PayGroup

PAYGROUP LIMITED

ACN 620 435 038

INTERIM REPORT

30 SEPTEMBER 2021

Contents

ASX Appendix 4D

Half-year report announcement to the market

Name of entity: PayGroup Limited **ABN reference 90 620 435 038**

Reporting Periods

Financial half year ended ('current period')	Financial half year ended ('previous corresponding period')
30 September 2021	30 September 2020

Results for announcement to the market

Key information	Current period $	Previous corresponding Period $	Percentage change %	Amount increase/ (decrease) $
Revenue from ordinary activities	$12,018,621	$6,828,459	76%	$5,190,162
Profit/(Loss) from ordinary activities after tax	$228,099	$444,003	(49%)	($215,904)
Net profit/(loss) attributable to members of parent company	$228,099	$444,003	(49%)	($215,904)

Dividends

No dividends were paid during the half year ended 30 September 2021 and 30 September 2020.

Net tangible assets

Net tangible asset backing per ordinary share	Current period Cents	31 March 2021 Cents	Previous corresponding period Cents
Net tangible asset backing per ordinary share	4.8	2.5	1.7

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.

Attachments

Details of attachments (if any):

The Interim Report of PayGroup Limited for the half-year ended 30 September 2021 is attached.

Signed

On behalf of the directors

Ian Basser
Chairman
29 November 2021
Melbourne

Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as "the Group", "PYG", or "PayGroup") consisting of PayGroup Limited and its controlled entities at the end of, or during, the half-year ended 30 September 2021.

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
Shane Gild

Review of Operations

Principal Activities

PayGroup Limited is headquartered in Melbourne, Australia, and is the parent entity for a number of trading groups – PayAsia, AstuteOne, IWS, TalentOz, PayrollHQ and PayBharat.

The Group delivers mission critical payroll solutions and scalable Human Capital Management ("HCM") software. Leveraging PayGroup's deep regulatory and compliance expertise, it proudly services enterprise clients across 75 countries.

The Group services the following sectors of the market:
- Corporates – employees within multi-national companies as well as the small to medium enterprises
- Workforce Management – contractors and contingent labour workforce
- Franchises – staff on flexible rostering

The core activity of the Group is payroll, delivered through a combination of software and service, and includes the complex calculations of gross-to-net pay for employees, contractors and franchise staff across over 75 countries, as well as the mandatory lodgement of statutory information along with the payments of salaries and statutory monies directly associated with payroll.

Beyond payroll, the Group also delivers core and strategic HCM modules to all sectors of the market including onboarding, rostering, timesheets, leave management, expense management, talent management, learning and development, and to accommodate for Covid-19 work conditions, the inclusion of facial recognition and temperature checks.

The Group services over 2,500 clients across multiple industry sectors.

Financial performance

PayGroup reported a net profit after tax for the half-year ended 30 September 2021 of $228,099, against a net profit of $444,003 in the prior comparable period.

Statutory revenue of $12 million reported for the half year representing growth of 76% over the previous corresponding period revenue of $6.8 million.

Reported statutory EBITDA of $1.31 million for half year ended 30 September 2021 against EBITDA of $1.56 million for half year ended 30 September 2020.

The statutory result includes one-off costs associated with the acquisitions of $172K.

Statement of Financial Position

Cash on hand as at 30 September 2021 was $7.7 million.

Uplift of $14 million in intangible assets against the 31 March 2021 reported balance were mainly driven by $13 million recognised as the fair value of the intangible assets acquired from the purchase of the IWS and remaining for the continued software productive development of the AstuteOne and HROnline SaaS platform.

Share Placement

PayGroup has issued 26.8 million new fully paid ordinary shares in the Company ("New Shares"). The Placement was completed in two tranches as follows:

- the issue of 20.3 million New Shares raised approximately $11.4m under the Company's available ASX listing rule 7.1 (12,071,619 shares) and 7.1A (8,228,381 shares) placement capacity, with settlement date on 9 April 2021 ("Tranche 1"); and
- the issue of 6.5 million New Shares to raise approximately $3.6 million, the shareholders approved the resolutions at a general meeting of the Company, held on 13 May 2021 ("Tranche 2").

Directors' report

(continued)

New Shares have been issued under the Placement and will rank pari passu with existing shares in the Company.

PayGroup also offered a non-underwritten share purchase plan ("SPP") to existing, eligible shareholders. The SPP raised $0.65 million with 1.16 million shares was allotted and issued on 5 May 2021.

Acquisition of IWS

PayGroup acquired 100% of the issued capital of Integrated Workforce Solutions Pty Ltd (IWS) effective 1 May 2021. IWS provides a leading cloud-based platform delivering rostering, payroll and accounting services specialising in solutions for the franchise sector in Australia and New Zealand. IWS's purpose built proprietary platform simplifies complex payroll administration and includes high margin modules for rostering, time and attendance, award interpretation, KPI and benchmarking tools, and bookkeeping. IWS has a large and captive client base of more than 1,000 customers, for which it processes in excess of 400,000 pay slips per annum. IWS has an established position as the provider for new franchise locations and preferred supplier to existing sites, and a customer retention rate in excess of 94%.

The total transaction consideration of $12.5 million payable partially in cash ($8.7m) and the balance in payable in PayGroup shares ($3.8m). In addition to the total consideration, the Performance Earn-out is also payable based on the achievement of key performance metrics in FY22 and FY23 – based on minimum revenue targets (95% of $6.2 million in FY22 and $7.4 million in FY23) and minimum gross margin targets (70%) for each earn-out period (FY22 and FY23 to June year-end). The Performance Earn-out is calculated at 10% of the Initial Consideration for each earn-out period. All shares issued in consideration for IWS will be subject to a 24-month escrow period.

The IWS Acquisition will expand PayGroup's offering into a new high-margin franchise vertical, strengthening the core payroll business, providing substantial cross-sell opportunities, and is expected to make a material contribution to PayGroup's annualised recurring revenue (ARR).

Acquisition of PayAsia Japan

PayGroup acquired 100% of the issued capital of FF Partners Co., Ltd (PayAsia Japan) effective 1 July 2021. FFP is headquartered in Tokyo (Japan) and provides the complex payroll and social insurance management services to organisations in Japan. The total transaction consideration of $109k was paid partially in cash ($60k) and the balance in payable in PayGroup shares ($49k). FFP was an existing partner of PayAsia in Japan.

Business Strategies, Prospects and Risks for the Future Financial Years

First half of FY22 has been an exciting period for PayGroup. With strong sales wins and growth in monetisation revenues, the Group upgraded its ARR guidance to the market of minimum $37M.

In July, PayGroup signed a new contract for $1M Total Contract Value ("TCV") to offer payroll services to a leading global luxury beauty company Coty to manage their payroll across 10 countries, mostly in Asia-Pacific. Coty is listed on the New York Stock Exchange with brands such as Burberry, Gucci, Tiffany, Chloe, Hugo Boss and Calvin Klein and we are proud of broadening our enterprise client offerings to a globally recognised company such as Coty.

The strong sales momentum has been one of our biggest highlights for the half-year with total TCV of $9.6M signed for the 6 months of this financial year. This is a 78% increase from the prior corresponding period, with a record $5M TCV signed in Q2. Annualised payslips and transactions were over 7.5M increasing by 25% from the close of FY21.

In this first half, PayGroup increased its service offerings from 41 to 75 countries to upsell to service existing clients on new geographies as well as to potentially increase the TCV for new clients. Notably, we went live in Canada with an existing client of IWS Laser Clinics International franchise network. PayGroup now providing payroll solutions to the franchise company in North America, Australia, New Zealand, Asia and Europe.

Our Global Partner Program (GPP) sales channel continues to deliver significant stream of referrals and new contracts. GPP is now contributing over 12% of our Group statutory revenue. We continue to grow our client in Australia for our monetisation solutions who are offered a superannuation choice as they onboarded on our platforms. Our domestic and cross-border payments offerings have achieved annualised revenue of over $1M and growing rapidly. We are very excited with our monetisation services growth given the significant potential and high margin. We expect GPP and monetisation opportunities to continue to grow year on year and will be one of the leading growth opportunities for the Group.

PayGroup successfully completed IWS acquisition effective 1 May 2021 and welcomed the IWS team to PayGroup. IWS strengthens PayGroup's position as the leading mission-critical payroll and HCM solutions provider to the multi-site retail and franchise sector and also adds a further [1000] clients to our existing client base. We further expanded our presence to Japan with the acquisition of FF Partners (an existing PayGroup partner) to broaden our in-house payroll capability to a very highly complex payroll system and high margin market..

With a strong start to the first half, statutory guidance of $26M we are excited and looking forward to announcing our full year results post our 31 March 2022 financial year-end.

Directors' report
(continued)

Impact of COVID-19 on the Group

As the world eases back to normality and Covid-19 transitions to endemic, we are seeing positive improvement in payslips in our Australian SaaS clients being in the workforce management sector.

PayGroup continues to grow in line with our strategic plans with digitisation of HR and Payroll being a tailwind for the group.

Demand for specialised payroll services and Cloud HCM remains strong due to increasing regulatory requirements. We expect with the easing of Covid-19 restrictions operational tailwinds for growth should return even stronger in the second half, especially as the vaccination rates continues to increase and further easing of restrictions and travel both in Australia and globally.

Significant changes in the state of affairs

The Group successfully completed institutional placement of shares for $15 million in April and May along with $0.65 million raised in share purchase plan ("SPP") to existing eligible shareholders.

Apart from the matters referred to above and within the subsequent event note, there were no other significant changes in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

Subsequent Events

Further to our update relating to Astute post-acquisition matters in our FY21 notes to the Financial Statements for the year ended 31 March 2021 on 12th November 2021, post mediation, PayGroup signed a settlement deed with Mr Webb and Mr Hudson and their controlled entities to resolve the following issues on the following terms:

- $400K of the non-trading receivable claimed by PayGroup from Messrs Webb and Hudson relating to payments made to them on their departure in December 2020 shall be repaid by them. This settlement amount was recognised as a reversal of a previous impairment in the profit and loss statement for the half year ended 30 September 2021.
- Messrs Webb and Hudson have agreed to pay a sum of $100K for PayGroup's working capital adjustment claim as a purchase price adjustment. Due to the settlement being beyond the 12 months period post-acquisition, this is treated as other income in the profit and loss statement for the half year ended 30 September 2021.
- PayGroup and Mr Webb have agreed that Mr Webb's contractual rights under the Performance Rights Agreement for a further $1.5 million in shares in the capital of PayGroup subject to achievement of profit threshold (PRA Claim) is to be determined by an independent expert (whose decision will be final and binding on the parties).
- PayGroup, Astute, Messrs Webb and Hudson and their respective controlled entities have agreed to release one another from any other potential claims arising out of known facts and circumstances other than in respect of the PRA Claim.

Apart from the above, there has been no other matters or circumstances that have arisen since the end of the financial period, that have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

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

Ian Basser
Chairman
29 November 2021
Melbourne

Grant Thornton

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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 2021, 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

Eric W Passaris

E W Passaris
Partner – Audit & Assurance

Melbourne, 29 November 2021

Consolidated statement of profit or loss and Other Comprehensive Income

For the half year ended 30 September 2021

	Notes	Half year ended 30 September 2021	2020
Revenue	5	12,018,621	6,828,459
Other income	6	827,522	170,546
Expenses:			
Subcontractors		(1,311,295)	(585,245)
Technology expense		(1,057,430)	(588,489)
Employee benefits expense		(7,671,586)	(2,789,555)
Rent and occupancy		(80,473)	(63,913)
Consulting and professional fees		(765,157)	(697,266)
Allowance for credit losses		13,214	(45,667)
Write-back of impairment on non-trade receivables	18	599,768	–
Travelling expenses		(50,956)	(5,517)
License fee		(554,539)	(116,482)
Other expenses		(656,847)	(543,169)
Profit/ (loss) before depreciation, amortisation, interest and income tax expense		**1,310,842**	**1,563,702**
Depreciation and amortisation expense		(1,403,737)	(1,099,650)
Profit/ (loss) before interest and income tax expense		**(92,895)**	**464,052**
Interest income		7,694	19,595
Interest expense		(108,452)	(72,149)
Net interest and financing costs		(100,758)	(52,554)
Profit/ (loss) before income tax expense		**(193,653)**	**411,498**
Income tax expense		421,752	32,505
Profit/ (loss) after income tax expense		**228,099**	**444,003**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(58,922)	(81,105)
Total other comprehensive (loss)/income for the period		**(58,922)**	**(81,105)**
Total comprehensive income/(loss) for the period		**169,177**	**362,898**

		Cents per share	Cents per share
Earnings per share			
Basic earnings per share	11	0.21	0.63
Diluted earnings per share	11	0.20	0.63

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

Consolidated statement of financial position

As at 30 September 2021

	Notes	30 September 2021 $	31 March 2021 $
Assets			
Current assets			
Cash and cash equivalents	10a	17,218,876	12,111,732
Trade and other receivables	10b	4,356,897	2,883,483
Income tax recoverable		671,684	611,807
Prepayments		228,100	163,196
Contract assets		762,738	486,919
Other assets		765,761	788,667
Total current assets		**24,004,056**	**17,045,804**
Non-current assets			
Trade and other receivables	10b	584,892	473,928
Right-of-use assets		1,039,811	1,461,408
Property, plant and equipment	7	286,882	251,023
Intangibles	8	32,767,764	18,723,564
Deferred tax assets		76,840	77,071
Contract assets		1,515,021	1,131,721
Total non-current assets		**36,271,210**	**22,118,715**
Total assets		**60,275,266**	**39,164,519**
Liabilities			
Current liabilities			
Trade and other payables	10c	16,846,258	14,467,795
Current tax liabilities		27,557	32,391
Lease liability		691,354	619,750
Provisions		1,533,347	826,754
Contract liabilities		638,503	350,098
Total current liabilities		**19,737,019**	**16,296,788**
Non-current liabilities			
Contract liabilities		1,035,312	644,971
Lease liability		619,184	863,873
Provisions		628,171	532,744
Total non-current liabilities		**2,282,667**	**2,041,588**
Total liabilities		**22,019,686**	**18,338,376**
Net assets		**38,255,580**	**20,826,143**
Equity			
Issued capital	12	60,932,986	43,672,726
Reserves	13	(16,974,221)	(16,915,299)
Accumulated losses		(5,703,185)	(5,931,284)
Total equity		**38,255,580**	**20,826,143**

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half year ended 30 September 2021

	Issued capital $	Reserves $ (Restated)	Accumulated losses $	Total equity $ (Restated)
Balance at 1 April 2020	**36,213,927**	**(17,509,296)**	**(5,420,587)**	**13,284,044**
Restatement of retention shares receivable pursuant to Astute acquisition	–	601,427	–	601,427
Restated balance at 1 April 2020	**36,213,927**	**(16,907,869)**	**(5,420,587)**	**13,885,471**
Profit/ (loss) after income tax expense for the half-year	–	–	444,003	444,003
Movement in foreign exchange	–	(81,105)	–	(81,105)
Total comprehensive income/ (loss)	**–**	**(81,105)**	**444,003**	**362,898**
Transactions with owners in their capacity as owners:				
Shares issued pursuant to TalentOz acquisition	1,534,567	–	–	1,534,567
Shares issued – capital raise	3,500,000	–	–	3,500,000
Cost of share issued recorded directly in equity	(192,500)	–	–	(192,500)
Total transactions with owners in their capacity as owners	**4,842,067**	**–**	**–**	**4,842,067**
Balance at 30 September 2020	**41,055,994**	**(16,988,974)**	**(4,976,584)**	**19,090,436**

	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 April 2021	**43,672,726**	**(16,915,299)**	**(5,931,284)**	**20,826,143**
Profit/ (loss) after income tax expense for the half-year	–	–	228,099	228,099
Movement in foreign exchange	–	(58,922)	–	(58,922)
Total comprehensive income/ (loss)	**–**	**(58,922)**	**228,099**	**169,177**
Transactions with owners in their capacity as owners:				
Shares issued – capital raise	15,000,000	–	–	15,000,000
Shares issued – share purchase plan	650,741	–	–	650,741
Shares issued pursuant to IWS acquisition	2,217,687	–	–	2,217,687
Shares issued pursuant to PayAsia Japan's acquisition	48,525	–	–	48,525
Shares issued to settle employee entitlements	42,796	–	–	42,796
Shares issued under Employee share plan	81,572	–	–	81,572
Shares issued to settle supplier payment	37,921	–	–	37,921
Cost of share issued recorded directly in equity	(818,982)	–	–	(818,982)
Total transactions with owners in their capacity as owners	**17,260,260**	**–**	**–**	**17,260,260**
Balance at 30 September 2021	**60,932,986**	**(16,974,221)**	**(5,703,185)**	**38,255,580**

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
For the half year ended 30 September 2021

	Half year ended 30 September	
	2021	2020
	$	$
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT/SST)	13,780,535	8,654,640
Payments to suppliers and employees (inclusive of GST/VAT/SST)	(13,929,467)	(7,422,415)
Government grants and tax incentives	275,681	923,477
Interest received	7,694	19,159
Interest and other finance costs paid	(108,452)	(72,149)
Net cash generated from operating activities	**25,991**	**2,102,712**
Cash flows from investing activities		
Payments for purchase of intangible assets	(1,869,845)	(1,350,585)
Payments for purchase of plant and equipment	(142,672)	(13,140)
Payments for acquisition of subsidiaries & businesses, net of cash acquired (note 16)	(7,912,487)	(170,381)
Payments for acquisition-related transaction costs	(171,617)	(227,228)
Net cash utilised by investing activities	**(10,096,621)**	**(1,761,334)**
Cash flows from financing activities		
Proceeds from issue of share capital	14,831,759	3,307,500
Repayment of principal on lease liability	(205,886)	(240,254)
Net cash generated from financing activities	**14,625,873**	**3,067,246**
Net increase/(decrease) in cash and cash equivalents	**4,555,243**	**3,408,624**
Cash and cash equivalents at the beginning of the financial year [(1)]	3,096,029	1,967,603
Effects of exchange rate changes on cash and cash equivalents	3,994	(99,964)
Cash and cash equivalents at end of the half year [(1)]	**7,655,266**	**5,276,263**

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

(1) *The cash and cash equivalents disclosed above do not include $9,563,610 (30 September 2020: $5,504,097) which are held in separate bank accounts held by the Group. These client monies are restricted for the purpose of payment of salaries to their employees, as part of payroll processing services and are therefore not available for general use by the Group. Refer to note 10c for the corresponding liability account. The client money is not included in the statement of cash flows. The comparative period statement of cash flows is reclassified to conform with the presentation in the current year.*

Notes to the consolidated financial statements
For the half year ended 30 September 2021

Note 1. Nature of operations

PayGroup Limited and its controlled entities (the Group) is headquartered in Melbourne, Australia.

The Group delivers mission critical payroll solutions and scalable Human Capital Management software to companies across over 75 countries.

The Group services the following sectors of the market:
- Corporates – employees within multi-national companies as well as the small to medium enterprises
- Workforce Management – contractors and contingent labour workforce
- Franchises – staff on flexible rostering

The core activity of the Group is payroll, delivered through a combination of software and service, and includes the complex calculations of gross-to-net pay for employees, contractors and franchise staff across over 75 countries, as well as the mandatory lodgement of statutory information along with the payments of salaries and statutory monies directly associated with payroll.

Beyond payroll, the Group also delivers core and strategic HCM modules to all sectors of the market including onboarding, rostering, timesheets, leave management, expense management, talent management, learning and development, and most recently, to accommodate for Covid-19 work conditions, the inclusion of facial recognition and temperature checks.

The Group services over 2,500 clients across multiple industry sectors.

Note 2. General information and basis of preparation

Introduction

The interim consolidated financial statements (the interim financial statements) of the Group are for the six months ended 30 September 2021 and are presented in Australian Dollars ($AUD), which is the functional currency of the parent company. PayGroup is a company limited by shares whose shares are traded on the Australian Securities Exchange (ASX). PayGroup is incorporated and domiciled in Australia.

Principles of consolidation

The interim financial statements incorporate the assets and liabilities of all subsidiaries of PayGroup Limited ('company' or 'parent entity') as at 30 September 2021 and the results of all subsidiaries for the half year then ended. PYG Limited and its subsidiaries together are referred to in this interim financial statements 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.

Notes to the consolidated financial statements
For the half year ended 30 September 2021

Basis of preparation

These interim financial statements have 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'.

The interim financial statements do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2021, together with any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and Corporations Act 2001.

The interim financial statements have been approved for issue by the Board of Directors on 29 November 2021.

New standards adopted as at 1 April 2021

The group has adopted all of the other new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standard Board ('AASB') that were mandatory for the 30 September 2021 reporting period.

During the half year period, the International Financial Reporting Interpretations Committee (IFRIC) identified that various approaches to customisation and configuration costs for cloud computing arrangements were utilised by companies depending on internal policy. These policies varied from expensing all costs in full to capitalisation of all costs in full, with most entities taking a more nuanced approach in their capitalisation policy and differentiating between expenditure with different underlying fact patterns. The Agenda Decision requires that management capitalise those elements of expenditure that meet the definition of an "Intangible Asset" as defined by AASB 138 Intangible Assets and recognise any additional amounts as an expense as the entity benefits from the expenditure – either by applying AASB 138 or applying another accounting standard. None of these standards have had a material impact on the Group in the current period and are not expected to have a material impact in future reporting periods or on foreseeable future transactions.

Other new accounting standards and interpretations published but not yet mandatory for the 30 September 2021 reporting period have not been early adopted by the group. The group's initial assessment of the impact of these standards and interpretations is that there will be no material impact upon future application.

Critical accounting judgements, estimates and assumptions

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31 March 2021. The only exceptions are the estimate of income tax liabilities which is determined in the Interim Financial Statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Note 3. Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 March 2021.

Notes to the consolidated financial statements

For the half year ended 30 September 2021

Note 4. Segment reporting

a) 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 Company resources and assess performance.

b) The Group has 3 reportable segments: PayAsia, Astute and IWS. In identifying its operating segments, management follows the geographical and revenue lines generated under each segment. Each segment performs the following main revenue activities:

- PayAsia (including TalentOz) delivers predominantly SwaS payroll solutions and HCM platform as well as payroll Treasury, Lodgement and other payroll related services globally. Most of its business is delivered in the APAC region. PayrollHQ provides a full suite of SwaS payroll outsourcing services for its clients across Australia and New Zealand. Payroll HQ was considered as a separate segment as disclosed in the 31 March 2021 annual report. For the half year ended 30 September 2021, PayrollHQ was aggregated with PayAsia segment due to similarity in services offered, processing solutions and customer base.

- Astute provides SaaS payroll and workforce management solutions to Australian and New Zealand clients.

- IWS provides a leading cloud-based platform delivering rostering, payroll and accounting services specialising in solutions for the franchise sector in Australia and New Zealand.

c) Reportable segments:

Half year ended 30 September 2021	**PayAsia**	**Astute**	**IWS**	**Total**
Revenue:				
External revenues	5,870,271	3,913,366	2,234,984	12,018,621
Inter-segment revenue	973,700	–	–	973,700
Total revenue	**6,843,971**	**3,913,366**	**2,234,984**	**12,992,321**
Results:				
Profit before depreciation, amortisation, interest and income tax expense	(450,565)	1,537,979	313,398	1,400,812
Depreciation and amortization	466,432	727,860	209,445	1,403,737
Profit/ (loss) before interest and income tax expense	**(916,997)**	**810,119**	**103,953**	**(2,925)**
Interest income	4,930	1,512	790	7,232
Interest expense	46,360	57,065	4,616	108,041
Profit/ (loss) before income tax expense	**(958,427)**	**754,566**	**100,127**	**(103,734)**
Assets and liabilities:				
Segment assets at 30 September 2021	28,828,057	17,042,231	16,235,704	62,105,992
Segment liabilities at 30 September 2021	22,314,901	4,365,316	2,886,203	29,566,420

Half year ended 30 September 2020	**PayAsia**	**Astute**	**IWS**	**Total**
Revenue:				
External revenues	3,634,848	3,193,611	–	6,828,459
Inter-segment revenue	1,278,564	381,818	–	1,660,382
Total revenue	**4,913,412**	**3,575,429**	**–**	**8,488,841**
Results:				
Profit before depreciation, amortisation, interest and income tax expense	634,892	1,392,327	–	2,027,219
Depreciation and amortization	509,164	590,486	–	1,099,650
Profit/ (loss) before interest and income tax expense	**125,728**	**801,841**	**–**	**927,569**
Interest income	17,342	2,156	–	19,498
Interest expense	33,877	35,929	–	69,806
Profit/ (loss) before income tax expense	**109,193**	**768,068**	**–**	**877,261**
Assets and liabilities:				
Segment assets at 31 March 2021	25,185,345	16,429,222	–	41,614,567
Segment liabilities at 31 March 2021	17,871,972	4,396,139	–	22,268,111

d) The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its financial statements as follows:

	Half year ended 30 September 2021	Half year ended 30 September 2020
i. Segment revenue		
Total reportable segment revenues	12,992,321	8,488,841
Elimination of inter-segment revenue	(973,700)	(1,660,382)
Total revenue from continuing operations	**12,018,621**	**6,828,459**
ii. *Segment Operating Profit/(Loss)*		
Total reportable segment operating profit/(loss)	(103,734)	877,261
Corporate(1) employee benefit expenses	(443,835)	(24,768)
Corporate(1) consulting and professional fees	(481,013)	(332,119)
Corporate(1) other expenses	(319,590)	(140,818)
Corporate(1) write-back of impairment on non-trade receivables	599,768	–
Corporate(1) income for gain on fair value of deferred onsideration	472,989	–
Corporate(1) other income	100,000	–
Corporate(1) interest income	462	97
Corporate(1) interest expense	(411)	(2,343)
Elimination and consolidation adjustments	(18,289)	34,188
Profit/(loss) before income tax expense	**(193,653)**	**411,498**

	30 September 2021	31 March 2021
iii. *Segment Assets*		
Total reportable segment assets	62,105,992	41,614,567
Corporate(1) assets including investment in subsidiaries	50,596,034	32,531,859
Elimination and consolidation adjustments	(52,426,760)	(34,981,907)
Total assets	**60,275,266**	**39,164,519**
iv. *Segment liabilities*		
Total reportable segment liabilities	29,566,420	22,268,111
Corporate(1) liabilities	2,365,943	1,490,397
Elimination and consolidation adjustments	(9,912,677)	(5,420,132)
Total liabilities	**22,019,686**	**18,338,376**

(1) Comprises of centrally managed costs, assets and liabilities relating to group employee benefits expense, professional and consultancy charges, intangibles and tax.

e) Geographical information:

Revenue from external customers is attributed to geographic location based on the location of customers. The revenue from external customers by geographical location for the half year ended 30 September 2021 is set out below. The location of non-current assets as at 30 September 2021 is set out below;

	Half year ended 30 September 2021 Revenue ($)	Half year ended 30 September 2020 Revenue ($)	30 September 2021 Non-current assets ($)	31 March 2021 Non-current assets ($)
Australia and New Zealand	7,231,367	3,563,320	29,136,352	16,505,525
Asia	4,787,254	3,265,139	7,134,858	5,613,190
	12,018,621	**6,828,459**	**36,271,210**	**22,118,715**

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For the half year ended 30 September 2021

Note 5. Revenue

	Half year ended 30 September 2021 $	2020 $
Payroll services	7,939,654	3,420,533
SaaS (Software-as-a-Service) revenue	4,078,967	3,407,926
	12,018,621	**6,828,459**

Note 6. Other income

	Half year ended 30 September 2021 $	2020 $
Foreign exchange gain/ (loss)	(7,379)	(3,497)
Government grant income	241,410	29,172
Gain on fair value adjustment of deferred consideration for acquisitions (1)	472,989	-
Other (2)	120,502	144,871
	827,522	**170,546**

(1) Deferred purchase consideration payable pursuant to IWS and PayrollHQ's acquisition were revalued at period end based on their fair value of PYG shares resulting fair value adjustment of $472,989 recorded under other income.

(2) Other income includes $100,000 in relation to recovery of working capital adjustment pursuant to Astute acquisition, based on the mediation settlement with Messrs Webb and Hudson. Refer note 18 for details.

Note 7. Property, plant and equipment

Cost:	**Leasehold Improvement & Renovations $**	**Office Equipment $**	**Furniture & Fittings $**	**Computers $**	**Total $**
Balance 1 April 2020	224,572	232,771	214,873	172,272	844,488
Additions	–	93,988	106	37,432	131,526
Acquired as part of the TalentOz acquisition 1 July 2020	–	10,751	1,850	18,274	30,875
Acquired as part of the PayrollHQ acquisition 1 December 2020	–	–	–	23,410	23,410
Balance 31 March 2021	**224,572**	**337,510**	**216,829**	**251,388**	**1,030,299**
Additions	–	7,667	–	135,005	142,672
Acquired as part of the IWS acquisition 1 May 2021	139,080	19,592	–	39,331	198,003
Reclassified to intangible assets		(82,962)	–	–	(82,962)
Write-off	(161,279)	(2,504)	(4,039)	–	(167,822)
Balance 30 September 2021	**202,373**	**279,303**	**212,790**	**425,724**	**1,120,190**
Accumulated depreciation:					
Balance 1 April 2020	180,856	169,555	213,961	98,182	662,554
Charge for the year	34,241	29,681	2,504	35,502	101,928
Acquired as part of the PayrollHQ acquisition 1 December 2020	–	–	–	14,794	14,794
Balance 31 March 2021	**215,097**	**199,236**	**216,465**	**148,478**	**779,276**
Charge for the period	4,472	11,741	364	29,369	45,946
Acquired as part of the IWS acquisition 1 May 2021	139,080	15,540	–	25,502	180,122
Write-off	(161,279)	(6,718)	(4,039)	–	(172,036)
Balance 30 September 2021	**197,370**	**219,799**	**212,790**	**203,349**	**833,308**
Net Book Value:					
Balance 31 March 2021	**9,475**	**138,274**	**364**	**102,910**	**251,023**
Balance 30 September 2021	**5,003**	**59,504**	**-**	**222,375**	**286,882**

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Note 8. Intangible assets

Cost:	Goodwill $	Software $	Software under development $	Customer contracts & relationships $	Trademark and tradename $	Total $
Balance 1 April 2020	2,289,938	9,305,874	1,347,314	1,210,034	200,000	14,353,160
Acquired as part of the TalentOz acquisition	687,161	1,035,445	–	–	–	1,722,606
Acquired as part of the PayrollHQ acquisition	2,513,944	–	–	900,000	–	3,413,944
Additions	–	367,723	2,202,626	–	–	2,570,349
Reclassification	–	2,501,500	(2,501,500)	–	–	–
Balance 31 March 2021	**5,491,043**	**13,210,542**	**1,048,440**	**2,110,034**	**200,000**	**22,060,059**
Acquired as part of the IWS acquisition 1 May 2021	9,562,746	830,000	–	2,440,000	140,000	12,972,746
Acquired as part of the PayAsia Japan acquisition 1 July 2021	123,437	–	–	–	–	123,437
Additions	–	83,363	1,786,482	–	–	1,869,845
Reclassified from property and equipment		82,962				82,962
Reclassification	–	561,665	(561,665)	–	–	–
Balance 30 September 2021	**15,177,226**	**14,768,532**	**2,273,257**	**4,550,034**	**340,000**	**37,109,049**

Accumulated amortisation:	Goodwill $	Software $	Software under development $	Customer contracts & relationships $	Trademark and tradename $	Total $
Balance 1 April 2020	–	1,628,756	–	143,259	16,667	1,788,682
Charge for the year	–	1,330,048	–	177,765	40,000	1,547,813
Balance 31 March 2021	**–**	**2,958,804**	**–**	**321,024**	**56,667**	**3,336,495**
Charge for the period	–	760,067	–	212,986	31,737	1,004,790
Balance 30 September 2021	**–**	**3,718,871**	**–**	**534,010**	**88,404**	**4,341,285**

Net Book Value:	Goodwill $	Software $	Software under development $	Customer contracts & relationships $	Trademark and tradename $	Total $
Balance 31 March 2021	**5,491,043**	**10,251,738**	**1,048,440**	**1,789,010**	**143,333**	**18,723,564**
Balance 30 September 2021	**15,177,226**	**11,049,661**	**2,273,257**	**4,016,024**	**251,596**	**32,767,764**

Note 9. Goodwill

In accordance with the accounting standard AASB 136 Impairment of Assets, the Group has conducted a review of indicators of impairment during the half year for each of the cash generating units (CGUs) to which goodwill has been allocated.

During the half year, and at the date of this report, no indicators were identified that would require a reassessment of the recoverable amount of goodwill for the PayAsia, Astute, Payroll HQ and IWS Cash Generating Units (CGUs). No impairment of goodwill has been recognised in the half year to 30 September 2021 (2020: nil).

Note 10. Financial assets and financial liabilities

(a) Cash and cash equivalents

	30 September 2021 $	31 March 2021 $
Cash at bank	7,653,610	3,092,958
Cash on hand	1,656	3,071
Unrestricted cash and cash equivalents	7,655,266	3,096,029
Clients' monies (1) (2)	9,563,610	9,015,703
	17,218,876	**12,111,732**

(1) *The cash and cash equivalents disclosed above include $9,563,610 (31 March 2021: $9,015,703) which are held in separate bank accounts held by the Group. These client monies are restricted for the purpose of payment of salaries to their employees, as part of payroll processing services and are therefore not available for general use by the Group. Refer to note 10c for the corresponding liability account. The client money is not included in the statement of cash flows. The comparative period statement of cash flows is reclassified to conform with the presentation in the current year.*

(2) *Prior years client money balance of $127,694 as at 31 March 2021 has been reclassified from cash and cash equivalents to confirm with the presentation in the current year.*

Notes to the consolidated financial statements
For the half year ended 30 September 2021

(b) Trade and other receivables

	30 September 2021 $	31 March 2021 $
CURRENT		
Trade receivables	3,542,741	2,876,984
Less: allowance for credit losses	(62,733)	(111,104)
	3,480,008	2,765,880
Non-trade receivables (refer note 18)	500,000	599,768
Less: Impairment of non-trade receivables (refer note 18)	–	(599,768)
Other receivables	376,889	117,603
	4,356,897	**2,883,483**
NON-CURRENT		
Other receivables	584,892	473,928
	584,892	**473,928**

(c) Trade and other payables

	30 September 2021 $	31 March 2021 $
CURRENT		
Trade payables	1,156,594	1,399,162
Advances of client's monies (note 10a) (1)	9,563,610	9,015,703
Accruals	1,627,854	890,338
GST/VAT/SST payable	1,141,015	1,045,387
Deferred purchase consideration payable pursuant to PayrollHQ's acquisition	646,651	878,601
Deferred purchase consideration payable pursuant to IWS' acquisition	1,471,112	–
Other payables	1,239,422	1,238,604
	16,846,258	**$14,467,795**

(1) Advances of client's monies client money balance of $127,694 as at 31 March 2021 has been reclassified from resource management assets (recorded under trade and other payables) and resource management liabilities (recorded under trade and other receivables) to confirm with the presentation in the current year.

Note 11. Earnings per share and dividends

(a) 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 2021. Reconciliation of earnings used and the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	Half year ended 30 September 2021 $	2020 $
Profit/(loss) after income tax (basic)	228,099	444,003
Profit/(loss) after income tax (diluted)	228,099	444,003
Weighted average number of shares used in basic earnings per share	110,594,950	70,408,114
Weighted average number of shares used in diluted earnings per share	112,933,770	70,697,995
Basic earnings / (loss) per share (cents per share)	0.21	0.63
Diluted earnings / (loss) per share (cents per share)	0.20	0.63

Dividends

No dividends were paid during the half year ended 30 September 2021 and 30 September 2020.

Notes to the consolidated financial statements

For the half year ended 30 September 2021

Note 12. Contributed equity

	30 September 2021		31 March 2021	
	Shares	$	Shares	$
	115,007,718	60,932,986	82,522,339	43,672,726

	Date	Shares	Issue price	$
Balance at 1 April 2020		68,894,010		36,213,927
Shares issued pursuant to TalentOz acquisition	14-Jul-20	1,826,865	$0.84	1,534,567
Shares issued pursuant to PayrollHQ acquisition (Tranche 1)	15-Dec-20	4,122,694	$0.60	2,473,617
Shares issued pursuant to PayrollHQ acquisition (Tranche 2) (1)	15-Dec-20	1,405,762	-	-
Shares issued – capital raise	9-Sep-20	6,034,483	$0.58	3,500,000
Cost of share issued recorded directly in equity	15-Dec-20			(192,500)
Shares issued to settle supplier payment	15-Dec-20	58,977	$0.60	35,387
Shares issued to settle employee entitlements	15-Dec-20	49,467	$0.60	29,680
Shares issued under Employee share plan	15-Dec-20	105,347	$0.60	63,208
Shares issued under Employee share plan	13-Jan-21	24,734	$0.60	14,840
Balance 31 March 2021		**82,522,339**		**43,672,726**
Balance at 1 April 2021		82,522,339		43,672,726
Shares issued – capital raise	12-Apr-21	20,300,000	$0.56	11,368,000
Shares issued – share purchase plan	5-May-21	1,162,038	$0.56	650,741
Shares issued pursuant to IWS acquisition	18-May-21	4,069,150	$0.545	2,217,687
Shares issued – capital raise	19-May-21	6,485,714	$0.56	3,632,000
Cost of share issued recorded directly in equity	19-May-21			(818,982)
Shares issued pursuant to PayAsia Japan's acquisition	30-Jun-21	107,834	$0.45	48,525
Shares issued to settle employee entitlements	30-Jun-21	95,103	$0.45	42,796
Shares issued under Employee share plan	30-Jun-21	181,272	$0.45	81,572
Shares issued to settle supplier payment	30-Jun-21	84,268	$0.45	37,921
Balance 30 September 2021		**115,007,718**		**60,932,986**

Note 13. Reserves

	30 September 2021 $	31 March 2021 $
Share based payment reserve	216,904	216,904
Actuarial (losses)/gains on defined benefit plan	222,065	222,065
Foreign currency translation reserve	(714,514)	(655,592)
Reserves pursuant to share swap acquisition of PayAsia	(16,698,676)	(16,698,676)
	(16,974,221)	**(16,915,299)**

Note 14. Contingent liabilities

The Company entered into a Performance Rights Agreement with Mr Webb whereby if the AstuteOne Limited group of companies achieved a Profit Before Tax (PBT) of A$1.5m for the Target Performance Period ended 31 October 2020, Mr Webb would be entitled to be issued shares in the Company worth A$1.5m. The PBT calculation was furnished to Mr Webb within 45 days of the end of the Target Performance Period. Based on the Company's calculation, the earn-out PBT has not been satisfied and therefore no share based payments were recognised. Mr Webb disputes the Company's calculations and claims he is entitled to shares in the Company worth A$1.5m.

On 12th November 2021, post mediation, PayGroup signed a settlement deed with Mr Webb where it was agreed that Mr Webb's contractual rights under the Performance Rights Agreement for a further $1.5 million in shares of PayGroup is subject to achievement of profit threshold (PRA Claim) is to be determined by an independent expert (whose decision will be final and binding on the parties).

There were no other material claims or disputes of a contingent nature against the Company and its subsidiaries as at the reporting date.

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Note 15. Related parties

PayGroup Limited acquired 100% of the issued share capital of Astute One Limited and its controlled entities ("AstuteOne") on 1 November 2019. AstuteOne became a 100% controlled entity at this date.

PayGroup Limited acquired 100% of the issued share capital of PayrollHQ Pty Ltd ("PayrollHQ") on 1 December 2020. PayrollHQ became a 100% controlled entity at this date.

PayGroup Limited acquired 100% of the issued share capital of Integrated Workforce Solutions Pty Ltd ("IWS") on 1 May 2021. IWS became a 100% controlled entity at this date.

PayGroup Limited 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.

Pay Asia Pte Ltd (100% owned subsidiary of PayGroup Limited) acquired 100% of the shares in Pay Asia Management Pvt Ltd on 28 February 2019. Pay Asia Management Pvt Ltd became a 100% controlled entity at this date.

Pay Asia Pte Ltd incorporated a number of subsidiaries within countries where the Group has expanded its operations. As at 30 September 2021 the results of these companies were not material to the results of the Group.

As at the date of this report, the entities over which control was gained are as follows:

Name	Date of acquisition	Parent entity	%	Country of incorporation and business
Pay Asia Pte Ltd	29 May 2018	PayGroup Limited	100%	Singapore
PayMY Outsoutcing Sdn Bhd	29 May 2018	Pay Asia Pte Ltd	100%	Malaysia
Pay Asia Australia Ltd	29 May 2018	Pay Asia Pte Ltd	100%	Australia
Pay Asia Ltd	29 May 2018	Pay Asia Pte Ltd	100%	Hong Kong
Pay Asia HR Services Limited, Inc	29 May 2018	Pay Asia Pte Ltd	100%	Philippines
Pay Asia Management Pvt Ltd	28 Feb 2019	Pay Asia Pte Ltd	100%	India
Pay Asia (Thailand) Limited	10 Sep 2018	Pay Asia Pte Ltd	100%	Thailand
Payasia Company Limited	20 Nov 2018	Pay Asia Pte Ltd	100%	Myanmar
Pay Asia Vietnam Limited Liability Company	23 Mar 2019	Pay Asia Pte Ltd	100%	Vietnam
PT Payasia Konsultansi Indonesia	1 Mar 2019	Pay Asia Pte Ltd	100%	Indonesia
Payasia BPO Payroll India Private Limited	15 Nov 2018	Pay Asia Pte Ltd	100%	India
Astute One Limited	1 Nov 2019	PayGroup Limited	100%	Australia
Astute International Pty Ltd	1 Nov 2019	PayGroup Limited	100%	Australia
Astute Corporation Pty Ltd	1 Nov 2019	PayGroup Limited	100%	Australia
Managed Payroll Solutions Pty Ltd	1 Nov 2019	PayGroup Limited	100%	Australia
Pay Asia Taiwan LLC	10 Nov 2020	Pay Asia Pte Ltd	100%	Taiwan
Integrated Workforce Solutions Pty Ltd	1 May 2021	PayGroup Limited	100%	Australia
IWS Bookkeeping Australia Pty. Ltd.	1 May 2021	PayGroup Limited	100%	Australia
Pay Asia Japan Co., Ltd	1 July 2021	Pay Asia Pte Ltd	100%	Japan

In FY21, David Fagan (Independent Non-Executive Director and Chair of Audit Committee) was appointed as Chairman of BDO Group Holdings Limited ("BDO") and thus it is considered as a related party. BDO has provided professional and consultancy services amounting to $20,350 for the half year ended 30 September,2021 (2020: $59,150) and have a payable balance of $10,725 as at 30 September, 2021 (2020: $58,765).

(a) Key management personnel remuneration

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

(b) PayMy Outsourcing Sdn Bhd

Prior to the acquisition of Pay Asia Pte Ltd by PayGroup, Pay Asia Pte Ltd controlled the operation and profits of the Malaysian subsidiary, PayMy Outsourcing Sdn Bhd. However due to regulatory constraints associated with transferring ownership of shares within Malaysia, the shareholders of PayMy Outsourcing Sdn Bhd are Mark Samlal and Michele Samantha Samlal. The acquisition agreement has been signed confirming that control is held by Pay Asia Pte Ltd and the share transfer is executed on completion of the relevant filings within Malaysia which we expect to be completed by this 31 March 2022 financial year-end. The Malaysia share transfer shall be made at nil enterprise value from Mark Samlal and Michele Samantha Samlal to Pay Asia Pte Ltd.

There were no transactions conducted between the Group and KMP or their related parties, apart from those disclosed above and those relating to equity compensation, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

Note 16. Business Combinations

Current period

IWS

Summary of acquisition

The Group acquired 100% of the issued share capital of Integrated Workforce Solutions Pty Ltd and IWS Bookkeeping Australia Pty. Ltd. (combinedly referred as IWS) effective 1 May 2021. IWS provides a leading cloud-based platform delivering rostering, payroll and accounting services specialising in solutions for the franchise sector in Australia and New Zealand. IWS's purpose built proprietary platform simplifies complex payroll administration and includes high margin modules for rostering, time and attendance, award interpretation, KPI and benchmarking tools, and bookkeeping. IWS has a large and captive client base of more than 1,000 customers, for which it processes in excess of 400,000 pay slips per annum. IWS has an established position as the provider for new franchise locations and preferred supplier to existing sites, and a customer retention rate in excess of 94%. The IWS Acquisition has expanded PayGroup's offering into a new high-margin franchise vertical, strengthening the core payroll business, providing substantial cross-sell opportunities, and is expected to make a material contribution to PayGroup's annualised recurring revenue (ARR).

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	30 September 2021 $
Purchase consideration (refer note below):	
Cash paid	8,521,119
Ordinary shares issued	2,217,686
Deferred purchase consideration payable (recorded as financial liability)	1,712,151
Total purchase consideration	**12,450,956**

The fair value of the 7,650,000 ordinary shares issued and 5,331,208 deferred shares consideration is taken at $0.545. The fair value was based on the representing PayGroup's closing share price at the transaction date. The 5,331,208 issued as deferred consideration shares were recorded as a financial liability and were initially valued at $0.545. Deferred purchase consideration payable pursuant to IWS' acquisition (note 8c) were revalued at year end based on their fair value of $0.46, the resulting fair value adjustment of $241,038 is recorded under other income.

Further performance earn-out of up to $2.55m , payable in new PayGroup shares, will be paid upon achieving key operational milestones in FY22 and FY23. The Share Sales Agreement specifies that an earn out is payable in an earn-out period if i) the gross profit margin target of 70% is met and ii) 95% or more of the revenue target is met (target = $6.2m for FY22 and $7.4m for FY23). An earn out factor between 60% (=> 95% of revenue target) to 100% (=> 100 of revenue target) for each earn out period is to be determined based on a sliding scale range and then to be multiplied by 10% of the initial consideration. Based on the probability of not reaching the minimum revenue targets, the expected value of the earn out is considered to be nil.

The transaction was undertaken based on the fair value of IWS' assets and liabilities acquired as at 1 May 2021.

The assets and liabilities recognised as a result of the acquisition are as follows:

	30 September 2021 $
Cash and cash equivalents	669,282
Restricted client monies	36,736
Trade and other receivables	262,235
Contract assets	106,206
Contract liabilities	(62,390)
Right-of-use assets	162,192
Lease liabilities	(185,203)
Plant and equipment	17,881
Trade and other payables	(1,067,782)
Advances of clients' monies	(36,736)
Intangible assets:	
Software	830,000
Customer contracts and relationships	2,440,000
Trademark and tradename	140,000
Deferred tax liability	(424,211)
Net identifiable assets acquired	**2,888,210**
Add: goodwill	9,562,746
Net assets acquired	**12,450,956**

The business combination has initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at balance date. The acquisition accounting for this transaction is provisional and as allowed under Australian Accounting Standards any adjustments made to these provisional numbers will be reflected in future financial periods. Finalisation is expected no later than 31 March 2022.

The goodwill is attributable to the workforce and the underlying business capability and operational performance. It will not be deductible for tax purposes.

(i) Acquisition related costs

Acquisition-related costs of $140,547 that were not directly attributable to the payment of purchase consideration are included in consulting and professional fees in profit or loss and in investing cash flows in the statement of cash flows.

(ii) Acquired receivables

The fair value of acquired trade and other receivables is $262,235 of which none is expected to be uncollectible.

(iii) Accounting policy choice

The group recognises interests at its acquired net identifiable assets.

	30 September 2020 $
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(8,521,119)
Less: Balances acquired	
Cash	669,282
Net inflow/ (outflow) of cash – investing activities	**(7,851,837)**

(iv) Revenue and profit contribution

The acquired business contributed revenues of $2,234,984 and net profit of $524,339 to the Group for the period from 1 May 2021 to 30 September 2021.

If the acquisition had occurred on 1 April 2021, consolidated pro-forma revenue and loss for the period ended 30 September 2021 would have been $2,679,547 and $521,173 respectively. These amounts have been calculated using the acquiree's results.

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PayAsia Japan

Summary of acquisition

The Group acquired business of PayAsia Japan Co., Ltd. (PayAsia Japan) (previously referred as FF Partners Co., Ltd. (FFP)) effective 1 July 2021. FFP is headquartered in Tokyo (Japan) and provides the complex payroll and social insurance management services to organisations in Japan.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	30 September 2021 $
Purchase consideration (refer note below):	
Cash paid	60,650
Ordinary shares issued	48,525
Total purchase consideration	**109,175**

The fair value of the 107,834 shares issued at $0.45 as part of the consideration paid for TalentOz was based on the PayGroup's closing share price at the transaction date.

The transaction was undertaken based on the fair value of PayAsia Japan's assets and liabilities acquired as at 1 July 2021.

The assets and liabilities recognised as a result of the acquisition are as follows:

	30 September 2021 $
Restricted client monies	744,996
Advances of clients' monies	(744,996)
Trade and other receivables	15,312
Trade and other payables	(29,574)
Net identifiable assets acquired	**(14,262)**
Add: goodwill	123,437
Net assets acquired	**109,175**

The business combination has initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at balance date. The acquisition accounting for this transaction is provisional and as allowed under Australian Accounting Standards any adjustments made to these provisional numbers will be reflected in future financial periods. Finalisation is expected no later than 31 March 2022.

The goodwill is attributable to the workforce and the underlying business capability and operational performance. It will not be deductible for tax purposes.

(i) Acquisition related costs

Acquisition-related costs of $31,070 that were not directly attributable to the payment of purchase consideration are included in consulting and professional fees in profit or loss and in investing cash flows in the statement of cash flows.

(ii) Acquired receivables

The fair value of acquired trade and other receivables is $15,312 of which none is expected to be uncollectible.

(iii) Accounting policy choice

The group recognises interests at its acquired net identifiable assets.

	30 September 2021 $
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(60,650)
Net inflow/ (outflow) of cash – investing activities	**(60,650)**

(iv) Revenue and profit contribution

The acquired business contributed revenues of $29,814 and net loss of $162,534 to the Group for the period from 1 July 2021 to 30 September 2021.

If the acquisition had occurred on 1 April 2021, consolidated pro-forma revenue and loss for the period ended 30 September 2021 would have been $41,634 and $189,230, respectively. These amounts have been calculated using the acquiree's results.

Previous year

TalentOz

Summary of acquisition

The Group had acquired the business of TalentOz Sdn Bhd and Forzia Tech Private Limited ("TalentOz") effective 1 July 2020. TalentOz provided comprehensive cloud-based HCM software with Payroll modules in Malaysia and India. It has an innovative SaaS HCM, analytics and payroll product suite with leading end-user functionality, enabling businesses to unlock the full value of their workforce across all devices.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	2021 $
Purchase consideration (refer note below):	
Cash paid	170,381
Ordinary shares issued	1,534,567
Total purchase consideration	**1,704,948**

The fair value of the 1,826,865 shares issued at $0.84 as part of the consideration paid for TalentOz was based on the 5 days value weighted average share price from transaction date.

The transaction was undertaken based on the fair value of TalentOz's assets and liabilities acquired as at 1 July 2020. The goodwill is attributable to the workforce and the underlying business capability and operational performance. It will not be deductible for tax purposes.

The business combination had initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. The fair value of assets acquired, liabilities and contingent liabilities assumed were initially estimated by the consolidated entity taking into consideration all available information at balance date. The acquisition accounting for this transaction was provisional and as allowed under Australian Accounting Standards, any adjustments made to these provisional numbers will be reflected in future financial periods. Accounting standards permit a measurement period of up to one year during which acquisition accounting can be finalised following the acquisition date.

The Group had finalised acquisition accounting on the TalentOz acquisition. The final purchase price allocation did not result in any adjustment to the initial purchase price allocation. The purchase consideration, assets and liabilities recognised as a result of the acquisition are as follows:

	2021 $
Property, plant and equipment	30,875
Intangible assets:	
Software	1,035,445
Employee benefit liability	(48,533)
Net identifiable assets acquired	**1,017,787**
Add: goodwill	687,161
Net assets acquired	**1,704,948**

(i) Acquisition related costs

Acquisition-related costs of $227,228 that were not directly attributable to the payment of purchase consideration are included in consulting and professional fees in profit or loss and in investing cash flows in the statement of cash flows.

(ii) Acquired receivables

The fair value of acquired trade and other receivables is $nil. The gross contractual amount for trade receivables due and collectible is $nil.

(iii) Accounting policy choice

The group recognised interests at its acquired net identifiable assets.

	2021 $
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(170,381)
Less: Balances acquired	
Cash	–
Restricted client monies	–
Net inflow/ (outflow) of cash – investing activities	**(170,381)**

(iv) Revenue and profit contribution

The acquired business contributed revenues of $391,217 and net loss of $105,287 to the Group for the period from 1 July 2020 to 31 March 2021.

If the acquisition had occurred on 1 April 2020, consolidated pro-forma revenue and loss for the year ended 31 March 2021 would have been $521,623 and $140,382, respectively. These amounts have been calculated using the acquiree's results.

PayrollHQ

Summary of acquisition

The acquisition of PayrollHQ effective 1 December 2020 had significantly transformed PayGroup's payroll presence in the Australia and New Zealand markets and increased PayGroup's sales capabilities in Australia. PayrollHQ has an excellent client base and sales pipeline and is led by a group of experienced and high-performing industry experts. The acquisition is underpinned by a highly compelling rationale for PayGroup and is consistent with its strategic plan to grow its revenue and client base and capitalise on the fast-growing outsourced HCM and payroll markets across the Asia Pacific region.

PayrollHQ provided a full suite of payroll outsourcing services for its clients, and processes in excess of 120,000 payslips per annum. PayrollHQ has over 100 current corporate clients and a significant sales funnel, with high client retention.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2021 $
Purchase consideration (refer note below):	
Ordinary shares issued	2,473,616
Deferred purchase consideration payable (recorded as financial liability)	843,457
Total purchase consideration	**3,317,073**

The fair value of the 4,122,694 ordinary shares issued and 1,405,762 deferred shares consideration is taken at $0.60. The fair value was based on the 10 days value weighted average share price from transaction date. The 1,405,762 issued as deferred consideration shares were recorded as a financial liability and were initially valued at $0.60. Deferred purchase consideration payable pursuant to PayrollHQ's acquisition (note 8c) were revalued at period end based on their fair value of $0.46, the resulting fair value adjustment of $231,950 is recorded under other income.

The transaction was undertaken based on the fair value of PayrollHQ's assets and liabilities acquired as at 1 December 2020. The goodwill is attributable to the workforce and the underlying business capability and operational performance.

The business combination had initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. The fair value of assets acquired, liabilities and contingent liabilities assumed were initially estimated by the consolidated entity taking into consideration all available information at balance date. The acquisition accounting for this transaction was provisional and as allowed under Australian Accounting Standards, any adjustments made to these provisional numbers will be reflected in future financial periods. Accounting standards permit a measurement period of up to one year during which acquisition accounting can be finalised following the acquisition date.

The Group has finalised acquisition accounting on the PayrollHQ acquisition. The final purchase price allocation did not result in any adjustment to the initial purchase price allocation. The purchase consideration, assets and liabilities recognised as a result of the acquisition are as follows:

	2021 $
Cash and cash equivalents	52,489
Trade and other receivables	198,498
Contract assets	120,161
Contract liabilities	(57,720)
Right-of-use assets	72,078
Lease liabilities	(68,258)
Plant and equipment	8,616
Trade and other payables	(205,431)
Intangible assets:	
Customer contracts and relationships	900,000
Deferred tax liability	(217,303)
Net identifiable assets acquired	**803,130**
Add: goodwill	2,513,944
Net assets acquired	**3,317,074**

(i) Acquisition related costs

Acquisition-related costs of $60,309 that were not directly attributable to the payment of purchase consideration are included in consulting and professional fees in profit or loss and in investing cash flows in the statement of cash flows.

(ii) Acquired receivables

The fair value of acquired trade and other receivables is $198,498. The gross contractual amount for trade receivables due is $198,498 of which none is expected to be uncollectible.

(iii) Accounting policy choice

The group recognises interests at its acquired net identifiable assets.

	2021 $
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	–
Less: Balances acquired	
Cash	52,489
Restricted client monies	–
Net inflow/ (outflow) of cash – investing activities	**52,489**

(iv) Revenue and profit contribution

The acquired business contributed revenues of $578,144 and net loss of $35,118 to the Group for the period from 1 December 2020 to 31 March 2021.

If the acquisition had occurred on 1 April 2020, consolidated pro-forma revenue and loss for the year ended 31 March 2021 would have been $1,575,728 and $26,424, respectively. These amounts have been calculated using the acquiree's results.

Note 17. Fair value measurement of financial instruments

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

Notes to the consolidated financial statements
For the half year ended 30 September 2021

Note 18. Events after the reporting period

Further to our update relating to Astute post-acquisition matters in our FY21 notes to the Financial Statements for the year ended 31 March 2021 on 12th November 2021, post mediation, PayGroup signed a settlement deed with Mr Webb and Mr Hudson and their controlled entities to resolve the following issues on the following terms:

- $400K of the non-trading receivable claimed by PayGroup from Messrs Webb and Hudson relating to payments made to them on their departure in December 2020 shall be repaid by them. This settlement amount was recognised as a reversal of a previous impairment in the profit and loss statement for the half year ended 30 September 2021.

- Messrs Webb and Hudson have agreed to pay a sum of $100K for PayGroup's working capital adjustment claim as a purchase price adjustment. Due to the settlement being beyond the 12 months period post-acquisition, this is treated as other income in the profit and loss statement for the half year ended 30 September 2021.

- PayGroup and Mr Webb have agreed that Mr Webb's contractual rights under the Performance Rights Agreement for a further $1.5 million in shares in the capital of PayGroup subject to achievement of profit threshold (PRA Claim) is to be determined by an independent expert (whose decision will be final and binding on the parties).

- PayGroup, Astute, Messrs Webb and Hudson and their respective controlled entities have agreed to release one another from any other potential claims arising out of known facts and circumstances other than in respect of the PRA Claim.

Apart from the above, there has been no other matters or circumstances that have arisen since the end of the financial period, that have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Impact of COVID-19 on the Group:

As the world eases back to normality and Covid-19 transitions to endemic, we are seeing positive improvement in payslips in our Australian SaaS clients being in the workforce management sector.

PayGroup continues to grow in line with our strategic plans with digitisation of HR and Payroll being a tailwind for the group.

Demand for specialised payroll services and Cloud HCM remains strong due to increasing regulatory requirements. We expect with the easing of Covid-19 restrictions operational tailwinds for growth should return even stronger in the second half, especially as the vaccination rates continues to increase and further easing of restrictions and travel both in Australia and globally.

Directors' declaration

For the half year ended 30 September 2021

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 2021 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

Ian Basser
Chairman
29 November 2021
Melbourne

Grant Thornton

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Independent Auditor's Review Report

To the Members of PayGroup Limited

Report on the review of 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 statement of financial position as at 30 September 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of PayGroup Limited does not comply with the *Corporations Act 2001* including:

a) giving a true and fair view of the PayGroup Limited financial position as at 30 September 2021 and of its performance for the half year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We confirm that the independence declaration required by the Corporations Act 2001 which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 2021 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*.

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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Eric W Passaris

E W Passaris
Partner – Audit & Assurance

Melbourne, 29 November 2021