	Development Manager, Software Applicaitons
Lauren Midgley	Operations Manager
Pat O'Brien	General Manager SmartPay Australia

Auditors

Hayes Knight Audit
1 Broadway, Newmarket, 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 Partners Limited
Level 2, 63 Fort Street, Auckland