

## **Appendix 4D – Half Year Financial Results (H1 FY19)**

### **Highlights**

- **Statutory revenue A\$1.9M, represents four-month contribution of PayAsia**
- **Pro forma revenue A\$3.3M, adjusted to include six months of PayAsia and revenues from PayAsia India (divested prior to IPO)**
- **Pro forma EBITDA A\$0.8M; statutory EBITDA A\$(1.0M) includes one-off costs related to IPO and expenses to expand our market and product development initiatives**
- **A\$2.8M total contract value (TCV) signed in H1 FY19 – strong sales performance in a period of investment in future growth**
- **Solid growth outlook with two new referral partnerships and technology enhancements key to driving revenue growth and delivering operational efficiencies**

**Singapore, 12 December 2018:** Multi-Country BPO (Business Process Outsourcing) Payroll and cloud-based Software as a Service (SaaS) Human Resource Outsourcing Solutions provider PayGroup Limited (“PayGroup”, “the Group”; ASX: PYG), has today reported its half year financial results for the six months ended 30 September 2018 (H1 FY19).

PayGroup operates as Pay Asia Pte Ltd (“PayAsia”), which it formally acquired on 29 May 2018, in conjunction with its listing on the ASX. PayGroup reported a statutory net loss after tax of A\$1.1 million for the six-month period, which accordingly reflected only a four-month contribution from PayAsia. The statutory result also included one-off costs associated with the ASX listing. On a pro forma basis, PayGroup reported A\$0.6 million NPAT for the six-month period.

### **Pro forma revenue of A\$3.3 million, with new contract signings to add to H2 revenue pipeline**

PayGroup reported statutory revenue of A\$1.9 million, which represents a four-month contribution of its operating subsidiary PayAsia.

Pro forma revenue, which is adjusted to represent a six-month contribution of PayAsia and includes revenue from PayAsia India (which was divested prior to IPO) was A\$3.3 million, in line with the pro forma revenue for H1 FY18, provided in the company’s Prospectus.

The Company signed A\$2.8 million in new contracts during H1, expressed as total contract value (TCV), and based on average 3-year contract terms. Over 90% of the TCV added during the half was generated from sales to new customers. Several of the contracts were signed later in the half-year period, and will be implemented and commence billing in H2, in line with the company’s benchmark on implementation occurring within three to four months of signing.

During the first half, 66 new client entities<sup>1</sup> were implemented which is represented in the table below. This included 36 contracts for SaaS modules, representing an acceleration in the uptake of the company's HROnline platform, which is being increasingly used by existing and new clients.

New client entity implementations – 6 month period to 30 September 2018		
BPO	SaaS Modules	
Payroll	E-Leave	E-Claims
30	20	16

Consistent with prior periods, client churn remains low at <10%, with no material client losses during the period.

#### Earnings reflect significant one-off costs and business investment

The company reported a statutory EBITDA loss of A\$1.0 million for the half-year period. This includes one-off expenses of A\$0.4 million related to the ASX listing. On a pro forma basis the company reported EBITDA of A\$0.8M reflective of the Group's investment in consolidating the operating platform, market expansion, other technology enhancements over the period and inclusion of the Indian payroll business.

The company's investment on technology was outlined in the company's Prospectus plans and is expected to lay the foundation for revenue growth and operational efficiencies, with productivity gains expected to be evident as early as Q4 FY19.

As previously communicated, PayGroup continues to invest in the Channel Partner Program and new markets, including the UK, which has resulted in a number of material partnering opportunities. This activity included expenses associated with both headcount, business development and technology integration, all of which is expected to support accelerated revenue growth from FY20 onwards.

PayGroup reported a statutory A\$1.1 million net loss after tax for the half-year period, reflecting one off costs and expenditure on partnering and market development activities. On a pro forma basis the company delivered NPAT of A\$0.6 million for the six-month period.

#### Technology enhancement program to drive SaaS uptake

PayGroup commenced the upgrade to the user experience of its HROnline platform during the period, as was outlined in its Prospectus and IPO use of funds. This investment is expected to drive greater internal efficiencies and support greater client uptake of SaaS modules.

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<sup>1</sup> A single client entity may incorporate BPO Payroll, SaaS E-Leave and SaaS E-Claims (each is counted in the total)

The new client user interface design was completed during the period, and development is now underway with phased product releases planned over the coming nine months. Additional product enhancements to the platform have been scoped, with new releases commencing from Q4 CY18.

In addition, the company sourced a best-of-breed payroll platform during the period for the key growth markets of Indonesia, Philippines, Thailand and Vietnam. This is expected to speed up processing times for payroll functions and is expected to go live in January 2019, with commencement of training and implementation of preliminary accounts in Indonesia & Philippines currently underway.

#### **Positive growth outlook supported by channel partner program**

PayGroup sells BPO solutions and SaaS modules via both its direct sales team and its channel partner program. The channel partner program is expected to be an important growth driver for the company, with international referral partnerships to support expanding its reach into North America, UK and Europe.

Following on from the first contract win from its channel partner program reported in the quarterly update (ASX release 31 October 2018), the company advises that it has now signed its second contract from its US based referral partner, Ultimate Software, Inc. The company also has a number of additional qualified leads in its sales pipeline generated from this referral partnership.

Subsequent to the end of the half-year period, the company is pleased to advise that it has also entered into two new strategic referral partnership agreements with Japanese company Payroll Inc and UK based PeopleFirst. Both partnerships are expected to generate new sales in FY20, following on-boarding and integration programs. The partnerships will involve joint marketing and contracting to small, medium and large Multi-National Companies (MNCs) seeking a single provider across the APAC region (and specifically the APAC region ex-Japan in the case of Payroll Inc).

Payroll Inc, is one of the largest payroll outsourcing providers in Japan, delivering services to 249 companies and supporting 880,000 employees in Japan.

People First, created by MHR International, is a privately-owned UK company with over 30 years' experience in the HR and payroll market. People First is headquartered in Nottingham the UK, and has offices in Singapore, North America and Dublin. People First, is the company's HR software platform which is being sold across the UK, US and Singapore.

The alliances, together with existing referral partnership agreements, provides a strong competitive solution and obvious choice for North-American and European MNCs, together with Japanese and other Asian MNCs expanding through the region.

#### **Expanding into workforce management segment supported by proposed acquisition**

As previously reported PayAsia India Pte Ltd (Indian based payroll processing and workforce management business) was divested prior to the PYG listing with the acknowledgement PYG would acquire the underlying payroll business and BPO centre. This business segment provides group wide payroll services to the PayAsia client base.

Pay Group is currently in discussions to acquire the subsidiary – including the workforce management business (in addition to the underlying payroll business and BPO centre). It is expected that this transaction will be completed by 31 December 2018, and is anticipated to be a neutral outcome on a cost basis for PYG.

The strategic rationale for the proposed acquisition has been driven by demand from clients seeking a bundled payroll and workforce management offering. The proposed acquisition is expected to consolidate and enhance PayAsia's competitive position in the APAC region. India is a strategically important market, representing one of the fastest growing markets in Asia, with a high demand for workforce management solutions.

### **Dividend policy**

PayGroup's current dividend policy is subject to making a profit over the relevant period, with dividends payable on a half-yearly basis of an aggregate amount not less than 50% per annum of the reported net profit after tax. As a result, the company has elected not to declare a dividend for the half-year period. The decision to do so reflects the assessment by the board that the investment made in the business during the period sets up the company for FY20 and beyond, and is the most appropriate use of shareholder capital.

PayGroup's Managing Director and CEO, Mark Samlal, commented on the Appendix 4D saying:

"We have delivered a solid performance in our first four months as a listed company. H1 has been one of our strongest ever, in terms of sales to new customers, and we have, maintained the revenue of the underlying business during a period of intense focus on an IPO and investment in technology and partnerships.

"These growth initiatives are already delivering results: Our first partnership has delivered two contracts in a short amount of time, and the new partnerships expand our presence in Japan and Europe, creating a seamless solution for MNCs clients based in those regions.

"We've had our strongest period of SaaS uptake since introducing HROnline. The development work to enhance this platform is progressing on time and on budget, and we expect this to further boost the uptake of these modules, as well as drive greater operational efficiency.

"H2 is a seasonally stronger period for the group in both revenue and underlying profit terms, due to financial year end tax processing, together with the implementation and commencement of billing on new contracts secured in the H1."

-ENDS-

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### **About PayGroup**

Headquartered in Melbourne, Australia, PayGroup Limited (ASX: PYG) was recently incorporated as the holding company for PayAsia (collectively PayGroup or Group). The Group is a provider of BPO solutions and Cloud (Software-as-a-Service or SaaS) based Human Capital Management (HCM) software, operating in the Asia Pacific region for multinational companies. Clients are typically medium to large multinational companies with employees in multiple countries in the Asia Pacific region. The Group operates as a trusted partner to perform the outsourced payroll process for the client employees including banking, treasury, lodgement of statutory submissions including taxation, superannuation, pension, provident funds, and other social benefits. Beyond its BPO Payroll Services, the Group's SaaS HCM software product suite supports clients in managing aspects of their employees' life cycle, plus regional and mobile-enabled workflows for critical processes (such as employee and manager self-service, leave management and expense management).

[paygrouplimited.com](http://paygrouplimited.com)

## 1. Company details

Name of entity:	PayGroup Limited
ABN:	90 620 435 038
Reporting period:	For the half-year ended 30 September 2018
Previous period:	For the period ended 30 September 2017

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## 2. Results for announcement to the market

Revenues from ordinary activities	-	NA%	to	\$ 1,841,168
Loss from ordinary activities after tax attributable to the owners of PayGroup Limited	-	NA%	to	1,059,286
Loss for the half-year attributable to the owners of PayGroup Limited	-	NA%	to	1,059,286

*Percentage movement to prior period have not been provided as prior period values were zero.*

### Dividends

A dividend of 750,000 was paid during the half year.

### Comments

The net loss for the consolidated entity after providing for income tax amounted to \$1,059,286 (30 September 2017: \$Nil).

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	6.31	N/A

## 4. Audit review

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

## 5. Attachments

Details of attachments (if any):

The Interim Report of PayGroup Limited for the half-year ended 30 September 2018 is attached.

## 6. Signed

Signed



Ian Basser  
Chairman  
Melbourne

Date: 12 December 2018

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**PayGroup Limited**

**ABN 90 620 435 038**

**Interim Report – 30 September 2018**

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of PayGroup Limited (referred to hereafter as 'PayGroup' the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 September 2018.

### **Directors**

The following persons were directors of PayGroup Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Ian Basser  
Mark Samlal  
David Fagan  
Franck Neron-Bancel

### **Principal Activities**

The company was incorporated on 13 July 2017 with the express purpose acquiring a Singapore based company - Pay Asia Pte Ltd (PayAsia) and listing on the Australian Stock Exchange (ASX) pursuant to a Prospectus lodged with the Australian Securities and Investment Commission.

The company successfully listed on the ASX on the 29 May 2018 and completed the acquisition of PayAsia via a share swap arrangement as at the date of listing.

### **Operating Result**

The net loss for the consolidated entity after providing for income tax amounted to \$1,059,286 (30 September 2017: Nil).

### **Review of Operations**

The company was incorporated on 13 July 2017 and listed on the ASX on 29 May 2018 and in doing so raised \$8.5m. On listing the company acquired a Singapore based company, Pay Asia Pte Ltd (PayAsia) and become the parent entity for PayAsia.

Following the acquisition, PayGroup and PayAsia (Group) will continue to expand the underlying PayAsia business.

The Group is a provider of BPO solutions and Cloud (Software-as-a-Service or SaaS) based Human Capital Management (HCM) software, operating in the Asia Pacific region for multinational companies, and today services over 400 client entities with more than 31,000 client employees across 18 countries.

PayAsia is headquartered in Singapore, and has representation across 8 countries.

Clients are typically multinational companies with medium to large numbers of employees in multiple countries in the Asia Pacific region.

The Group operates as a trusted partner to perform the outsourced payroll process for the client employees including banking, treasury, lodgement of statutory submissions including taxation, superannuation, pension, provident funds, and other social benefits.

Beyond its BPO Payroll Services, the Group's SaaS HCM software product suite supports clients in managing aspects of their employee's life cycle, plus regional and mobile-enabled workflows for critical processes (such as employee and manager self-service, leave management and expense management).

The Group will be leveraging the flexibility of its Cloud deployment capabilities to further implement its SaaS HCM suite in additional countries within and outside of the Asia Pacific region.



### **Significant changes in the state of affairs**

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

### **Post Balance Date Event**

Since the end of the half year the Company has commenced discussions with the Shareholders of Pay Asia Management Private Limited with the view of completing a share acquisition of the company before 31 December 2018.

Apart from the above, there were no other post balance date events.

### **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



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Ian Basser  
Chairman  
12 December 2018  
Melbourne

## Auditor's Independence Declaration

### To the Directors of PayGroup Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of PayGroup Limited for the half-year ended 30 September 2018. I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd  
Chartered Accountants



E W Passaris  
Partner - Audit & Assurance

Melbourne, 12 December 2018

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## General information

The financial statements cover PayGroup Limited as a consolidated entity consisting of PayGroup Limited and the entities it controlled at the end of, or during, the financial half-year. The financial statements are presented in Australian dollars, which is PayGroup Limited's functional and presentation currency.

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 12 December 2018.

		<b>Consolidated</b>	
	<b>Note</b>	<b>30 September 2018 \$</b>	<b>30 September 2017 \$</b>
Revenue from continuing operations	7	1,841,168	-
Other income	7	32,906	-
<b>Expenses</b>			
Subcontractors		364,682	-
Hosting services		77,133	-
Employee benefits		1,055,290	-
Rent and occupancy		96,595	-
Initial public offering costs		104,107	-
Consulting and professional fees		442,252	-
Depreciation and amortisation expense		92,206	-
Finance costs		15,020	-
Other expenses		684,984	-
		<hr/>	<hr/>
<b>Loss before income tax</b>		1,058,195	-
			-
Income tax expense		1,091	-
		<hr/>	<hr/>
<b>Loss after income tax for the half-year</b>		1,059,286	-
			-
Other comprehensive income for the half-year net of tax		<hr/>	<hr/>
		-	-
<b>Total comprehensive loss for the half-year</b>		<hr/>	<hr/>
		1,059,286	-
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	10	(2.96)	-
Diluted earnings per share	10	(2.96)	-

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

		<b>Consolidated</b>	
	<b>Note</b>	<b>30 September</b>	<b>31 March</b>
		<b>2018</b>	<b>2018</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		4,686,690	1
Trade and other receivables	8	1,775,086	38,779
Prepayments		82,705	8,333
Other assets		118,473	181,686
Total Current Assets		<u>6,662,954</u>	<u>228,799</u>
<b>Non-Current Assets</b>			
Plant and equipment		107,737	-
Intangibles	9	989,568	-
Total Non-Current Assets		<u>1,097,305</u>	<u>-</u>
<b>Total Assets</b>		<u>7,760,259</u>	<u>228,799</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		3,510,715	721,624
Total Current Liabilities		<u>3,510,715</u>	<u>721,624</u>
<b>Non-Current Liabilities</b>			
Deferred tax liabilities		127,939	-
Total Non-Current Liabilities		<u>127,939</u>	<u>-</u>
<b>Total Liabilities</b>		<u>3,638,654</u>	<u>721,624</u>
<b>Net Surplus / (Deficit)</b>		<u>4,121,605</u>	<u>(492,825)</u>
<b>Equity</b>			
Issued capital	11	7,998,536	287,601
Reserves	13	167,055	216,904
Accumulated losses		<u>(4,043,986)</u>	<u>(997,330)</u>
<b>Total Equity</b>		<u>4,121,605</u>	<u>(492,825)</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Reserves \$</b>	<b>Accumulated losses \$</b>	<b>Total Equity \$</b>
Balance at 13 July 2017	-	-	-	-
Loss after income tax expense for the half-year	-	-	-	-
Total comprehensive income for the half-year	-	-	-	-
<b>Transactions with owners in their capacity as owners:</b>				
Shares issued during the period	1	-	-	1
Balance at 30 September 2017	1	-	-	1
<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Reserves \$</b>	<b>Accumulated losses \$</b>	<b>Total Equity \$</b>
Balance at 1 April 2018	287,601	216,904	(997,330)	(492,825)
Balances acquired as part of the share swap acquisition of PayAsia	49,126	19,096	(1,237,370)	(1,169,148)
Loss after income tax expense for the half-year	-	-	(1,059,286)	(1,059,286)
Total comprehensive income for the half-year	-	-	(1,059,286)	(1,059,286)
Movement in foreign exchange	-	(68,945)	-	(68,945)
<b>Transactions with owners in their capacity as owners:</b>				
Shares issued during the period	8,500,000	-	-	8,500,000
Cost of share issued recorded directly in equity	(838,191)	-	-	(838,191)
Dividend paid	-	-	(750,000)	(750,000)
Balance at 30 September 2018	7,998,536	167,055	(4,043,986)	4,121,605

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

**Cash flows from operating activities**

		<b>Consolidated</b>	
		<b>30 September</b>	<b>30 September</b>
	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$</b>	<b>\$</b>
Receipts from customers (inclusive of GST/VAT/SST)		2,696,491	-
Payments to suppliers and employees (inclusive of GST/VAT/SST)		(3,313,525)	-
		(617,034)	-
Interest received		6,047	-
Interest and other finance costs paid		(15,020)	-
<b>Net cash used in operating activities</b>		<b>(626,007)</b>	<b>-</b>
<b>Cash flows from investing activities</b>			
Payment for, plant and equipment		(14,152)	-
Payment for intangibles		(170,551)	-
Net cash inflow from acquisition, net of cash paid	16	844,033	-
Deposit paid for business acquisition	8	(478,419)	-
Loan to related party	8	(151,425)	-
Employee loan		(59,511)	-
<b>Net cash used in investing activities</b>		<b>(30,025)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue	11	8,500,000	1
Payments for IPO and fund raise		(942,298)	-
Dividend paid	12	(1,000,250)	-
Repayment of borrowings		(1,214,731)	-
<b>Net cash used in financing activities</b>		<b>5,342,721</b>	<b>1</b>
Net decrease in cash and cash equivalents		4,686,689	1
Cash and cash equivalents at the beginning of the financial half-year		1	-
<b>Cash and cash equivalents at the end of the financial half-year</b>		<b>4,686,690</b>	<b>1</b>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## **Note 1. Nature of operations**

The Group is a provider of BPO solutions and Cloud (Software-as-a-Service or SaaS) based Human Capital Management (HCM) software, operating in the Asia Pacific region for multinational companies, and today services over 400 client entities with more than 31,000 client employees across 18 countries.

The Group operates as a trusted partner to perform the outsourced payroll process for the client employees including banking, treasury, lodgement of statutory submissions including taxation, superannuation, pension, provident funds, and other social benefits.

## **Note 2. General information and basis of preparation**

### **Introduction**

The interim financial report for the half year ended 30 September 2018 covers PayGroup Limited ("PayGroup") and its controlled entities ("Group"). PayGroup is a company limited by shares whose shares are traded on the Australian Securities Exchange (ASX). PayGroup is incorporated and domiciled in Australia. The presentation currency is Australian dollars, which is the functional currency of the parent company.

### **Basis of preparation**

This condensed interim consolidated financial report for the half-year ended 30 September 2018 has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

Except for cash flow information, the financial report has been prepared on an accruals basis and is based on historical cost, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

This interim financial report is intended to provide users with an update on the latest annual financial statements of PayGroup Limited and its controlled entities (referred to as the "Consolidated Group" or "Group"). However given the significant change in operations being the acquisition of PayAsia, this report contains all information in relation to significant accounting policy notes as such information was not provided in the previous financial report.

It is also recommended that this financial report be read in conjunction with the annual financial statements for the Group for the year ended 31 March 2018, together with any public announcements made during the following half-year.

### **Critical accounting estimates**

The preparation of the financial report requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial report, are disclosed in Note 5.

### **Principles of consolidation**

The consolidated financial report incorporates the assets and liabilities of all subsidiaries of PayGroup Ltd ('company' or 'parent entity') as at 30 September 2018 and the results of all subsidiaries for the half year then ended. PYG Ltd and its subsidiaries together are referred to in this financial report as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.



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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

These financial statements were authorised by the Board of Directors for issue on 12 December 2018.

### **New standards adopted as at 1 April 2018**

#### **AASB 15 *Revenue from Contracts with Customers***

AASB 15 replaces AASB 118 'Revenue', AASB 111 'Construction Contracts' and several revenue-related Interpretations. The new Standard has been applied as at 1 April 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 April 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 April 2018.

The adoption of AASB 15 has mainly affected the following areas:

- Payroll Business Process Outsourcing (BPO) services set-up costs;
- Loss contracts; and
- Contracts with multiple performance obligations.

#### **Payroll Business Process Outsourcing (BPO) services set-up costs**

In preparing to on board a Payroll BPO client the Group undertakes a business process review with the client that takes up to two weeks of data, rule and process collation. This is then configured in a new established payroll instance.

This environment is tested for accuracy and optimality and conduct a "penny" test to banks. Testing involves at minimum one parallel run prior to going live and depending on the go-live month can involve running a full year of payroll processing and performing monthly data validation against the clients existing payroll reports.

Once signed off by the client the payroll instance is placed into our live production by our external hosting provider and access is given to the operations team.

The Implementation team then repeats the process by configuring a new client in our own product "HROnline". HROnline provides Payslip Delivery, Biographical, E-Claim and E-Leave services. The basic configuration of Payslips and Biographical data is bundled with Payroll sales.

The Group's Datacenter for payroll is housed in WebVision (Singapore) and is charged on a monthly basis. In addition a third party provider PASR who provides all management, disaster recovery and

support services on this environment (also charged monthly). HROnline is hosted on Amazon Webservices Singapore and is managed by a third party who also develop and support the product.

The Group is billed on a monthly basis covering the hosting and support costs for the environment. Costs of both hosting environments are mainly fixed but do have variability due to variable support queries (upgrades as an example) and the need to tune the Amazon environment over peak periods such as year end processing.

As these costs arise from activities that the Group must undertake to fulfil a contract but do not themselves transfer a good or service to a customer, AASB 15 does not consider them to be performance obligations. Accordingly, these costs are excluded from the measure of performance under the contract. Instead, such costs are evaluated for possible capitalisation using the specific criteria in the Standard. If capitalised, the resulting asset is subsequently amortised on a straight-line basis over the estimated period of benefit which includes both the existing contract and any reasonably anticipated renewals based on the company's historical experience with similar arrangements. Under AASB 118, these costs were expensed as incurred.

This change of accounting for set-up costs had no impact on the total amount of services revenue recognised under each contract, or the date upon which services revenue is first recognised. Therefore there has been no adjustment to the opening balance of retained earnings arising from the initial application of AASB 15.

### **Loss contracts**

AASB 15 does not include any guidance on how to account for loss contracts. Accordingly, such contracts are accounted for using the guidance in AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'.

Under AASB 137, the assessment of whether a provision needs to be recognised takes place at the contract level and there are no segmentation criteria to apply. When two or more contracts entered into at or near the same time are required to be combined for accounting purposes, AASB 15 requires the Group to perform the assessment of whether the contract is onerous at the level of the combined contracts. The Group also notes that the amount of loss accrued in respect of a loss contract under AASB 111 takes into account an appropriate allocation of overheads. This contrasts with AASB 137 where loss accruals may be lower as they are based on the identification of 'unavoidable costs'. As at 1 April 2018, the Group has not identified any contracts requiring a provision.

### **Contracts with multiple performance obligations**

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, software, elements of design and customisation, implementation and ongoing payroll processing services. Under AASB 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is 'separately identifiable' (i.e. the Group does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Group during the year.

### **AASB 9 *Financial Instruments***

AASB 9 Financial Instruments replaces AASB 139's 'Financial Instruments: Recognition and Measurement' requirements. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the Group elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 April 2018.

The adoption of AASB 9 has mostly impacted the following area:

- the impairment of financial assets applying the expected credit loss model. This applies now to the Group's trade receivables. For trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

### **Note 3. Changes in significant accounting policies**

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 31 March 2018, except as described below. Note that the changes in accounting policies specified below only apply to the current period. The accounting policies included in the Group's last annual financial statements, for the year ended 31 March 2018 together with the other policies after Note 3 are the relevant policies for the purposes of comparatives.

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments (2014) became effective for periods beginning on or after 1 January 2018. Accordingly, the Group applied AASB 15 and AASB 9 for the first time to the interim period ended 30 September 2018. Changes to the Group's accounting policies arising from these standards are summarised below:

#### **3.1 Revenue**

Revenue arises mainly from the sale of outsourced payroll services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Based upon the review undertaken, the adoption of AASB15 did not have a material impact on the Group's statement of profit or loss and other comprehensive income, the statement of financial position for the interim period ending 30 September 2018 or the statement of cash flows.

### **3.2 Financial instruments**

#### *Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### *Subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

1. Financial assets at amortised cost
2. Financial assets at fair value through profit or loss (FVTPL)
3. Debt instruments at fair value through other comprehensive income (FVTOCI)
4. Equity instruments at FVTOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

#### *Trade and other receivables*

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

#### *Classification and measurement of financial liabilities*

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

#### **Note 4. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a. Revenue recognition

Revenue arises mainly from the sale of outsourced payroll services.

To determine whether to recognise revenue, the Group follows a 5-step process:

- i. Identifying the contract with a customer
- ii. Identifying the performance obligations
- iii. Determining the transaction price
- iv. Allocating the transaction price to the performance obligations
- v. Recognising revenue when/as performance obligation(s) are satisfied.

The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

b. Interest

Interest revenue is recognised as interest accrues using the effective interest rate method.

c. Government grants

Grants from the government are recognised as a receivable at the fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants receivable are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to assets are deducted against the carrying amount of the assets.

d. Taxation

The income tax expense for the period comprises current tax expense and deferred tax expense.

*Current tax*

Current tax assets/liabilities are measured at the amounts expected to be recovered/to be paid to/from the relevant taxation authority.

*Deferred tax*

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

Except for business combinations, no deferred income tax is recognised from the initial

recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

#### *Offsetting balances*

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### e. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

#### f. Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

#### g. Trade and other receivables

Trade and other receivables are recognised when the Group becomes party to a contractual provision.

They are derecognised when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and substantially all the risks and rewards are transferred.

Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method, less any loss allowance.

The Group makes use of a simplified approach in accounting for trade and other receivables and records a loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

h. Plant and equipment

Plant & equipment are stated at cost, less accumulated depreciation and provision for impairments. Depreciation is calculated on a straight-line basis so as to write off the cost over their expected useful lives. The estimated useful lives are as follows:

Renovation	3 years
Furniture & fittings	3 years
Office equipment	3- 10 years
Computers	3 years

Fully depreciated plant & equipment are retained in the financial statements until they are no longer in use. The residual values and useful lives of plant & equipment are reviewed at the end of each financial year end and adjusted prospectively, if appropriate.

i. Intangible assets

Intangible assets include the Group's aggregate amount spent on the acquisition of computer software and development costs. Intangible assets with finite useful lives are measured at cost less accumulated amortisation and impairment losses. They are amortised in the profit or loss on a straight-line basis over their estimated useful lives. The Group has adopted an estimated useful life of 5 years. The useful life is measured from the date on which they are available for use.

Intangible assets with indefinite useful lives are not amortised and are measured at cost less impairment losses.

The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected term over which the Group will receive benefits from the software, but not exceeding the licence term. For unique software products controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology. Historically changes in useful lives have not resulted in material changes to the Group's amortisation charge.

j. Impairment of non-financial assets

Plant and equipment and intangibles are reviewed for impairment wherever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (ie the higher of the fair value less costs to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

If the recoverable amount of the asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

The impairment loss is recognised in the statement of comprehensive income.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimate used to determine the assets recoverable amount since the last



impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the statement of comprehensive income.

k. Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

l. Employee benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Share based payments*

Equity settled share-based compensation benefits are provided to employees and directors.

Equity settled transactions are awards of shares, options over shares or employee loan share plans, that are provided to employees and directors in exchange for the rendering of services.

The cost of equity settled transactions are measured at fair value on grant date. Fair value of options is independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rates for the term of the option, together with non-vesting conditions that do not determine whether the entity receives the services that entitled the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

m. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between the proceeds and the redemption value is recognised in the statement of comprehensive income over the period of borrowings using the effective interest rate.



n. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

o. Operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payment made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

p. Contributed equity

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

All issued ordinary shares are fully paid. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

q. Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition date fair values of the asset transferred, equity instruments issued and liabilities incurred by the acquirer to former owners of the acquiree and the amounts of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where a business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree

is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquiree.

r. Foreign currency translation

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the statement of comprehensive income.

*Foreign currency translations*

The results and financial position of all the Group entities are translated into Australian dollars as follows:

- Assets and liabilities are translated at the closing rates at the date of the statement of financial position.
- Income and expenses are translated at average rates for the year, which approximates the exchange rates at the dates of the transactions.
- All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

On aggregation, currency translation differences arising from the net investment in foreign operations are taken to the currency translation reserve

s. Earnings per share

*Basic earnings per share*

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

*Diluted earnings per share*

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

## **Note 5 Critical accounting judgements, estimates and assumptions**

### *Critical judgements in applying the Group's accounting policies*

In the process of applying the Group's accounting policies, the Group is of the opinion that there are no instances of application of judgement which are expected to have a significant effect on the amounts recognised in the financial report, except from those involving estimate and as follows:

- a. **Capitalisation of intangibles**  
Costs directly attributable to the development of computer software are capitalised as intangible assets when the Group judges that the technical feasibility of the project is demonstrated, the Group has the intention and ability to complete and use the software and the cost can be measured reliably. Such costs include purchases of materials and services and payroll related costs of employees directly involved in the project. Research costs are recognised as an expense when incurred.
- b. **Determination of functional currency of the entity's in the Group**  
The effects of changes in foreign exchange rates requires the company and the entities in the Group to determine its functional currency to prepare the financial statements. When determining its functional currency, the company and the entities in the Group consider the primary economic environment in which it operates, ie the one in which it primarily generates and expends cash. The company and the entities in the Group may also consider the funding sources. Management applied its judgment and determined that the functional currency of the company is Australian dollars.

### *Key sources of estimation uncertainty*

The Group believes that there are no key assumptions made concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, except as disclosed below:

- a. **Depreciation and amortisation**  
Plant and equipment and intangibles are depreciated and amortised on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. Changes in the expected level of use and technological developments could impact the economic useful lives and the residual values of these asset, therefore future depreciation and amortisation charges could be revised. Any changes in the economic useful lives or residual values could impact the depreciation charges and consequently affect the Group's results.
- b. **Trade receivables loss allowance**  
The Group evaluates whether there is any objective evidence in relation to historical experience, external indicators and forward-looking indicators that indicate a loss allowance is required and determines an appropriate loss allowance. If the financial condition of the customers were to deteriorate over and above the objective evidence obtained, actual write offs would be higher than estimated.
- c. **Income taxes**  
The Group has exposure to income taxes in the countries where it operates. Significant judgment is involved in determining the Group provision for income taxes. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provision in the financial year in which the determination is made.

d. Impairment of non-financial assets

Plant and equipment and intangibles are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

The recoverable amount of these assets and, where applicable, cash generating units, have been determined based on value in use calculations. These calculations require the use of estimates. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit (or group of cash generating units) and also to use many estimates and assumptions such as future market growth, forecast revenue and costs, useful lives and utilisation of the assets, discount rates and other factors.

e. Fair value of share-based payment transactions

The fair value of share-based payment transactions was determined using a binomial pricing model. The model requires certain inputs in order to determine an appropriate fair value. These inputs include share price at grant date, risk free rate, volatility factor, exercise price, time to maturity and expected dividend yield.

## Note 6. Operating segment information

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) in order to effectively allocate Group resources and assess performance.

*Identification of reportable operating segments*

The Group provides payroll services to clients that typically have multiple offices within the Asia Pacific region. The provision of these payroll services is from business process centres in India, Philippines and Singapore and in many cases are unrelated to the location where revenue is generated.

Revenue is recognised in Singapore, Malaysia and Australia and is not directly attributable to costs within the country where the income is generated. On this basis the CODM currently reviews the financial performance of the Group on a consolidated basis in order to determine the most efficient and effective use of the Group's economic resources.

Given this structure of the Group, presentation of segmental information is not relevant.

## Note 7. Revenue

	<b>Consolidated</b>	
	<b>30 September 2018</b>	<b>30 September 2017</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue from continuing operations</b>		
Payroll services	1,713,700	-
HR and Staffing	127,468	-
	<u>1,841,168</u>	<u>-</u>
<b>Other income</b>		
Interest	6,047	-
Other	26,859	-
	<u>32,906</u>	<u>-</u>

## Note 8. Trade and other receivables

	<b>Consolidated</b>	
	<b>30 September</b>	<b>31 March</b>
	<b>2018</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Current assets		
Trade receivables	1,049,455	-
Less: allowance for impairment of receivables	(217,499)	-
	<u>831,956</u>	<u>-</u>
Deposit – related party <sup>1</sup>	509,099	-
Amount owing by related party – non-trade	126,449	-
Bank deposits	112,796	-
Other	194,786	-
	<u>1,775,086</u>	<u>-</u>

- 1) Prior to the acquisition of Payasia Pte Ltd ("PASG"), the directors of Payasia Pte Ltd divested their investment in Pay Asia Management Private Limited ("PAM"). The company was sold on 31 March 2018 to Employee Group Pte Ltd ("EG"), an entity that is owned by the Founding Shareholders of Payasia Pte Ltd – who by virtue of the share swap / acquisition undertaken on 29 May 2018 became shareholders of PYG.

At the time of the divestment of the corporate entity PAM, it was acknowledged that the Group would be acquiring the underlying payroll business that operated within PAM. Due to regulatory challenges in establishing the appropriate operating vehicle and structure within India, the acquisition of the Payroll business was delayed.

The sale / purchase transaction undertaken as at 31 March 2018 resulted in EG taking over an inter-company liability owing to PAM, the settlement of which would be undertaken via the proceeds to be received from PYG for the sale of the PAM payroll business. Due to delays in PYG establishing the India structure, PYG, via its subsidiary PASG, paid a deposit to EGS as consideration for the acquisition of the payroll business.

The value of the deposit is supported by an independent valuation of PAM's payroll business as reflected as at 31 March 2018. Refer Note 18 for further information regarding the PAM restructure.

The carrying amount of other financial assets approximates their fair value.

## Note 9. Intangible assets

<b>Cost</b>	<b>Software</b>	<b>Software under development</b>	<b>Total</b>
Balance 1 April 2018	-	-	-
Acquired as part of the PayAsia acquisition 29 May 2018	1,481,393	55,641	1,537,034
Additions	-	170,551	170,551
Reclassification	53,613	(53,613)	-
Balance 30 September 2018	<u>1,535,006</u>	<u>172,579</u>	<u>1,707,585</u>
<b>Accumulated amortisation</b>			
Balance 1 April 2018	-	-	-
Acquired as part of the PayAsia acquisition 29 May 2018	639,554	-	639,554
Charge for the half year	78,463	-	78,463
Balance 30 September 2019	<u>718,017</u>	<u>-</u>	<u>718,017</u>
<b>Net Book Value</b>			
Balance as at 31 March 2108	-	-	-
Balance 30 September 2018	<u>816,989</u>	<u>172,579</u>	<u>989,568</u>

## Note 10. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company as the numerator, i.e., no adjustments to profits were necessary during the six months period to 30 September 2018.

	Six months to 30 September 2018	Period to 30 September 2017
Weighted average number of shares used in basic earnings per share	35,791,757	-
Weighted average number of shares used in diluted earnings per share	35,791,757	-

## Note 11. Contributed equity

	30 September 2018		31 March 2018	
	Shares	\$	Shares	\$
Ordinary Shares – fully paid	51,671,466	7,998,536	2,417,452	287,601

## Movements in ordinary share capital

Details	Date	Shares	Issue Price	\$
Balance	13 Jul 2017	-	-	-
Shares issued to director	13 Jul 2017	2	\$0.50	1
Shares issued under Loan Share Plan	23 Feb 2018	1,763,450	-	-
Shares Issued under share-based payment arrangement	23 Feb 18	594,000	\$0.43	257,600
Shares issued under share-based payment arrangement	23 Feb 18	60,000	\$0.50	30,000
Balance 31 Mar 2018		<u>2,417,452</u>	-	<u>287,601</u>
Shares issued – Initial public offering	29 May 2018	17,000,000	\$0.50	8,500,000
Cost attributable to raising capital	-	-	-	(838,191)
Shares issued pursuant to share swap arrangement	29 May 2018	32,254,014	-	-
Balances acquired as part of the share swap acquisition of PayAsia	29 May 2018			49,126
Balance 30 Sep 2018		<u>51,671,466</u>		<u>7,998,536</u>

## Note 12. Dividends

During the first half of 2019, PayGroup paid a dividend of \$750,000 to its equity shareholders. This represents a payment of 1.45 cents per share. A dividend of \$250,250 was paid to the founding shareholders of PayGroup from pre-acquisition retained earnings. No dividends were paid in prior periods.

### Note 13. Reserves

	Consolidated	
	30 September 2018	31 March 2018
	\$	\$
Share based payment reserve	216,904	216,904
Foreign currency translation reserve	(68,945)	-
Other reserve	19,096	-
	<u>167,055</u>	<u>216,904</u>

### Note 14. Contingent liabilities

As at the reporting date, there were no material claims or disputes of a contingent nature against the Company and its subsidiaries.

### Note 15. Related parties

#### Related entities

PayGroup Ltd acquired 100% of the shares in Pay Asia Pte Ltd on 29 May 2018 as part of a share swap arrangement. Pay Asia Pte Ltd became a 100% controlled entity at this date. The consolidated financial statements include the financial statements of PayGroup Limited and its controlled entities.

The controlled entities are as follows:

Name	Date of acquisition	Parent entity	%	Country of incorporation and business
Pay Asia Pte Ltd	29 May 2018	PayGroup Ltd	100%	Singapore
PayMY Outsourcing Sdn Bhd		Pay Asia Pte Ltd	100%	Malaysia
Pay Asia Australia Pty Ltd		Pay Asia Pte Ltd	100%	Australia
Pay Asia Ltd		Pay Asia Pte Ltd	100%	Hong Kong
Pay Asia Services Limited, Inc		Pay Asia Pte Ltd	100%	Philippines

#### Employee share Plan

Employees of Pay Asia Pte Ltd and its subsidiaries were offered shares as part of the employee share plan. The employee benefits expense of this plan has been recognised in the financial statements of these entities over the period in which the shares vested.

### Transactions with related parties

During the period, directors or parties related to the directors subscribed for and were allocated shares in the company as follows:

Date	Name	Number of shares	Amount paid
29 May 2018	Michele Samantha Samlal	22,080,704	- <sup>1</sup>

<sup>1</sup> Issued under share swap transaction whereby PayGroup acquired 100% of the share capital in PayAsia. Michele Samantha Samlal is a related party to Mark Samlal. Refer Note 13 for further details.

2018

Date	Name	Number of shares	Amount paid
13 Jul 2017	Mark Samlal	2	1
13 Feb 2018	Ian Basser	200,000	100,000
13 Feb 2018	Franck Neron-Bancel	394,000	197,000



## Rental

Pay Asia Australia Pty Ltd rents business premises via a third party agent. The premises are co-owned by Michele Samantha Samlal. Rent and the lease agreement are set and maintained by the third party agent and is set at terms representing normal commercial terms and conditions and at market rates.

## Deposits / loans to / from related parties

The following balances are outstanding at reporting date in relation to deposits / loans with related parties:

	<b>Consolidated</b>	
	<b>30 September</b>	<b>30 June</b>
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Current receivables		
Deposit paid to Employee Group Pte Ltd for the acquisition of Payroll business (refer note 5)	509,099	-
Loan to Employee Group Pte Ltd <sup>1</sup>	126,449	-
		-

1 This loan was provided to support the underlying Payroll business that the Group was in the process of acquiring from a 100% owned subsidiary of Employee Group Pte Ltd, with the acquisition being delayed due to statutory and regulatory conditions within India. As noted in Note 18 the Group is currently in discussions to acquire the subsidiary rather than the Payroll business. It is expected that this transaction will be completed by 31 December 2018.

## Note 16 Business combinations

### *Payasia Pte Ltd*

As detailed in the Company's prospectus, on 29 May 2018, immediately following the listing of the Company on the Australian Stock Exchange ('ASX'), the Company acquired 100% of the shares in PayAsia via a share swap transaction. This acquisition was not deemed an acquisition as per Australian Accounting Standard AASB 3 'Business Combinations'. The acquisition has been treated as a pooling of interests whereby the equity of PayGroup has been combined with the equity of Pay Asia as at the date of acquisition.

The transaction was undertaken based on the fair value of PayAsia's existing assets and liabilities as at 29 May 2018. There will be no goodwill or other intangible assets recognised as part of the acquisition.

Details of the underlying business are detailed in the Company's Prospectus dated 11 April 2018.

Details of the acquisition are as follows:

<b>Description</b>	<b>Payasia Pte Ltd</b>
	<b>AUD\$</b>
Cash and cash equivalents	844,033
Trade and other receivables	1,744,702
Plant and equipment	107,328
Intangible assets	897,480
Trade and other payables	(3,916,032)
Borrowings	(721,795)
Deferred tax liabilities	(124,864)
<b>Net asset / (liabilities) acquired</b>	<b>(1,169,148)</b>

No cash was used to acquire PayAsia, with the acquisition undertaken entirely on a share swap basis where the company issued 32,254,014 shares to the existing shareholders of PayAsia for 100% of the equity in PayAsia.



#### Details of shares issued

<b>Name</b>	<b>Number of shares issued</b>	<b>Escrow period from listing date</b>
Michele Samantha Samlal	22,080,704	24 months
Lawrence Pushpam	7,051,953	24 months
Simon Forrester	2,427,722	6 months
Nancy Chandler Koglmeier	693,635	6 months
<b>Total</b>	<b>32,254,014</b>	

#### Note 17. Fair value measurement of financial instruments

The carrying amounts of the current receivables, current payables and current borrowings are considered to be a reasonable approximation of their fair value.

#### Note 18. Events after the reporting period

Since the end of the half year the Company has commenced discussions with the Shareholders of Pay Asia Management Private Limited with the view of completing a share acquisition of the company before 31 December 2018.

Apart from the above no other matter or circumstance has arisen since 30 September 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

In the directors' opinion

- The attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 September 2018 and of its performance for the financial half-year ended on that date; and
- There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Ian Bassar', with a large circular flourish at the bottom.

Ian Bassar  
Chairman  
12 December 2018  
Melbourne

# Independent Auditor's Report

## To the Members of PayGroup Limited

### Report on the half year financial report

#### Conclusion

We have reviewed the accompanying half year financial report of PayGroup Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated condensed statement of financial position as at 30 September 2018, and the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of PayGroup Limited does not give a true and fair view of the financial position of the Group as at 30 September 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

#### Directors' Responsibility for the Half Year Financial Report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of PayGroup Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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



Grant Thornton Audit Pty Ltd  
Chartered Accountants



E W Passaris  
Partner – Audit & Assurance

Melbourne, 12 December 2018