



Welcome to Smartpay's annual report for the year ending 31st March 2021

Smartpay designs, develops and implements innovative payment solutions for customers in New Zealand and Australia. Smartpay offers a variety of advanced payment solutions for retail, business payment and transactional processing requirements.

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Chairman's Report

This has been an extraordinary year for business in New Zealand and Australia due to the ongoing impacts of COVID-19. Of course, both countries have been very fortunate, by comparison to the rest of the world, to have perhaps avoided some of the extremes of the pandemic and to enable life and business to continue close to normal. For that, we should be very grateful.

In a year that presented some challenging macro-economic conditions, Smartpay has continued its ongoing growth, particularly in the Australian market. We have also accelerated our growth strategies to take advantage of the opportunities that have emerged from the challenges of the previous twelve months. Looking forward, Smartpay is now stronger than it ever has been and as a result, is very well positioned to capture the opportunities that we have identified for the company.

Our ability to maintain growth over the year, is in part due to the profile of our SME customer base, and the SME sector in which we predominantly participate. Those merchants, for the most part, fortunately had the ability to continue to trade despite lockdown and other disruptions. There is no doubt that our responsiveness as a company to the needs of our customers, the quality of our operating systems and our intuitive understanding of the payments industry has stood the company in good stead. In New Zealand, the business has maintained market share and continues to provide innovation and support to our Australian group of customers. This is an important component of our business strategy and the integration is a large part of the reason we do not separate the business components for financial and structural reasons.

However, as the market is well aware, it is in Australia where the company has much of its immediate focus. We have continued to grow our fleet at a significant rate, whilst being able to increase margin and yield on a per terminal basis. This is helped by the innovative way in which we service the market and by Smartpay providing an acquiring service as part of our offering. Given the obvious rate of growth, and the size of the addressable market in Australia, there is no reason to assume that the company cannot continue to grow out the opportunity that has now become manifest in Australia.

None of our success could happen without a very competent group of people. I have spoken in previous years about the quality of our people and the past year has demonstrated the value of employing and retaining the best people with the requisite level of skill and competency. Our people help us to maintain our competitive edge. We are very pleased that we have been able to increase staff numbers in Australia and we will continue to look at increasing our human resource as we grow.

The departure of long serving Managing Director, Bradley Gerdis was another significant event to occur last year when he decided to leave Smartpay to pursue other opportunities. After nine years of service as the Managing Director, Bradley can look back with some pride as to where he has taken the Company from where it was when he first joined, as a shareholder, and as a Managing Director back in 2012. As we said at the time, we wish him all the best in his ongoing ventures.

We were fortunate that our succession planning enabled us to immediately install Marty Pomeroy as the new CEO. He had previously been in the role of Chief Operating Officer of Smartpay for some six years prior to his appointment. I am delighted that this transition has been completed seamlessly and indeed Marty's knowledge of the payments industry combined with his strong sales and marketing skills has enabled the Company to continue to move forward without any interruption at all.

I want to again acknowledge and thank the Board for the ongoing support and guidance that they provide to the Company. The Board is now well settled with a complimentary set of skills and competencies, all of which have helped the Company to continue to realise its ongoing potential. Of course, we cannot do what we do without the support of our shareholders who have continued to remain loyal and have been incredibly supportive over recent years. We look forward to repaying your ongoing faith in the Company as we turn into this next financial year, something we do with a fair degree of optimism and excitement.



Greg Barclay
Chairman

“Looking forward, Smartpay is now stronger than it ever has been”



Chief Executive's Review

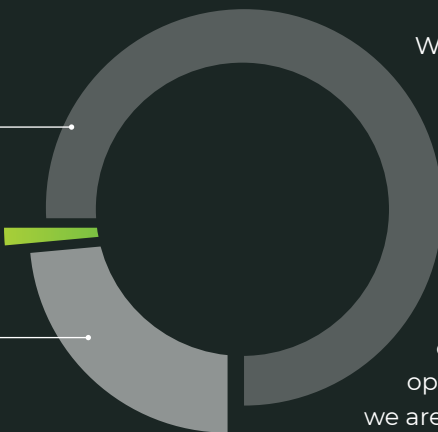
I am very proud of our team and the progress we have made towards our strategic objectives this financial year.

Australian In-store Terminal Market

75% Institutional / Medium Enterprise

Current Smartpay

25% Addressable SME Opportunity



Through the first quarter of our financial year, the COVID-19 lockdowns in both Australia and New Zealand, presented both our business and our customers with unprecedented disruption, uncertainty and challenges.

The focus of our management team and the ability of our people to adapt and confront the challenges presented by the pandemic and the disrupting effect of the terminated Verifone offer for our New Zealand business was quite simply exceptional.

Culture matters. We are a purpose led, performance focused organisation and customer experience is central to our strategy. We have a diverse range of people with a diverse range of skills holding a common set of values. To deliver an improving Net Promoter Score (NPS*) result in both New Zealand and Australia through the financial year, well ahead of the published results of our peers, is a tremendous accomplishment and testament to our culture, people and values.

Average NZ NPS score:

42

Average AU NPS score:

59

We are purposely focused on the Small to Medium Enterprise customer segment across both Australia and New Zealand and believe we are changing the way in-store payments solutions are structured and provided to customers.

Our highly experienced and capable team continue to deliver on our customer experience objectives and our growth opportunity. The resonance and engagement we are achieving with our core payments solution and our broader customer engagement model reinforces our view that this is an inadequately served part of the market that we are very well placed to disrupt and achieve success in.

Our ongoing efforts to scale in digital and social customer acquisition channels, particularly in the Australian market, are also well supported by very positive Google customer feedback metrics.

We are achieving significant customer uptake with our SmartCharge solution as it directly addresses real problems for our customers, allowing them to remove complexity and cost from their business. In a post COVID-19 environment, where cashflow is of the utmost importance and emerging payment methods like BNPL place further pressure on our customers margins, our solutions provide real world benefit – as evidenced in our many positive customer case studies across a range of industries.

Our New Zealand business, whilst not immune to the impacts of the initial lockdown period, continues to show stability and provide resilient cashflows and operational capacity, supporting our Australian growth objectives. Our measured and focused approach to entering into the developing Australian market, whilst still in the early stages, continues to build momentum and deliver strong revenue growth.

Whilst our business performance throughout the 2021 financial year very much supports our ongoing effort and reinforces our purpose as an organisation, it is important to acknowledge our customers continue to face the challenges brought about by the COVID-19 pandemic. These include ongoing disruptions associated to regional lockdowns, changes in government support, greatly reduced tourism numbers and the uncertainty of a return to normal trading conditions.

I believe our customer focused solutions and highly capable team are best in market to meet the challenges faced by our current and future customers and I look forward to continuing to lead our team as we continue to execute our strategic objectives.

* NPS – Net Promoter Score (measures the percentage of Promoters vs Detractors on a simple measurement of "How willing an existing customer is to refer others to Smartpay.")

Smartpay Australia

4.3 ★★★★★

Eftpos equipment supplier in the City of Sydney, Australia



Operating Results

The key driver of our revenue growth continues to be the strong growth in our Australian acquiring revenues as a result of increasing both our terminal base to over 6,700 transacting devices at March 2021 and the penetration of our higher revenue SmartCharge solution into our target market.

Overall revenues were \$33.8m, up 19.7% on the prior year \$28.3m, with our Australian acquiring transactional revenues growing 80.0% to \$17.1m.

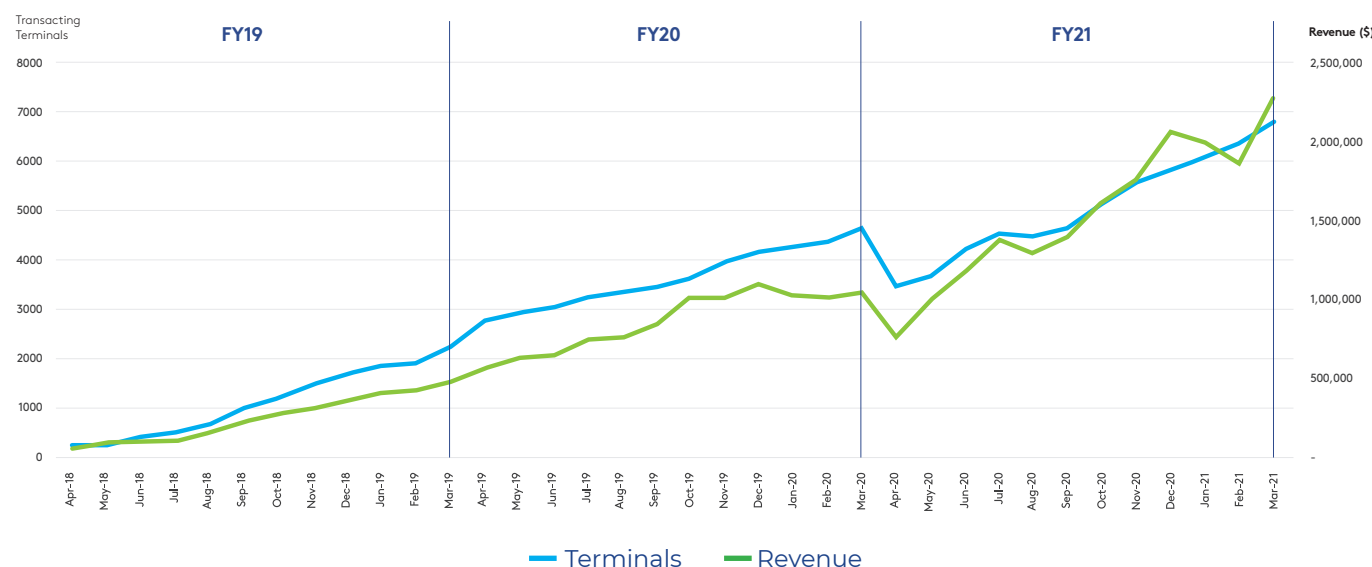
Monthly acquiring revenues more than doubled in the period with circa \$1m / month prior to the COVID-19 lockdowns increasing to \$2.2m / month by March 2021. Given the reported decline in Australian transactional revenues in the first quarter of the financial year our revenue growth for the full year is a very pleasing result.

We also saw a steady increase in gross margin per terminal through the period reflecting both the ongoing shift from cash payments to card payments in the overall mix of in-store preferred payment methods and the increasing uptake of our SmartCharge solution – reflected in +70% SmartCharge in our overall fleet product mix at March 2021.

We have developed our SmartCharge proposition into a unique, market leading solution that is disrupting the existing in-store payments environment. Our expectation is that as awareness of our offering continues to grow, we will continue to scale into the sizable opportunity in front of us.

The graph below shows the growth in transacting terminal numbers and associated revenue in the Australian acquiring business.

Australian Acquiring Revenues



Overall EBITDA** grew to \$7.6m in the period, up slightly compared to the prior period \$7.4m, which, given the challenging trading conditions early in the reporting period, is a positive result.

The lower percentage increase in EBITDA, when compared to the percentage increase in revenue for the period, reflects the investment in increasing our lead generation and sales and marketing capacity in the last three quarters of the financial year. Marketing expenses, compared to the prior period, were \$1.8m, an increase of 80% (\$1.0m FY20). Australian Sales and Marketing headcount increased from 10 to 17 through the period, directly supporting our growth objectives into the Australian in-store payments market.

Our terminal base to over
6,700 terminals
 for our Australian acquiring revenues.

Australian acquiring revenue grew to \$17.1m
an 80% increase
 on the prior year \$9.5m.

The growth within the period is most evident in monthly acquiring revenue numbers which
grew to \$2.2m/month
 up from \$1m at the beginning of the period.

Our total terminal network
37,000+ terminals
 across New Zealand and Australia.

Our technology investment throughout the period was largely focused on the ongoing development of our next generation customer interface systems and the digitisation of our terminal management and acquiring platform. We also completed development of new payment applications for both our Australian and New Zealand terminal fleets to ensure the most up to date in-store compliance environment in both countries.

Our effort to date provides a solid foundation for growth and our engineering capacity will turn to focusing on next generation in-store payment technologies, the further digitisation of our payments platform and innovation opportunities in our chosen customer demographics.



**EBITDA – Earnings Before Interest, Tax, Depreciation, Amortisation, impairments and foreign exchange adjustments. EBITDA is a useful non-GAAP measure as it shows the contribution to earnings prior to finance costs and non-cash items.

Summary and Outlook

We have taken a strategic view of the opportunity across both New Zealand and Australia to disrupt the payments environment and challenge the existing structure and incumbent providers in our target markets. I am very pleased with our progress and performance in a very challenging year for our people, our business and our customers and thank our team for their commitment to our vision, upholding our values, supporting our customers and consistent operational excellence.

I also thank our shareholders, existing and new, for their overwhelming support for the company, our strategy and our people.

This financial year demonstrated the resilience of our New Zealand business and validated our successful go to market strategy in the Australian market. Whilst we are still in the early stages of our growth phase in Australia, the business is scaling quickly, and we now have a well-established marketing and sales capability.

Financial Year 22 will see Smartpay continue to develop our payments offering in both countries, broaden awareness of our brand and competitive product offering in Australia and further scaling our Australian revenue which is expected to deliver operational leverage and EBITDA growth.



Marty Pomeroy
Chief Executive Officer

We are delivering on our Strategic Plan

↑19.7%
Revenue

FY21: \$33.8m | FY20: \$28.3m

↑33.1%
Operating Cashflows

FY21: \$8.6m | FY20: \$6.5m

↓41.0%
Borrowings*

FY21: \$12.2m | FY20: \$20.7m

*Excludes convertible notes



Note from Chief Business Officer

Number of transactions processed:

FY21 **45m** FY20 **28m**
 Increase
↑58.8%

Total Transaction Value:

FY21 **\$1.5b** FY20 **\$1.1b**
 Increase
↑34.3%

Average revenue per unit PA:

FY21 **\$3,900** FY20 **\$2,700**
 Increase
↑43.9%

The role of Chief Business Officer was created during the 2021 financial year as a reflection of the fast growing revenue attribution and Acquiring business structure, controls and functions required to support this high growth part of our business.

The Acquiring business requires particular attention to risk and compliance and also requires direct and ongoing engagement with our sales and marketing functions to ensure we are targeting the right acquiring opportunities in the SME market. We have certain criteria we focus on when targeting new Acquiring customers and as our fleet has grown we have further refined our criteria with more data from our fleet. This creates a continual feedback loop with our marketing function ensuring ever refined target opportunities, improved revenues and margins, which we have seen through this financial year.

Defined simply, an Acquirer processes and settles to the merchant a consumers card transactions for a nominal fee, Merchant Service Fee (MSF) and accepts the risk associated with that transaction. This risk will generally take the form of a 'Chargeback'; whereby a cardholder denies or disputes the amount of a particular transaction and the Acquirer will carry the cost if the amount cannot be recovered from the merchant. During the financial year Smartpay has had a low level of chargebacks with less than 1% of transactions being challenged by the cardholder.

In order to mitigate these risks we have a thorough onboarding process which ensures that we complete an acceptable level of customer due diligence.

This includes the compliance AML/KYC checks but also includes assessing the nature of the business, the location of the business, the types of transactions the terminal will be processing, the length of time between the transaction taking place and goods changing hands, the expected volumes that will be processed, the expected card mix and the level of historical chargebacks. The answers to all of these questions will determine whether the customer is a good Acquiring target for Smartpay.

The revenue generated from an acquiring customer is called the Merchant Service Fee (MSF). This fee includes several costs plus our acquiring margin. These costs, whilst to some degree complex, can be categorised into three areas:



Switching or Processing fees

Smartpay partners with a switching provider who charges a fee for each transaction that is processed. Cost efficient Switching requires significant volume and scale due to the Compliance costs associated to ongoing encryption and security regimes and is expensive to maintain.

Given the limited capacity to innovate at a Switching level Smartpay has chosen to leverage an existing scaled partner for this service. Our current switching fees are paid on a fixed fee per processed transaction. The fee structure ensures that the cost per transaction will reduce over time as we process more volume. Smartpay processed 45m transactions in FY21, a 58.8% increase on the prior year, (28m:FY20).



Scheme fees

The second fee type is the Scheme fee. The majority of transactions processed through Smartpay terminals are processed by Mastercard, Visa or Eftpos Australia (Schemes). Each of these schemes has a fee which is a mix of fixed and variable depending on the transaction size or card used.

Similar to the switching fees above, these fees per transaction will reduce as our fleet grows as the fee structure is based on reduced cost with higher volume.



Interchange fees

The final fee type, which represents the majority of the cost per transaction, is the Interchange fee. This is the fee charged by the bank that has issued the card (the Issuer) that has been used to complete the transaction. This fee is most often charged as a percentage of the transaction value and varies depending on the card that has been used – a premium overseas credit card is subject to a higher interchange fee than a standard domestic credit card for example.

The Interchange fees charged by the Issuer have been regulated in Australia by the RBA, whereby limits are set as to the interchange fees that can be charged.

Our focus on targeting specific Acquiring customer opportunities and strong controls and processes around our onboarding processes have seen an improvement in revenue and margin generated from the acquiring fleet throughout the 2021 financial year.

Aidan Murphy
 Chief Business Officer

Management Team



Marty Pomeroy
Chief Executive Officer

Marty joined Smartpay in January 2013 post the acquisition of his private business Viaduct Limited. Marty has over 15 years in payments experience having worked for EFTPOS New Zealand, Viaduct and Smartpay.

Marty is based in the in Auckland office.



Mark Fortugno
Chief Financial Officer

Mark joined Smartpay in November 2020 and brings over 20 years' experience with market leaders such as CCC, TSX listed SNC-Lavalin Group, and KPMG. Mark brings specialist expertise including strategy, M&A, investment and commercial appraisals, capital management, treasury and financial planning.

Mark is based in the in Sydney office.



Toni Cookson
Financial Controller

Toni joined Smartpay in June 2020 bringing to the company expertise and experience in international finance across global, high growth organisations. She brings commercial expertise, financial acumen, and an enthusiasm to grow and engage teams to enhance performance and work to a unified business strategy.

Toni is based in the in Auckland office.



Gerard Yeterian
Head of Sales Australia

Gerard joined Smartpay back in 2018 having experience in growing large sales teams through HiPages and Sensis. His experience brings a strong understanding of how to drive and lead high performing sales teams to success.

Gerard is based in the Sydney office.



Rowena Bowman
Company Secretary

Rowena has been involved with Smartpay in a variety of roles since 2009 and has been Company Secretary since 2013. Rowena has been in governance, compliance and human resources roles and is a Governance NZ Fellow.

Rowena is based in Auckland.



Aidan Murphy
Chief Business Officer

Aidan started his career with Deloitte and is a qualified member of the Chartered Accountants of Ireland and Chartered Accountants Australia and New Zealand. He has been employed with Smartpay since 2012 and has spent most of that time as the Chief Financial Officer.

Aidan is based in the in Auckland office.



Peter Thomas
Chief People & Customer Officer

Peter joined Smartpay in September 2016 with a strong background in Marketing and Change Management assisting with transformations of large organisations, having recently worked for the National Broadband Network, Tenix and QBE Insurance.

Peter is based in the Sydney office.



Lucy Williams
General Manager New Zealand

Lucy has been involved with Smartpay since 2018, bringing a wealth of experience from previous roles at EROAD, 9 Spokes and Rackspace. She brings extensive experience in building highly engaged sales and customer focused teams.

Lucy is based in the Auckland office.



Gustavo Herrera
Head of Engineering

Gustavo joined Smartpay in June 2018 bringing his extensive experience on how to address cybersecurity challenges, provide data protection and leverage technology to achieve business success in heavily regulated industries, having worked previously for Orion Health and Sky Television.

Gustavo is based in the Auckland office.

Purpose, Values & Strategic Goal

Our Purpose

Payments made easy ensuring businesses are paid anywhere, anytime, every time.

Strategic Goal

Be recognised as the most reliable, capable, agile and innovative omni-channel payments provider in Australia and New Zealand.

Our Values

1

One Team

We will work together to create an inspiring company that we are all proud to work for

2

Fearless

In our approach and our focus on the customer

3

We deliver

By listening, engaging and being held accountable

Attract, Retain and Engage the Best Talent

Smartpay is a purpose-led organisation driven by our values; we've created an inclusive environment where talented people with a broad range of skills, experiences, beliefs and backgrounds can all thrive together across all regions we operate in.

The focus on our people has been paramount. Leveraging the expertise and scale of our New Zealand business has meant we can support and drive the growth in our Australian operations during the financial year.

Employee impact during COVID-19

Early in the year, our people felt the impact of COVID-19 with the challenges of lockdowns arising in both New Zealand and Australia.

Cloud based platforms and technology capabilities, meant our people were well connected and set up within 48 hours to ensure we could engage and support our customers during this unprecedented time.

Throughout the 10 to 12 week lock down period, our people demonstrated the values of agility and adaptability as they showed resilience in adjusting to a new working from home environment. Overall, we managed to cultivate a culture of online engagement with regular communication in the form of CEO and management briefings, interactive training sessions, online social events, and workshops hosted across all regions.

Employee Engagement and Recognition

Great customer experience stems from people who are engaged, positive and purpose led. Smartpay ensures transparency and collaboration through performing routine eNPS Employee Net Promoter Scores to provide opportunities to our people to have their say on what they enjoy about working at Smartpay.

Our 'Great Place to Work' initiative, encourages a 'bottoms-up' approach to feedback from our people. This ensures initiatives and training plans are explored to deliver and uphold a continuous improvement philosophy which is embedded within our business model.



Smartpay's current average employee engagement score is over

75%

We believe in personal development. Our aim is to emulate the role of 'mentor' and 'coach' in our frontline leaders. This is promoted through providing leaders with tools to encourage our people to strive for excellence, engaging in performance reviews and collaborating to build great teams.

In line with our 'one team' values approach, we have empowered our people to recognise their peers with the introduction of a recognition programme. This to encourage our people to recognise and appreciate each other and to celebrate in their success through a collection of "call outs" at team events and regular companywide business updates.

Employee Communication

With the adoption of 'Slack', 'Confluence' and 'Google workspace', Smartpay encourages employees to keep at the forefront of news, company updates and announcements. Business updates are led by the CEO to regularly inform our people on what's happening in the organisation and to share in the success and the future strategy of the Smartpay business.

Health, Safety & Wellness

We are committed to maintaining a safe and healthy working environment for anyone working on Smartpay premises and to a culture of ensuring the wellbeing of our people.

We believe that no business activity should take priority over health and safety and are committed to protecting all people from injury or illness as a result of our operations, so they can go home safe to their families at the end of each day.

Our Board has the ultimate responsibility for health and safety and is closely involved with the review of our health and safety management system receiving the full health and safety risk register in its board packs and considering health and safety issues as a standing agenda item of its board meetings. It obtains external advice from specialists in the field when necessary.

Management and each person in our business has an important role to play by being involved, engaged and accountable, ensuring that health and safety remains a priority. During the financial year all new employees have completed their health and safety inductions.

We have utilised our rehabilitation policy for individuals suffering illness or injured outside of the work place to enable their smooth transition back to the workplace. When required for medical reasons, we have introduced new workstation setups for our people.

True to our “One Team” value we have an active Wellness Committee whose responsibilities cover health and safety and premises issues. In addition, they run various ‘wellness’ initiatives such as mindfulness information, yoga and exercise classes, sporting competitions, financial wellness seminars, flu vaccinations and blood donations to name but a few.

As a result of the COVID-19 pandemic the business initiated some additional procedures to meet the recommendations set out by the government. Before returning to our premises we had a professional deep clean of the offices, we reviewed and amended workstations for social distancing and we adopted best practices of supplying masks, hand sanitisers and gloves at workstations. In addition to this we adjusted the reception and warehouse in line with COVID-19 measures to ensure the safety of our suppliers and customers.

We recognise that when life works better, business works better; life is not always stress or crises free and if left unattended these may in turn lead to time off, increased risk of accidents, high levels of stress and possible health issues. As part of our commitment to promoting a healthy workplace and caring for our team we have an Employee Assistance Programme in place which is facilitated by an external expert organisation. This enables our people to access specialist assistance on an anonymous and confidential basis.

Diversity

As a small but growing company we have a broad sense of diversity rather than a numerical set of targets. We recognise our people's values and their attributes as well as the experience, skillset, and knowledge they bring through a diverse range of cultures and backgrounds.

We continue to review pay parity for male and female members of staff doing the same role and are pleased to report that there is no difference in the salaries paid in those roles. Our approach to our people has always been to have the right people in the role without reference to bias or discrimination and it is important to us that our people are reflective of the communities in which we operate.

In New Zealand we pay in line with the New Zealand living wage. We have also confirmed that our New Zealand based suppliers are in line with New Zealand living wage standards.

“Our commitment to diversity is ongoing.”

The Board's skills matrix is cornerstone to the identification of skills needed on the Board and is reviewed and updated annually and whenever a new director joins the Board. The Board remains committed to improving gender diversity in its membership.

We recognise that diversity begins at the executive level and is a key part of our strategic plan. Our commitment to diversity is ongoing and through the appointment of a dedicated People & Customer Officer we will continue to embed diversity into all aspects and encourage through training and ongoing support.

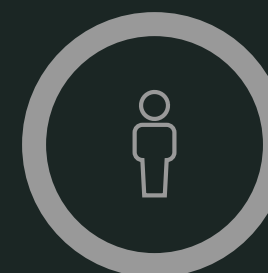


Smartpay staff celebrating Mardi Gras 2021



Diversity Reporting

Directors



Male: 5 | 100%
Female: 0 | 0%

As at 31 March 2021



Male: 6 | 100%
Female: 0 | 0%

As at 31 March 2020

Officers

Following Marty Pomeroy's appointment as CEO, Mark Fortugno's appointment as CFO, and in line with the expansion of the Smartpay business there have been some recent changes to reporting lines within our management structure. It has been determined that, for the purposes of our NZX Listing Rule's diversity reporting the definition of Officer now encompasses more of our key management team. Due to changes to reporting lines the team has gone from 2 to 8 members, and now includes the following positions:

Smartpay's key management personnel include

- Chief Financial Officer
- Chief Business Officer
- Chief People & Customer Officer
- Company Secretary
- General Manager New Zealand
- Head of Engineering
- Financial Controller
- Head of Sales Australia



Male: 5 | 57%
Female: 3 | 43%

As at 31 March 2021



Male: 1 | 50%
Female: 1 | 50%

As at 31 March 2020

Delivering Best In Class Customer Experience

We continue to develop and deliver best in class Customer Experience (CX). Our CX strategy starts at an executive level and is a core part of our strategic plan. CX and customer success methodologies are embedded into our culture when it comes to delivering new products or making improvements to our current offering in market.

A key part of our CX strategy has been maintaining and regularly measuring our Net Promoter Score (NPS). NPS measures the percentage of 'Promoters vs Detractors' on a simple measurement of "how willing an existing customer is to refer others to Smartpay."

Over the past two years, we have seen our Australian NPS increase materially with our most recent surveys all producing results above 50. We are very satisfied with this result as it proves that the efforts we are making are being well received by our stakeholders.

In addition, the NPS offers invaluable insight from our customers including recommendations for improvements and enhancements to our product offerings. We also benefit from insight into current market trends and customer preferences. These assist with our innovation efforts and future product developments.

We have structured our customer service and technical helpdesk teams to provide seamless support for our customers. Smartpay continues to ensure that key performance indicators (KPI's) and service level requirements are structured to ensure that our people's behaviours are directly linked to customer success.

We continue to develop easier ways for our customers to interact with us. During the financial year we developed our merchant portal. This provides our customers additional communication channels in which to interact with us without requiring a phone call or email. The dual benefit of this solution is greatly improved CX and operational efficiency leading to future scalability. As we continue to grow, Smartpay will continue to focus on innovation and CX as we continue to develop our next generation customer interfaces.

We also invested in radio advertising across the Australian Traffic Network (ATN) which covers traffic reports in prime time nationally across 37 Metro and 175 Regional Stations in Australia.



Increasing our Brand Profile

During the financial year we invested in increasing our brand profile in both New Zealand and Australia. Post the initial lockdowns, Smartpay took a collaborative approach partnering with customers offering them circumstantial support as they navigated their businesses through the process of reopening and reengaging with their customers.

In New Zealand, we launched a series of COVID-19 offers including the “Our Shout” campaign in July 2020 which was targeted at businesses who may require support from a cashflow perspective. These offers were well received and we managed to improve our customer acquisition results back to pre COVID-19 levels during the second quarter of the financial year.

We also took the opportunity to promote our brand in the inaugural Super Rugby Aotearoa competition and the 2020 Bledisloe Cup competition.

Australia and New Zealand were at the forefront of COVID-19 responsiveness and were the first markets to facilitate live sports events. The Bledisloe Cup games were viewed by large New Zealand and Australian audiences and presented a great opportunity to highlight that we are a Trans-Tasman payments provider and to showcase our brand.

We also invested in radio advertising across the Australian Traffic Network (ATN), which covers prime time advertising across 34 stations in Australia. This brand advertising does not provide the direct attribution demonstrated through our online paid advertising platforms but is a long-term strategic approach to generate and encourage more leads as we build our brand profile. We intend to continue investing in our brand profile and market presence over the future years.

Supporting Customers during COVID-19

COVID-19 and the disruption of lockdowns meant that Small to Medium Enterprises endured challenges and uncertainty.

Smartpay developed and encouraged initiatives to support our customers and worked with many to provide free terminal rentals when the device was not being used through lockdown. Whilst the terminal rental fee is small in relation to a SME's total outgoings, this offer was well received and seen as a meaningful contribution. In addition, we waived our usual cancellation fees for businesses who were forced to close as a direct result of the economic effects of the COVID-19 lockdowns.

A reflection of the way we approach innovation is evident in our offer to customers to use our radio advertising spots to promote their own businesses where they were not able to engage in this marketing effort themselves. Our efforts are always focussed on supporting our customers but in a COVID-19 year we were particularly focussed on their cashflows and we have made a positive difference to several small businesses in New Zealand and Australia.

Today, Smartpay continues to be mindful of the ever-changing market circumstances and continues to monitor, be in touch and show support where possible, to our loyal and growing customer base.



Our Community and Sustainability

Fundraising & Local Support

Given the mindfulness of the challenges faced in the last financial year, Smartpay has been conscious and empathetic to those impacted by COVID-19 and our people sought ways to 'give back' to the community.

Our Social Club and Wellness Committee organises a variety of events, with the emphasis on the giving of our time and efforts. Events include food collections for the City Mission in Auckland, collections of children's Christmas gifts donated to the Salvation Army and providing to the New South Wales Foodbank.

Our people were actively engaged in donating their own Christmas gifts this year to those in need to help support those that particularly struggled through the year of COVID-19.

In addition, as a business we offer discounted rates on short term rentals for Charities and our people are able to have the use of a short-term rental for events such as school fairs and sports events.

Sustainability

Sustainability for Smartpay covers environmental, economic, and social factors and practices. In the current climate it is important that businesses provide information on how these factors are aligned to the overall strategy of the business and that certain performance indicators are monitored by the Board.

From an environmental perspective, Smartpay ensures that where possible, we consider environmental impacts on current and new initiatives undertaken. During the financial year Smartpay completed two new payment applications, one for New Zealand and one for Australia. These updates are distributed remotely to the terminals which has a cost benefit but also reduces the environmental impacts of a physical terminal upgrade. Our preference is to remotely upgrade terminals however, after certain periods we are required to complete hardware upgrades, due to PCI compliance mandates. When we complete a hardware upgrade, the terminal is returned and is securely destroyed and recycled where possible. In addition to the hardware, the packaging we choose to use is also recyclable.

Our new payment applications allow our customers to switch receipting off if they choose. This initiative is used by our merchants when their customers seldom ask for receipts and therefore this functionality saves on environmental waste and provides a CX improvement.

As a Trans-Tasman payment provider, we have initiated video conferencing and encourage online platforms for communication, keeping air travel to a minimum. International travel is approved from an executive level to ensure it is monitored and only used when necessary.

Sustainability from an economic perspective is closely linked to our strategic plan. Smartpay's business is an integral part of the payments industry and as such has an important role to play in ensuring that public confidence in the payments infrastructure and ecosystem is maintained. Our plan is to ensure that we continue to innovate and provide a full payment solution to our customers and continue to stay at the forefront of the payments industry. To do this we see the importance of having like minded and aligned partnerships. We are satisfied that these partnerships are assisting us to deliver our strategic plan.

We have proved in recent years with developments including QR, Smartconnect and new acquiring products that we can innovate and bring to market meaningful and relevant payments solutions.

Sustainability from a social perspective is where we consider our stakeholders and how we maintain relevance to them. We conduct employee surveys to assess the overall level of satisfaction within the team, we also monitor the longevity of our people and commit to supporting them through their professional careers. The results suggest that we are delivering for our people.

We use several social mediums for marketing purposes and portray our culture to our wider stakeholders. As noted through this report we are receiving positive feedback from these stakeholders and we will continue to focus here in the coming years.



Smartpay staff celebrating Pink Shirt Day

Board of Directors



Gregor John Barclay (Greg)
Chairman and Independent Director - LLB, Dip. Bus

Greg joined the board of Smartpay in 2010 and he was appointed Chairman in 2016.

He is a commercial lawyer with over 30 years of experience in advising a range of commercial and corporate clients. In 1997 he was a founder of Claymore Partners, an Auckland based commercial law and business advisory firm. He continues to act as a consultant to that firm at present.

He is an experienced company director and Chair having held various directorships and advisory roles across a number of New Zealand and off-shore entities. Greg has also had an extensive involvement in the business of sport, both as an advisor and director of a number of sporting entities. He is a director (and immediate past Chair) of the International Rugby League, a former Chairman of New Zealand Cricket and is currently the Chairman of the International Cricket Council based in Dubai.

In addition to being on the board, Greg serves on the board's Audit and Finance Committee. He is an approved Chartered Member of the New Zealand Institute of Directors.

Greg resides in Auckland, New Zealand.



Martyn Richard Pomeroy (Marty)
Managing Director

Marty joined Smartpay in January 2013 post the acquisition of Viaduct Limited. Marty joined the Smartpay Board in April 2014.

Prior to joining Smartpay Marty was one of the two founding Directors of Viaduct Limited. Marty was instrumental in the development and success of the Viaduct business from a startup in 2001, through a period of growth to it becoming the third largest provider of EFTPOS terminals in New Zealand with an annual turnover of \$7 million and employing 36 staff. Prior to Viaduct Marty held managerial roles in sales and service with EFTPOS New Zealand. He brings over 13 years of experience in the NZ Payments industry to the Board.

Marty has a detailed understanding of the operational, sales and commercial elements of the Smartpay business and is also involved in the strategy and build of the opportunity in Australia.

Marty resides in Auckland, New Zealand.



Carlos Gil
Non-Executive Director - B Ec, GradDipAppFin SIA, MAppFin FSIA

Carlos Gil is the founder and current CEO of ASX listed Microequities Asset Management, Smartpay's largest shareholder. He has extensive experience in stockbroking, funds management, and investment research gained over a career spanning more than 20 years. He has held various senior management positions in Europe, including roles as Head of International Securities at BM Securities, and at Banesto Bank (Santander Group).

Carlos holds a Bachelor of Economics from Sydney University, a Graduate Diploma in Applied Finance and Investment Analysis from the Australian Securities Institute and a Master in Applied Finance and Investment Analysis from the Financial Services Institute of Australia.

In addition to being on the Board, Carlos serves on the Board's Audit and Finance Committee

Carlos resides in Sydney, Australia.



William Robert Pulver (Bill)
Non-Executive Director - BCom Marketing

Bill Pulver was Chief Executive Officer of Australian Rugby Union (ARU) from February 2013 until January 2018. Prior to joining Australian Rugby, Bill was CEO of Appen Pty Ltd and is currently a non-executive director of Appen. Appen provide high quality training data with its leading technology platform, managed services, and global crowd to power artificial intelligence globally. From 2008 to 2010 he was Chairman of Repucom International, a global leader in sports marketing research.

Bill spent eight years as President and Chief Executive Officer of the New York based, NASDAQ-listed internet media research company NetRatings Inc. He spent 17 years at global marketing research company ACNielsen, in roles that included Managing Director in Australia, Group Chief Executive for Japan and Korea based in Tokyo; and President of ACNielsen eRatings.com, an internet audience measurement company based in London. Bill holds a Bachelor of Commerce degree, with a major in marketing from the University of New South Wales in Sydney.

In addition to being on the Board, Bill Chairs the Board's Remuneration and Nominations Committee.

Bill resides in Sydney, Australia.



Matthew George Turnbull (Matt)
Independent Director - BCom, CA

Matt joined the Board of Smartpay in April 2013, he is a Chartered Accountant and is a member of Chartered Accountants Australia and New Zealand. He commenced his career with PWC (then Price Waterhouse) and has over 20 years experience providing accounting and corporate advisory services. Matt has a detailed understanding of Smartpay, having assisted the company in the 2012 recapitalisation and restructure, and the acquisition of Viaduct Limited.

In addition to being on the Board, Matt serves on the Board's Remuneration and Nominations Committee and is the Chair of the Audit and Finance Committee.

Matt resides in Auckland, New Zealand.

Governance

Smartpay is committed to the best practices of governance and maintains the highest ethical standards. Our governance framework sets out our accountabilities to our stakeholders, how we expect to conduct our business, communicate, and manage risks. The framework and the individual policies are reviewed on a regular basis. The key documents can be found on our investor website: smartpayinvestor.com. A commentary on our Framework is contained in the pages that follow.

A key responsibility for our Audit and Finance Committee is the oversight and management of the Governance Framework as set out in its Terms of Reference.

We have reviewed our governance framework with reference to the NZX Corporate Governance Code dated 10 December 2020 and believe that in most respects our framework complies with the Code, exceptions are identified in the narrative that follows.

This Corporate Governance Statement was approved by the Board on 28 June 2021.

Ethical behaviour

Our values of teamwork, focus on the customer, delivery and accountability are at the heart of what we do and how we do it. Our Board has established a formal Ethics and Code of Conduct policy and related policies which set the standards of behaviour required of all members of the Smartpay team when they represent us.

The Policy covers the conduct expected and deals with:

- Responsibilities of all individuals,
- Standards and definition of acceptable behaviours,
- Equal employment opportunities,
- Discrimination, harassment and bullying,
- Unauthorised removal of property,
- Responsibilities to shareholders and the financial community, and
- Whistleblowing and reporting of incidents

These key documents can be found on our website smartpayinvestor.com.

The Policy includes our approach to equal opportunities and diversity, protection of our assets, securities trading, diversity and inclusion, conflicts, interests and related parties and reporting of incidents. Many of these are covered in more detail in additional supporting policies such as our Securities Trading Policy, which can also be found on our website along with our Protected Disclosures Policy (reporting of incidents/whistleblower) and Diversity and Inclusion Policy.

Our Staff handbook, which is available to all members of the Smartpay team contains specifically those values and standards expected of our people including confidentiality, and equal opportunities.

The implementation and management of the Code is undertaken by our management team and any breaches dealt with as appropriate through our disciplinary process.

Employee interest in owning Smartpay shares increased during the reporting period. We believe this interest was borne out of both the success of the business and the increased accessibility of buying shares as a result of new share purchase platforms available.

We took a proactive approach and have provided additional communication on our securities trading policy to ensure that our people understand their obligations in the event that they wish to trade in Smartpay shares. During the annual review of the Securities Trading Policy the Board determined that the definition of Restricted Persons for the purposes of the Policy was not wide enough and the definition was expanded to include advisors during their period of engagement.

Board Composition and Performance

Our Board is committed to ensuring that it has the skills, knowledge and experience to effectively govern and direct the Smartpay group recognising that it has the overall responsibility for our strategy, culture, health and safety, governance, performance and the management of risk.

Our Performance Management Policy, available on our website smartpayinvestor.com, is reviewed annually and applies to all employees, senior executives, individual directors and the Board as a whole and its committees. The Board has undertaken an internal evaluation of its performance this year.

The Board is Chaired by Greg Barclay who is an independent director, the board comprises three independent directors (including the Chair), one non-executive director and the Managing Director. The Board meets the recommendation of the Corporate Governance Code and a majority of the directors are independent. An outline of each director's skills and experience can be found on our website and in our Annual Report. Details of their ownership of shares in our Company are set out in the Annual Report on page 101.

During the year the Board's Remuneration and Nominations Committee established a Director Nomination Procedure. This procedure along with the Board's performance review and skills matrix supports the Board's performance evaluation and identification of training and succession planning requirements.

The induction process established for new directors ensures that any new director appointed to the board receives the information he/she needs to be able to contribute to board proceedings when they join. The process includes the requirement for written agreements to be entered into which outline the expectations and terms of appointment.

To ensure directors' ongoing effectiveness our directors are encouraged to undertake training and we are corporate members of the Institute of Directors which provides our directors with access to training and development opportunities, information and reference material.

Independence of Directors

Factors that we consider may impact a director's independence include:

1. Being currently, or within the last three years, employed in an executive role by Smartpay, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
2. Currently, or within the last twelve months, holding a senior role in a provider of material professional services to Smartpay;
3. Having a current, or within the last three years, material business relationship (e.g. as a supplier or customer) with Smartpay;
4. Being a substantial product holder of Smartpay, or a senior manager of, or person otherwise associated with, a substantial product holder of Smartpay;
5. Having a current, or within the last three years, material contractual relationship with Smartpay, other than as a director;
6. Having close family ties with anyone in the categories listed above; or
7. Having been a director of Smartpay for a length of time that may compromise independence.

In each case, the materiality of the interest, position, association or relationship is assessed to determine whether it might interfere, or might reasonably be seen to interfere, with the director's capacity to bring an independent judgment to bear on issues before the Board, to act in the best interests of Smartpay, and to represent the interests of our financial product holders generally.

The Board reviews the independence of each Director considering interests that each director is required to disclose in relation to the factors set out above. Based on these factors, Smartpay considers that, as at 31 March 2021, Greg Barclay, Matt Turnbull and Bill Pulver were independent directors

The full board meets at least six times a year, the record of attendance at both Board and Committee meetings by directors for FY21 is detailed below:

Status		Board	Audit & Finance Committee	Remuneration & Nominations Committee
Meetings Held / Attended		7	4	3
Greg Barclay	Independent Chairman	7	4	N/A
Bradley Gerdis*	Managing Director	3	N/A	N/A
Marty Pomeroy	Executive / Managing Director	7	N/A	N/A
Matt Turnbull	Independent Director	7	4	3
Carlos Gil	Non-Executive Director	7	4	N/A
Bill Pulver	Independent Director	7	N/A	3

* Bradley Gerdis resigned with effect from 1 September 2020 and attended all meetings prior to his resignation.

The Board Papers provided by management before each meeting provide comprehensive information on the business and directors have unrestricted access to any other information or records. Reporting to the Board is structured to require reporting by Management against the Board’s identified strategic goals. Where directors are unable to participate in a meeting they are encouraged to forward their views to another director in advance of the meeting however we note that this has not been required for FY21 as all directors have been in attendance at all Board or committee meetings. Key Management are available at the Board’s request to address queries and to assist in developing the Board’s understanding of issues facing us and the performance of our business.

Committees

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

The Board has constituted two Committees which report to the Board:

- Audit and Finance Committee
- Remuneration and Nominations Committee

These Committees focus on specific responsibilities in greater detail and operate under written terms of reference which are available on our website.

Given the size of our business the Board has determined that the roles and functions of Remuneration and Nominations committees can be effectively dealt with by one committee.

The terms of reference for its Remuneration and Nominations Committee include the roles and functions for nomination and remuneration of directors, senior managers and policies for the company as a whole.

The Board Charter recognises that the ultimate responsibility for Board nomination and remuneration rests with the Board.

The Board appoints the committee members, current membership is as follows:

Name	Audit & Finance Committee		Remuneration & Nominations Committee	
	Appointed	Position	Appointed	Position
Matt Turnbull*	1 April 2013	Chair	5 June 2013	Member
Greg Barclay*	24 May 2010	Member	N/A	N/A
Carlos Gil	11 December 2018	Member	N/A	N/A
Bill Pulver*	N/A	N/A	11 December 2018	Chair

*Independent director

The Board reviews its Board Charter at least annually and as part of the formal review considers the benefits of constituting additional committees. It has elected not to establish a takeover committee or protocols setting out the procedure to be followed in the event of a takeover offer. Given the small size of the Board it has determined that it can effectively, efficiently and independently manage any additional issues as a whole Board.

Reporting and Disclosure

We are committed to the promotion of investor confidence by taking steps within our power to ensure that trade in our securities takes place in an effective and informed market. To this end we are committed to providing timely, orderly and credible information consistent with legal and regulatory requirements.

The key policy documents within our Governance Framework are available on our website at [smartpayinvestor.com](https://www.smartpayinvestor.com) and include our:

- Board Charter
- Audit and Finance Committee Terms of Reference
- Disclosure and Communication Policy
- Audit Independence Policy
- Fraud Risk Management Policy
- Diversity and Inclusion Policy
- Performance Management Policy
- Health and Safety Policy
- Risk Management Policy
- Disclosure and Communication Policy
- Ethics and Code of Conduct
- Remuneration Policy
- Securities Trading Policy
- Stakeholder Communication Policy
- Remuneration and Nominations Committee Terms of Reference

While the ultimate responsibility to ensure the integrity of our financial reporting rests with our Board, we have in place a structure of review and authorisation designed to ensure truthful and factual presentation of our financial position. This includes an appropriately resourced Audit and Finance Committee operating under written terms of reference which require it to review and consider the accounts and preliminary releases of results to the market. We have an Audit Independence Policy which requires that our external auditor remains independent and identifies that the appointment of the auditor is reviewed regularly by the Audit and Finance Committee.

We also have a Fraud Risk Management Policy designed with three objectives:

- **Prevent:** Reduce the risk of fraud and misconduct occurring
- **Detect:** Discover fraud and misconduct when it occurs
- **Respond:** Take corrective action and remedy the harm caused by fraud or misconduct

The Board has required rigorous processes to ensure that it can reasonably rely on the information provided to it by our Management team. All financial reporting provided to the Board goes through a tiered review process.

The Board and Auditors review information contained in our Financial Statements to ensure its compliance with NZ GAAP and NZ IFRS.

Smartpay’s Disclosures and Communication Policy which can be found at: smartpayinvestor.com/corporate-documents, reinforces our commitment to the continuous disclosure obligations imposed by the NZX. It ensures timely and accurate information is provided equally to all shareholders and market participants and provides guidance on the process to ensure compliance. This policy, together with our procedures relating to disclosure, is designed to ensure accountability at a key management level and compliance with our disclosure obligations.

The Board has appointed our Managing Director as our Market Disclosure Officer who is responsible for monitoring our business to ensure we meet our disclosure obligations. He is supported by the Company Secretary and, when necessary, will consult professional legal advisers.

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

We report non-financial information about the business throughout our Annual Report.

Remuneration

Our Remuneration Policy can be found on our website and applies to executive and non executive directors, key management and all employees of Smartpay.

Directors Remuneration

Our non-executive directors are paid a basic fee as ordinary remuneration for their appointment as a Director of Smartpay, in addition they may be paid extra remuneration for their membership of Board appointed committees and/ or in consideration for their appointment as Chair. They receive no retirement or other benefits. The actual remuneration paid to the non-executive directors is set out in the Related Parties Note to the Financial Statements. Total remuneration shown includes remuneration for specific roles:

- Greg Barclay’s total remuneration disclosed includes \$10,000 for his appointment as Chair of the Board.
- Matt Turnbull’s total remuneration disclosed includes \$5,000 for his appointment as Chair of the Audit and Finance Committee.

Executive Directors and Officers

Our Managing Director and any executive directors are paid as employees of Smartpay and remuneration payable to them and our officers is made up of three components:

1. Fixed Remuneration
2. At risk/variable remuneration to reward performance in the form of a bonus scheme which is linked to key performance indicators set and reviewed by the Remuneration and Nominations Committee annually.
3. Long term incentive plans. We do not currently have a long term incentive plan in place.

The remuneration of individual executive directors and key managers of the company is reviewed annually by the Remuneration and Nominations Committee. We have no predetermined weighting for the balance of each remuneration element to be awarded, this is contemplated annually in the context of our strategic plans and budget process to ensure that remuneration packages remain closely aligned with our values, vision and strategy.

The detail of the remuneration payments to directors of Smartpay Holdings Limited are included in the related party note to the Financial Statements on page 85 and their individual shareholdings are detailed in the Statutory Information section of the Annual Report on page 100. The subsidiary companies’ directorships are detailed in the Statutory Information section on page 99, the subsidiary company directors are also directors of Smartpay Holdings Limited, they receive no additional fees for being directors of subsidiary companies.

Chief Executive Officer

	Base Salary	Other benefits including superannuation contributions	Subtotal	At Risk STI*	Incentive % STI against maximum	Total Remuneration
Marty Pomeroy FY21	NZ\$408,000	NZ\$30,000	NZ\$408,000	NZ\$350,000	100%	NZ\$788,000
Bradley Gerdis FY21	NZ\$323,000	NZ\$15,000	NZ\$338,000	NZ\$210,000	100%	NZ\$548,000
Bradley Gerdis FY20	AU\$418,000	AU\$20,000	AU\$438,000	AU\$45,000	22.75%	AU\$483,000

*STI (Short Term Incentive) is based on payments made in the period.

Marty Pomeroy was appointed as CEO following Bradley Gerdis’ resignation with effect from 1 September 2020. The remuneration shown above is Marty’s remuneration for the whole of the reporting period and the remuneration shown above for Bradley is for the period of his employment. The review and approval of the Chief Executive’s remuneration is the responsibility of the Remuneration and Nominations Committee. External benchmarking and advice is sought by the Remuneration and Nominations Committee as required. For further information refer to Related Parties section.

There is no long-term incentive plan currently in place. The at risk incentives are paid against targets which are agreed with the Chief Executive annually and are based on financial measures, including earnings targets and progress against objectives relating to the strategic plan and other personal objectives.

Employees

Our Remuneration Policy applies to all employees. As part of our salary review process we benchmark our salaries against the appropriate regional market, this is an exercise we undertake for the business as a whole and when employees join the business or change roles.

During the year the number of employees, not being directors of the company received remuneration and other benefits that exceeded NZ\$100,000 (overseas amounts are converted into NZD for these purposes):

Remuneration Range	Number of Employees
100,000 to 109,000	4
110,000 to 119,000	3
120,000 to 129,000	3
130,000 to 139,000	5
140,000 to 149,000	3
210,000 to 219,000	1
250,000 to 259,000	1
260,000 to 269,000	1
270,000 to 279,000	1
370,000 to 379,000	1

Risk Management

As a high-growth company, we recognise that risk management is critical to the execution of our business strategy. We view our risk management framework as a discipline that reduces uncertainty and strengthens and complements other corporate governance initiatives.

There are three main policies which make up our Risk Management Framework:

- Risk Management Policy
- Health and Safety Policy
- Fraud Risk Management Policy

Each of these policies can be found on our website. Supporting each policy are detailed management frameworks which ensure the comprehensive management and reporting of risk in our business.

Smartpay's Risk Register was established based on The Committee of Sponsoring Organisations (COSO) Enterprise Risk Management (ERM) framework. Enterprise risks are regularly reviewed by management and evaluated in terms of potential impact and likelihood of occurrence. Smartpay maintains a dynamic and active approach to ensuring relevant mitigating factors are implemented by our management team.

A comprehensive risk register is maintained which identifies the risks facing the business, potential consequences of those risks and the mitigating factors management have identified to minimise or remove any impact of such risks to our business. Risks are categorised as operational, financial, compliance and strategic risks and enable the Board to easily identify risks that may require additional investment and/or processes in order to mitigate further. Management review the risk register in response to new business initiatives. In addition, our management team reviews the risk register regularly and provides the board with reporting as to risks, mitigating factors that may have changed and a summary report of the changes.

Our internal control systems support our risk management and include processes which enable the identification, quantification and monitoring of significant risks, the development of risk mitigation strategies, the monitoring of compliance and the review of systems and records.

We do not have sufficient scale to have a dedicated internal audit function however, we recognise the value an internal audit process adds. We place emphasis on the systems and policies in place, including the Delegation of Authorities Manual. These ensure the separation of duties in relation to the authorisation of, and commitment to, expenses and obligations and that such decisions are made at the appropriate level. Key to internal controls, risk management and in response to the risk identified in our current systems, is the implementation of a new ERP system. This has been a key project for the management team over the past financial year and the business is expecting this to be embedded during FY22. The implementation of the ERP system will streamline internal controls and provide efficiencies across the business.

Auditors

The ultimate responsibility to ensure the quality and independence of the external audit process rests with our Board.

The framework in place to enable our Board to discharge this responsibility include:

- An appropriately resourced Audit and Finance Committee operating under written terms of reference
- Audit Independence Policy defining the services that may or may not normally be performed by Smartpay's external auditors

Both these documents can be found on our website.

Following a review process KPMG became auditors to the company for the FY13 year end. In accordance with our Audit Independence policy the lead audit partner has changed since then and since the FY20 audit John Kensington has been the lead partner.

Our Auditors are invited to Audit and Finance committee meetings leading up to and during the audit and work closely with the Chair of the Audit and Finance Committee during this time. We promote good dialogue and encourage a supportive relationship, and the Audit team has unfettered access to our key management team and finance team members.

The auditors are invited to all meetings of shareholders.

Smartpay engages other external advisors to assist with such matters as taxation to support the business in its tax dealings to ensure a true separation of duties.

KPMG have confirmed their independence in relation to the audit and that there have been no contraventions of any applicable code of professional conduct in relation to the audit.

The fee paid to the auditors is detailed on page 65.

Shareholder Rights and Relations

The Board respects the rights of shareholders and strives to build and maintain constructive relationships and encourage investor engagement.

We maintain websites specific for our customers and investors. When a shareholder first invests in our company they are sent a welcome letter which provides information on where to find our website and an invitation to elect to receive communications from us electronically. The impact of COVID-19 on postal services highlights the benefits of receiving communications electronically.

Our Stakeholder Communications policy sets out our expectations of how we will communicate with our shareholders, whenever we hold shareholder meetings a minimum of 20 working days notice has been given.

In 2020, due to the COVID-19 restrictions on travel and gatherings, we held our Annual Meeting of Shareholders virtually. We experienced higher than usual shareholder participation and are planning to hold this year's Annual Meeting in the same way to maximise shareholder participation and plan for any COVID-19 uncertainties.

Our shareholders were invited to attend a Special Meeting of Shareholders held on 29 April 2020 to consider and vote on the potential sale of the New Zealand business and assets to Verifone, Inc. for a cash purchase price of NZ\$70m. Approval was obtained from the shareholders but the transaction did not progress as Verifone terminated the transaction as the country headed into uncertain times due to COVID-19.

In May 2020 we raised AU\$13m capital via a placement to institutional, sophisticated and professional shareholders, this resulted in the issue of 30,952,381 additional shares. This approach was taken during COVID-19 to ensure certainty of completion. This was followed by share purchase plan offer to all existing shareholders. This resulted in the issue of a further 4,761,903 shares to participating shareholders.



2021 Financial Statements

Directors' Responsibility Statement

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Smartpay Holdings Limited and its subsidiaries (the Group) as at 31 March 2021 and the results of their operations and cash flows for the year ended 31 March 2021.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied except where indicated, and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and enable them to ensure that the financial statements comply with the Financial Markets Conduct Act 2013.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have considered the impact that the COVID-19 Pandemic has and will have on the business, refer Note 2d.

The Directors are pleased to present the financial statements of the Group for the year ended 31 March 2021.

These financial statements dated 21 June 2021 are signed in accordance with a resolution of the Directors made pursuant to section 211(1)(k) of the Companies Act 1993.

For and on behalf of the Directors



Greg Barclay
Chairman



Marty Pomeroy
Managing Director

Statement of Comprehensive Income

For the year ended 31 March 2021

Group			
		2021	2020
	Note	\$'000	\$'000
Continuing operations			
Revenue	5 & 6	33,845	28,271
Other income	7	16	19
Operating expenditure	8	(26,279)	(20,894)
Earnings before interest, tax, depreciation, amortisation, impairments and unrealised foreign exchange		7,582	7,396
Depreciation and amortisation	8	(7,803)	(7,350)
Unrealised foreign exchange adjustments		74	(214)
Net finance (costs)	8	(1,612)	(2,453)
Change in fair value of convertible notes	8	(12,731)	(1,809)
Impairment	8	(468)	(553)
		(22,540)	(12,379)
(Loss) / Profit before tax		(14,958)	(4,983)
Tax benefit / (expense)	9	(242)	511
(Loss) / Profit for the year from continuing operations of owners		(15,200)	(4,472)
Other comprehensive income			
Foreign currency translation differences for foreign operations which may be reclassified subsequently to profit and loss (no tax effect)	26	291	(45)
Share based payments reversal which will not subsequently be reclassified to profit / (loss) (no tax effect)	25	-	104
Total comprehensive loss of owners		(14,909)	(4,413)
Earnings / (losses) per share from continuing operations attributable to the equity holders of the company during the year	10		
Basic earnings per share		(7.24) cents	(2.59) cents
Diluted earnings per share		(7.24) cents	(2.59) cents

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 44 to 91 form part of the financial statements.

Statement of Changes in Equity

For the year ended 31 March 2021

Group						
		Share Capital	Foreign Currency Translation Reserve	Retained Deficits	Total	
	Note	\$'000	\$'000	\$'000	\$'000	
Balance at 31 March 2019		53,454	115	(39,922)	13,647	
Loss for the year from continuing operations of owners		-	-	(4,472)	(4,472)	
Other comprehensive income		-	(45)	104	59	
Total comprehensive loss		-	(45)	(4,368)	(4,413)	
Convertible notes converted to ordinary shares		25	1,083		1,083	
Share options recognised at fair value net of options lapsed		25b	(104)	-	(104)	
Total changes in equity			979	(45)	(4,368)	(3,434)
Balance at 31 March 2020			54,433	70	(44,290)	10,213
Loss for the year from continuing operations of owners			-	-	(15,200)	(15,200)
Other comprehensive income			-	291	-	291
Total comprehensive loss			-	291	(15,200)	(14,909)
Convertible notes converted to ordinary shares (net of fees)		25	16,691	-		16,691
Share issues for cash (net of fees)		25	15,539	-	-	15,539
Total changes in equity			32,230	291	(15,200)	17,321
Balance at 31 March 2021			86,663	361	(59,490)	27,534

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 44 to 91 form part of the financial statements.

Statement of Financial Position

As at 31 March 2021

	Note	Group	
		2021 \$'000	2020 \$'000
Current assets			
Cash and bank balances	11	9,021	1,417
Trade and other receivables	12	9,011	4,217
Derivative financial instruments	13	3	-
Income tax receivable	21	15	15
Total current assets		18,050	5,649
Non-current assets			
Property, plant and equipment	15	9,045	9,072
Right of Use assets	16	438	849
Contract costs	17	891	934
Intangible assets	17	14,660	15,100
Goodwill	18	14,772	14,772
Deferred tax asset	19	-	25
Total non-current assets		39,806	40,752
Total assets		57,856	46,401
Current liabilities			
Trade payables and accruals	20	11,464	5,426
Derivative financial instruments	13	-	19
Borrowings	22	1,235	3,218
Lease liabilities	23	538	413
Convertible notes	24	5,857	8,988
Total current liabilities		19,094	18,064
Non-current liabilities			
Borrowings	22	11,000	17,505
Lease liabilities	23	11	619
Deferred tax liability	19	217	-
Total non-current liabilities		11,228	18,124
Total liabilities		30,322	36,188
Net assets		27,534	10,213
Equity			
Share capital	25	86,663	54,433
Foreign currency translation reserve	26	361	70
Retained deficits		(59,490)	(44,290)
Total equity		27,534	10,213

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 44 to 91 form part of the financial statements.

Statement of Cash Flows

For the year ended 31 March 2021

	Note	Group	
		2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers		33,834	28,279
Interest received		-	23
Payments to suppliers & employees		(24,490)	(20,380)
Interest paid		(729)	(1,839)
Tax refund from R&D grants		-	392
Net cash inflow from operating activities	27	8,615	6,475
Cash flows from investing activities			
Proceeds from disposal of assets		-	4
Purchase of terminal assets and other property, plant and equipment		(2,913)	(1,207)
Spend on contract costs		(710)	(782)
Spend on intangible assets		(2,988)	(4,214)
Net cash outflow from investing activities		(6,611)	(6,199)
Cash flows from financing activities			
Proceeds from shares		15,508	-
Repayments of borrowings		(8,505)	(750)
Repayments of short term borrowings		(691)	(324)
Secured loan to related party		(1,594)	-
Payments of lease liabilities		(531)	(508)
Net cash outflow from financing activities		4,187	(1,582)
Net increase / (decrease) in cash equivalents		6,191	(1,306)
Add opening cash equivalents		1,101	2,407
Closing cash equivalents		7,292	1,101
<i>Reconciliation of closing cash equivalents to the balance sheet:</i>			
Cash and cash equivalents		7,292	1,101
Other bank balances		1,729	316
Closing cash and bank balances	11	9,021	1,417

The accompanying Statement of Accounting Policies and Notes to the Financial Statements on pages 44 to 91 form part of the financial statements.

Notes

1. General Information

Smartpay Holdings Limited (the “Parent”) is a New Zealand company registered under the Companies Act 1993 and listed on both the New Zealand Stock Exchange (“NZX”) and the Australian Securities Exchange (“ASX”). The Parent is an issuer (FMC entity) in terms of the Financial Markets Conduct Act 2013. The addresses of its registered office and principal place of business are disclosed in the directory to the annual report.

The consolidated financial statements of Smartpay Holdings Limited comprise the Parent and its subsidiaries (together referred to as the “Group”).

The Group comprises profit-oriented entities and is a provider of technology products, services and software to merchants and retailers in New Zealand and Australia.

2. Summary of Significant Accounting Policies

a. Statement of Compliance

The Parent is a reporting entity for the purposes of the Financial Reporting Act 2013 and its financial statements comply with that Act.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (“NZ GAAP”). They comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and the requirements of the Companies Act 1993 and the Financial Markets Conduct Act 2013.

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

The financial statements were authorised for issue by the Directors on 28 June 2021.

b. Basis of Preparation

The Group financial statements have been prepared on a historical cost basis except for certain assets, which have been measured at fair value. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The principal accounting policies are set out below.

The going concern assumption is applied, it is supported by current cash flow and cash flow forecasts for 2021 / 2022. The cashflow forecasts indicate that there is adequate cover for the current net liability position and to support its ongoing operations.

c. Functional and Presentation Currency

The financial statements are presented in New Zealand dollars (\$’000), which is the Parent’s and New Zealand subsidiaries functional currency. All financial information is presented in New Zealand dollars except if stated otherwise, and has been rounded to the nearest thousand where appropriate.

d. Accounting Judgements and Major Sources of Estimation Uncertainty

In the application of the Group’s accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

COVID-19 Pandemic

Smartpay services EFTPOS terminals across New Zealand and Australia. The revenues generated in New Zealand are primarily subscription based. The revenues generated in Australia are primarily transactional income (Note 5).

Due to the COVID-19 Pandemic, on 20 March 2020 the New Zealand Government announced a 4 week (Level 4) full lockdown of non-essential services from 25 March 2020. During April and May there was a decrease in sales by around 13% for New Zealand and 22% for Australia. However our revenue returned to that of pre-COVID levels during this financial year.

As a result, during April and May Smartpay reduced the costs of the business to offset as much of the revenue impact as possible. This included redundancies in both New Zealand and Australia, standing down staff and implementing salary reductions across all remaining staff and Directors for a period of time. We also received the JobKeeper wage subsidy and Cashflow Boost subsidy in Australia.

The business also reduced other costs such as marketing, travel, and rent. The business also put on hold some development projects, reducing capital expenditure for a period. The business also availed itself of the applicable government assistance packages available in both New Zealand and Australia which further assisted in mitigating the reduction in revenue.

A capital raise was also completed in May 2020 which has been used to reduce bank debt and ensure adequate cashflow for the business going forward.

Overall, although there was a decrease in revenue during the lockdown months after that the business returned and surpassed the pre-COVID revenue levels.

For FY22 an assessment of the impact of COVID-19 may have on Smartpay assets has been conducted, based on the information available at the time of preparing the financial statements. Below is a summary of the work undertaken and the result of any related impairment.

Cash and Bank Balances (Note 11)

No impact on the carrying value of cash and bank balances as a result of COVID-19.

Trade and other receivables (Note 12)

Smartpay has not increased their provisions over receivables at 31 March 2021 due to potential COVID-19 impact. The outstanding debtors at that date have largely been received by the time of signing this set of financial statements.

Property, plant and equipment (Note 15)

Smartpay has not impaired additional EFTPOS terminals as a result of COVID-19. COVID-19 restrictions had a temporary impact but once lockdowns were lifted the customers continued to use the EFTPOS terminals.

Right of Use Assets (Note 16)

Smartpay has not changed the terms of their lease agreements as a result of COVID-19.

Intangible Assets (Note 17)

No impairment has been considered against the carrying value of intangibles. Smartpay has internally developed softwares required to operate the terminal fleet in New Zealand and the acquiring fleet in Australia. The internally developed software for the Australian acquiring business was considered separately for impairment. Last year we performed a full impairment assessment of the Australian Cash Generating Unit, by using future cashflows. When this was performed we had a large surplus so this year we only performed a review of this to make sure that nothing had changed which indicated there were impairment factors. This considered the impact of COVID-19 and no impairment was necessary.

Goodwill (Note 18)

Goodwill has been tested for impairment. The Goodwill balance is associated to the New Zealand cash generating unit. As a result of not seeing a material reduction in revenue as a result of COVID 19 we have not been required to impair our goodwill.

e. Adoption of New and Revised Standards and Interpretations

i) Standards and Interpretations Effective in the Current Period

No new standards have been implemented in the current period.

ii) Standards on Issue Not Yet Adopted

There are no new standards awaiting implementation that will have a material impact on Smartpay Holdings Limited.

f. Consolidation

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

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

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

Business Combinations

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

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

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

g. Foreign Currencies

i) Foreign Currency Transactions

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

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

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

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

ii) Foreign Operations

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

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

h. Comparatives

When the presentation or classification of items is changed, comparative amounts are reclassified unless the reclassification is impractical. The comparatives in Note 31 (e) 2020 Convertible Notes, Note 23 Lease Liabilities and Note 25 Capital Management have been reclassified. In addition the Merchant Settlement facility deposit has been reclassified from Cash and Cash Equivalents (see Note 11) to Trade and Other Receivables (see Note 12). This also had a related impact on Note 31(a) and (c).

i. Current versus Non Current Classification

The Group presents assets and liabilities in the statement of financial position based on current / non current classifications.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed within twelve months after the reporting date or
- Is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date

All other assets are classified as non current.

A liability is current when it is:

- expected to be settled within twelve months after the reporting date or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date

All other liabilities are classified as non current.

j. Revenue Recognition

Refer to Note 5 and 6 for revenue streams and details of how revenue is calculated and when it is recognised.

k. Share-based Payment Transactions

Equity Settled Transaction

In prior financial years the Group has provided benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). Similarly in prior financial years share based benefits have been provided to other parties such as consultants and financiers, in settlement of services rendered. No benefits in the form of share based payments were provided in this financial year and all share based benefit have expired.

The cost of these equity-settled transactions with employees is measured by reference to the fair value benefit of the equity instruments at the date at which they are granted. In valuing equity-settled transactions, no account are taken of any vesting conditions, other than conditions linked to the price of the shares of Smartpay Holdings Limited (market conditions) if applicable.

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

l. Finance Costs

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

m. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

i) Current Tax

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the Statement of Comprehensive Income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date. Current tax assets and liabilities are the tax balances due from or owing to taxation authorities.

ii) Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

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

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

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

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they are levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

iii) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

n. Statement of Cash Flows

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash, net of outstanding bank overdrafts and which are subject to an insignificant risk of changes in value.

The following terms are used in the Statement of Cash Flows:

- Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities; and
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents; and
- Financing activities are the fund raising activities of the Group from both owners and financiers.

o. Financial Assets

Financial assets are classified into the following categories:

- At fair value through profit and loss
- At amortised cost
- At fair value through other comprehensive income (the group has no assets of this classification)

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

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

The Group has the following classifications:

i) Financial Assets at Fair value through Profit & Loss

This category includes in-the-money derivatives. They are carried at fair value through profit and loss with changes to fair value included in the statement of comprehensive income within Net finance costs.

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

ii) Financial Assets at Amortised Cost

These are principally from the provision of goods and services to customers (eg trade receivables),but also include other types of financial assets where the objective is to hold these assets to collect contractual cash flows (eg cash and bank facilities) and solely used for the payment of principal and interest (eg loans and other receivables) that have fixed or determinable payments.

Trade receivables are amounts due from customers for services performed and goods provided in the ordinary course of business. Trade receivables, which generally have 30 day terms, are recognised at fair value less an allowance for any uncollectible amounts.

Impairment of Financial Assets

Collectability of trade and lease receivables are reviewed on an on-going basis. Receivables that are known to be uncollectible are written off when identified and any terminal associated with the contract that the receivable relates to will be repossessed and the debt written off.

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

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

Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

p. Derivative Financial Instruments

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

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

q. Merchant Terminals and Property, Plant and Equipment

Merchant terminals and plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. All other repairs and maintenance are recognised in the Statement of Comprehensive Income as incurred.

New terminals on hand are held in capital works in progress and are valued at cost.

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

- | | |
|--|-------------|
| • Merchant terminals | 3 - 6 years |
| • Motor vehicles | 5 years |
| • Computer equipment | 3 - 6 years |
| • Furniture, fixtures and office equipment | 3 - 5 years |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Disposal

A merchant terminal or an item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the year the asset is de-recognised.

r. Leases

Leases are contracts which convey the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as Lessee

Assets held by the Group under leases are Right-of-Use assets initially recognised at the present value of the lease payments that are not paid at the inception of the lease. Subsequent to initial recognition the Right-of-Use asset is included in the Statement of Financial Position at the initial recognition amount less the aggregate amortisation and any impairment recognised.

The lease payments are discounted using the interest rate implicit in the lease or at the Group's incremental borrowing rate if the rate in the lease is not readily determined. The corresponding lease liability to the lessor is included in the Statement of Financial Position as a Lease Liability. Lease payments are apportioned between finance charges and a reduction in the lease liability. The lease finance charges and the amortisation of the Right-to-Use asset are charged directly to the Statement of Comprehensive Income.

s. Contract Costs and Intangibles

Intangible Assets

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

i) Software and Development Costs

All costs directly incurred in the purchase or development of major software or subsequent upgrades and material enhancements, which can be reliably measured and are not integral to a related asset are capitalised as intangible assets. Direct costs may include payroll and on-costs for employees directly associated with the project. Costs incurred on Software maintenance are expensed to the Statement of Comprehensive Income as they are incurred. Software is amortised on a straight line basis over the period of time during which benefits are expected to arise. Amortisation commences once the Software is available for use.

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

ii) Intangible Assets Acquired in a Business Combination

Intangible assets other than goodwill acquired in a business combination are identified and recognised separately where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition (including any adjustment to previous provisionally assessed fair values), intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses where they have finite useful lives.

iii) Research

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

iv) Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

- Capitalised development costs 3 -10 years
- Customer contracts 3 -10 years
- Software 3 -10 years

Contract Costs

Commissions paid to secure a contract with a customer are capitalised to Contract Costs and classified separately.

t. Impairment of Non-financial Assets Other Than Goodwill

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

Any impairment loss identified is recognised immediately in the Statement of Comprehensive Income. All impairment to non-financial assets recognised in the current and prior year related to the impairment of terminal assets. The impairment of terminal assets is comprised of terminals held by customers that have been deemed irrecoverable and impairment of obsolete or damaged terminals.

u. Goodwill

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

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

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

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

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

v. Financial Liabilities and Equity Instruments

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

i) Equity Instruments

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

ii) Financial Liabilities

Financial liabilities, including borrowings, convertible notes and trade payables and accruals, are initially measured at fair value, plus directly attributable transaction costs. Other financial liabilities are subsequently measured at amortised cost, with any interest expense recognised on an effective interest basis. The convertible notes components are recognised separately (refer Note 24 and 31). The debt instrument is recognised as a financial liability and is recognised at amortised cost. The option granted to the holder is recognised as a derivative liability and is measured at fair value.

Lease liabilities are explained in Note 2 r.

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

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

w. Provisions and Employee Leave Benefits

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in interest costs.

Employee Leave Benefits

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

x. Earnings Per Share

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

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

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

y. Fair value of financial assets and liabilities

Fair Value Methodologies

The Group measures financial instruments such as derivatives, at fair value at each balance sheet date.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Certain Short Term Financial Assets

For cash and short term funds, balances with other financial institutions with maturities for less than 3 months and other types of short term financial assets, the carrying value of these financial instruments are considered to approximate fair values as they are short term in nature or are receivable on demand.

Trade Receivables

Trade receivables are recognised at fair value.

Other Financial Assets

The carrying value of accrued interest and income receivable approximate fair values as they are short term in nature or are receivable on demand. Prepaid expenses are not considered financial assets.

Payables and Other Financial Liabilities

This category includes accrued interest and payables for which the carrying amount is considered to approximate fair value, as they are short term in nature or are payable on demand. Income tax liabilities, provisions and accrued charges are not considered financial liabilities.

Borrowings

The fair value of borrowings is the amount payable on demand as at balance date. The carrying values of all liabilities with maturities of less than 12 months are considered to approximate fair values as they are short term in nature. In respect of borrowings with maturities greater than 12 months they are recognised at amortised cost.

Lease Liabilities

See Note 2 r.

Compound Financial Instruments

Compound financial instrument are measured on the basis of the components of the instrument. The debt component is measured at amortised costs. The residual component is assessed to determine if an equity component exist. If the instrument has a variable conversion feature the component is recognised as a derivative at fair value through Profit & Loss

z. Government Grants

Government grants that compensate the Group for expenses incurred are recognised as profit and loss in the same periods in which the underlying expenses are recognised.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Significant Accounting Estimates and Assumptions

i) Contracts with Customers

The Group provides a right to use its EFTPOS terminals as part of its contracts with customers. Determining whether the contract contains a lease is a significant judgement requiring consideration as to whether the customer has the right to direct the use of the terminal. See Note 6.

The Group has determined that its customers don't have the right to direct the use of the asset because the Group continues to have the right and ability to change how the EFTPOS terminal operates during the customer's contractual term. The Group determined that customers do not have the right to control the use of its terminals and therefore the arrangement does not contain a lease. Therefore the contracts have been accounted for as service contracts.

The contracts with customers include promises to provide multiple services and products. Determining whether the services and products are considered distinct performance obligations that should be accounted for separately versus together requires significant judgement. The Group assess each of its contracts as a portfolio to determine whether the performance obligation is at a point in time or over time.

ii) Impairment of Goodwill and Intangibles with Indefinite Useful Lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with useful lives are discussed in Note 17 and 18.

iii) Recognition of Software Development

The Group develops software to use internally, on EFTPOS terminals or to be sold.

The Group assesses all development expenditure in accordance with the future economic benefits to determine if it fulfils the criteria for capitalisation as an intangible asset.

The Group mostly measures the cost of developing software from an assessment of the time spent by developers and management in bringing the asset into use.

Note 17 of the financial statements provides information on the software developed in the period.

iv) Impairment of the EFTPOS terminals

The group assesses on an annual basis if any impairment of terminals or ancillary equipment is required due to obsolescence.

a. Convertible Notes

i) Fair value assessment at balance date

The Group is required to revalue the option component of the convertible notes at the end of the period. To assess fair value it is necessary to apply a valuation model and the Black Scholes option valuation model is used for this purpose. A number of variables are required including a measure of the volatility of the share price. This is assessed by an independent advisor with expertise in this area. The other variables are obtained from market prices (refer Note 24).

ii) Conversion of the notes by the holder

At the time the holder exercises the options, the convertible notes are converted to shares in Smartpay Holdings Limited. The holder can elect to exercise the option at any time up to maturity. Once the option is exercised by the holder the shares are issued to the holder at the ratio of 4 shares for each 1 AUD value of the convertible notes held. At the time of issue of the shares the current market value of shares is used to determine any gain or loss.

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise loans, convertible notes, leases, and foreign exchange contracts. The main purpose of these financial instruments is to raise finance for the Group's operations and hedge currency exposure. The Group has various other financial assets and liabilities such as overdraft facilities, cash, accounts receivable, and trade payables, which arise directly from its operations.

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

a. Market Risk

(i) Foreign Currency Risk

The Group has a growing Australian business and an exposure to foreign exchange risk. The Group acquires terminal assets from foreign suppliers and they are denominated in USD. The group uses forward exchange contracts to manage the exposure to currency fluctuation in respect of the USD risk.

(ii) Cash Flow and Fair Value Interest Rate Risk

The Group's only significant financial asset subject to floating interest rates is its cash held in the bank, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its borrowings. In the current low interest rate environment it was considered unnecessary to hedge its interest rate exposure.

b. Credit Risk

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

Management have a credit policy in place and the exposure to credit risk is monitored on an on-going basis with the review of payment history of trade receivable. A review of all types of accounts takes place daily with active measures taken to collect outstanding amounts and prevent them becoming non performing accounts.

See Note 31.c for more explanation on determining objective evidence that an impairment has occurred and an analysis of accounts overdue and concentrations of credit risk.

The Group deals with high credit quality financial institutions in placing its cash and deposits.

c. Liquidity Risk

Liquidity risk arises from the financial liabilities of the Group and the ability to meet their obligations to repay their financial liabilities as and when they fall due. The objective is to maintain a balance between continuity of funding and committed available credit lines. See Note 25 for more information on the Group's Capital Management processes.

The Group manages its liquidity by forecasting and monitoring the total cash flows on a daily, monthly and annual basis (see Note 31.e).

d. Fair Values

The carrying value of all debt and leases is the fair value of these liabilities. This includes the option component within the convertible notes which are recognised as a derivative liability and revalued at the year end to reflect fair value.

5. Segment Information

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments and whose operating results are regularly reviewed by the entity’s chief operating decision maker and for which discrete financial information is available.

The Group’s business provides technology solutions through various product lines into the same markets, to the same customers, with all product lines being reported as a single business.

The only data that is reviewed by management that is analysed by any segment breakdown is revenue showing the various revenue streams split geographically. Costs and funding are analysed at a group level for decision making purposes.

Geographical Segments

2021	New Zealand	Australia	Elimination	Total
Revenue	\$'000	\$'000	\$'000	\$'000
Revenue from Contracts with Customers				
Service revenue	14,316	1,489	-	15,805
Transactional income	342	17,114	-	17,456
Other service revenue	104	77	-	181
Short term rentals	136	-	-	136
Sale of goods	1,139	99	(971)	267
Total revenue from contracts with customers	16,037	18,779	(971)	33,845
Additions to non current assets	6,356	744	-	7,100
Non current assets	36,114	4,684	(992)	39,806

In New Zealand and Australia no single customer represents more than 10% of total revenues as such there is no concentration of customers.

The elimination of \$971,000 relates to the revenue on the sales of EFTPOS terminals from New Zealand to Australia within the Group.

2020	New Zealand	Australia	Elimination	Total
Revenue	\$'000	\$'000	\$'000	\$'000
Revenue from Contracts with Customers				
Service revenue	15,134	1,560	-	16,694
Transactional income	755	9,537	-	10,292
Other service revenue	83	38	-	121
Short term rentals	248	-		248
Sale of goods	678	703	(465)	916
Total revenue from contracts with customers	16,898	11,838	(465)	28,271
Additions to non current assets	5,682	794	-	6,476
Non current assets	37,320	4,338	(906)	40,752

6. Revenue

a. Revenue streams

The Group generates revenue primarily from service contracts with customers for the provision of EFTPOS terminals and transaction processing on the EFTPOS terminals together in some cases with software development and the sale of EFTPOS terminals. Other minor sources of revenue include service income from short term contracts and ancillary services. See Note 5 Segment Information above for the composition of revenue from contracts with customers.

b. Disaggregation of revenue from contracts with customers

In Note 5 Segment Information above, revenue from contracts with customers is disaggregated by primary geographical market and service lines. The table also includes a reconciliation of the disaggregated revenue with the Group’s reportable segments.

Below the revenue is analysed by major products and service lines and timing of revenue recognition.

Group		
Major products and service lines	2021	2020
	\$'000	\$'000
EFTPOS terminal service	15,941	16,942
Transaction processing	17,456	10,292
Direct sales	267	916
Other	181	121
Total revenue from contracts with customers	33,845	28,271

Group		
Timing of revenue recognition	2021	2020
	\$'000	\$'000
Services transferred at point in time	17,773	10,661
Services transferred over time	15,805	16,694
Products transferred at point in time	267	916
Total revenue from contracts with customers	33,845	28,271

Group		
Contract costs	2021	2020
	\$'000	\$'000
Costs to obtain contracts	891	934

Costs relate to sales commissions to obtain service contracts and are amortised over the term of the contracts (refer Note 17).

c. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	Group	
Receivables which are included in trade and other receivables	2021	2020
	\$'000	\$'000
Contract Assets (refer Note 12)	824	1,153
Contract Liabilities (refer Note 20)	(97)	(102)
	727	1,051
Contract Assets		
Opening Balance	1,153	930
Additions	49	479
Transfers out	(401)	(255)
FX adjustment	23	(1)
Closing Balance	824	1,153

The contract assets primarily relate to the Group’s rights to consideration for services provided but not billed at the reporting date on EFTPOS terminal service contracts. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer (refer Note 12 Trade Receivables).

The contract liabilities primarily relate to the advance consideration received from customers for EFTPOS service contracts, for which revenue is recognised over time (refer Note 20 Trade Payables and Accruals).

The amount of revenue recognised in the period ended 31 March 2021 from performance obligations satisfied (or partially satisfied) in previous periods is nil.

d. Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following provides information for each of the types of service / product the Group provides about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

i) EFTPOS terminal services

Nature and timing of satisfaction of performance obligations, including significant payment terms

The EFTPOS terminal service provided to the customer is a bundled service made up of the following services.

- Provision of the hardware.
- Provision of the software.
- Provision of maintenance and repairs.

The contracts with the customers do not permit components of the bundled service to be provided separately nor can the customer benefit from each component individually. Therefore, only one bundled service is provided and are combined into a single performance obligation.

The customer is provided with the continuous use of an EFTPOS terminal, i.e. the hardware, software and support service, for the duration of the contract and does not provide a specified quantity of services. The underlying activities in providing the terminal can vary from day to day, however the daily services are activities performed to fulfil the service are substantially the same. Consequently, for each period (1) it is providing an integrated service; (2) the customer is continuously receiving substantially the same benefit, which is distinct and (3) each increment of time is substantially the same.

During the term of the contracts the customer pay an amount per terminal per month depending on the type of terminal provided, the term of the contract and the number of terminals provided. In some contracts a deferred period i.e. the rent-free period at the beginning of the contract is given and therefore is regarded as “variable consideration” and is included in the transaction price. A significant financing component does not exist with the Smartpay contracts as the deferred period in the contracts does not exceed 12 months.

Revenue recognition

The monthly payments are recognised evenly through the contract term, taking into account part months at the start and end of the contract. The deferred period included for revenue recognition and the payments are spread through the term of the contract.

The service is provided and the customers consumes the benefit of the service over time. Firstly, the provision of the EFTPOS terminal and service contract is considered to be a single performance obligation. The customer is provided with the EFTPOS terminal for the duration of the contract and ensures that the EFTPOS terminal functions properly for the duration of the contract. Consequently, the customer is able to transact on the EFTPOS terminal from the day the terminal is installed to the day the terminal is returned to Smartpay. These dates will essentially coincide with the duration of the contract.

ii) Transactional processing services

Nature and timing of satisfaction of performance obligations, including significant payment terms

The transactional processing service is a bundled service made up of the following components.

- Provision of transaction processing
- Provision of support services

In respect of the transaction processing and the support services, we have relied on the practical expedient given that if the performance obligations were unbundled the amount recognised in the financial statements would be the same. We therefore consider that there are two performance obligations. The bundled services are combined into a single performance obligation.

The customer consumes the benefit of the transaction bundled service at a point in time. The provision of the transaction processing and support service is a single performance obligation. Smartpay provides the transaction processing service and support for the duration of the contract.

Revenue recognition

The transaction processing service revenue is recognised as the processing service is performed.

iii) Sale of EFTPOS terminals

Nature and timing of satisfaction of performance obligations, including significant payment terms

Customers obtain control of the EFTPOS terminals when the goods are delivered to and have been accepted at their premises. Invoices are generated at that point in time. Invoices are usually payable within 30 days. No discounts are provided, the transaction price is agreed with the customer at the time of entering into the agreement for sale.

Some contracts may permit the customer to return an item. Returned goods are exchanged only for new goods – i.e. no cash refunds are offered.

Revenue recognition

Revenue is recognised when the goods are delivered and have been accepted by customers at their premises. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

7. Other Income

The following items are included in other income:

Group		
	2021	2020
	\$'000	\$'000
Bad debts recovered	16	19
	16	19

8. Expenditure

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

Group			
Operating Expenditure	Note	2021	2020
		\$'000	\$'000
Direct costs of sales		10,842	7,193
Terminal Communication & servicing costs		623	1,039
Compliance, IT and Marketing costs		3,728	2,785
Employee costs net of capitalised amounts		10,094	8,663
Occupancy costs		182	236
Other costs		716	687
Travel and accommodation		94	291
		26,279	20,894

Group			
Depreciation and Amortisation		2021	2020
		\$'000	\$'000
Depreciation of property, plant and equipment			
Merchant terminals	15	2,893	3,295
Furniture, fixtures, office and computer equipment and motor vehicles	15	189	238
Right-of-use assets	16	484	471
Amortisation of contract costs and intangible assets			
Contract costs	17	778	829
Software	17	3,036	2,094
Customer contracts	17	423	423
		7,803	7,350

Group		
Auditors Fees included in operating expenditure	2021	2020
	\$'000	\$'000
Audit fees to the principal auditor (Note 1)	222	280
Fees for tax services to the principal auditor (Note 2)	47	3
	269	283

- Fees paid to the principal auditor were for:
- 1. Annual audit of the consolidated financial statements.
 - 2. Fees for tax advice in respect of the amalgamation of the subsidiaries and transfer pricing.

8. Expenditure (continued)

	Group	
	2021	2020
	\$'000	\$'000
Operating expenditure includes the following costs		
Bad debts written off (not written off through the provision)	88	121
Impairment provision for receivables	174	114
Net loss / (gain) on disposal of assets	10	(4)
Directors fees	215	220
Net foreign exchange losses	11	10

	Group	
	2021	2020
	\$'000	\$'000
Net finance costs		
Interest received	(36)	(14)
Interest on bank overdrafts and borrowings	492	1,138
Interest on lease liabilities	55	91
Convertible note interest paid	165	621
Convertible note amortisation	860	664
FX contract realised losses / (gains)	76	(47)
	1,612	2,453

	Group	
	2021	2020
	\$'000	\$'000
Change in Fair Value of Convertible Notes		
Debt modification gain	(491)	-
Option fair value movement	13,222	1,809
	12,731	1,809

	Group	
	2021	2020
	\$'000	\$'000
Impairments		
Merchant terminal impairment write off	569	512
Merchant terminal impairment provision / (release)	(101)	41
	468	553

9. Taxation Expense / (Credit)

	Group	
	2021	2020
	\$'000	\$'000
<i>Income tax expense comprises:</i>		
Current income tax benefit	-	392
Deferred tax benefit / (expense)	(242)	119
Income tax benefit / (expense)	(242)	511
<i>Reconciliation between charge for year and accounting profit</i>		
(Loss) / profit before tax	(14,958)	(4,983)
Income tax at 28%	4,188	1,395
Add/(deduct) the tax effect of:		
Non-deductible expenses	(4,083)	(423)
Non-assessable income	312	218
Temporary differences not recognised	(1,013)	(1,146)
Tax benefit recognised	370	392
Australian tax rate differences	(16)	75
Income tax benefit / (expense)	(242)	511

The tax rate used in the above reconciliation is the corporate tax rate applicable at 31 March 2021 payable on taxable profits under New Zealand (28%) and Australian tax law (30%). The current income tax benefit recognised in 2020 relates to the R&D grant received from Inland Revenue.

10. Earnings per Share

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

	Group	
	2021	2020
Basic earnings per share - cents		
(Loss) / profit for the period (\$'000)	(15,200)	(4,472)
Weighted average number of shares ('000)	209,875	172,332
Basic earnings per share - cents	(7.24)	(2.59)

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares issued during the year.

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares whether issued or able to be issued during the year. For 2021 the convertible notes were not dilutive so the calculation excludes the impact of the convertible notes 6,175,000 shares (2020: 28,000,000) potentially issuable, consequently the diluted earnings per share is equivalent to the basic earnings per share.

11. Cash and Bank Balances

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, net of outstanding overdrafts.

	Group	
	2021	2020
	\$'000	\$'000
Cash and cash equivalents		
Cash at bank and in hand	7,292	1,101
Total cash and cash equivalents	7,292	1,101
Other bank balances		
Merchant settlement account	1,729	316
Total cash and bank balances	9,021	1,417

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value. The carrying amount in the Merchant Settlement account represents the surplus cash balances the Group holds on behalf of its customers when the incoming amount from the card schemes precedes the funding obligation to customers.

12. Trade and Other Receivables

	Group	
	2021	2020
	\$'000	\$'000
Accounts receivable	1,694	1,462
Less expected credit losses on receivables	(259)	(82)
Less provision for kit recovery	(248)	(187)
Merchant receivables	4,560	1,264
Accrued revenue (contract assets see Note 6.c)	824	1,153
Prepayments	562	376
Acquiring facility security deposit *	245	231
Secured loan to related party (see Note 30)	1,633	-
Total trade and other receivables	9,011	4,217

	Group	
Movements in Provisions	2021	2020
	\$'000	\$'000
<i>Allowance for Impairment on Receivables</i>		
Opening balance	(82)	(66)
Net remeasurement of loss allowance	(229)	(114)
Amounts written off	54	96
FX adjustment	(2)	2
Closing balance	(259)	(82)
<i>Provision for Kit Recovery</i>		
Opening balance	(187)	(328)
Additions to the provision for exposure to recovery recognised in the Statement of Comprehensive Income	(442)	(365)
Recovered from customer	41	59
Provision utilised or terminal recovered	346	446
FX adjustment	(6)	1
Closing balance	(248)	(187)

An allowance for impairment loss is recognised when there is objective evidence that a receivable is impaired. The Group manages its receivables in line with its approved credit control procedures see Note 4 b. The Merchant receivables are amounts due from the card schemes for transactions processed on behalf of customers. Provision for Kit Recovery is an equivalent to the invoiced value of terminals to be recovered from customers. Trade and Merchant receivables are held at a value equivalent to their fair value.

*Smartpay has a security deposit with Cuscal Limited as a condition of the establishment of the acquiring facility.

13. Derivative Financial Instruments

i) The group has 1 (2020:3) foreign currency contract in place at 31 March 2021 for hedging foreign currency exposures with a foreign currency face value of US\$100,000 (2020: US\$400,000) and a NZ dollar maturity value of NZ\$141,000 (2020: NZ\$683,000). Contracts are for maturity in 1 to 3 months. The fair value of the contract at 31 March 2021 is an asset of \$3,000 (2020: liability \$19,000).

	Group	
Fair Value	2021	2020
	\$'000	\$'000
Foreign exchange contracts	3	(19)
Total	3	(19)
Current	3	(19)

14. Subsidiary Companies

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

	Equity Interest		Place of Incorporation	Activities
	2021	2020		
Subsidiaries				
Smartpay Limited	100%	100%	NZ	Product and services
Smartpay New Zealand Limited	100%	100%	NZ	Non-trading
Smartpay Software Limited	100%	100%	NZ	Non-trading
Viaduct Limited	100%	100%	NZ	Non-trading
Smartpay Rental Services Limited	100%	100%	NZ	Rental of equipment
Smartpay Australia Pty Limited	100%	100%	Aust	Product and services
Smartpay Rentals Pty Limited	100%	100%	Aust	Non-trading
Cadmus Payment Solutions Pty Limited	100%	100%	Aust	Non-trading
Pax Technology Pty Limited	100%	100%	Aust	Non-trading
Smartpay Taxis Pty Limited	100%	100%	Aust	Non-trading
Smartpay Epayments Pty Limited	100%	100%	Aust	Non-trading
Smartpay Ethos Limited	100%	100%	NZ	Non-trading
Product Rentals Pty Limited	100%	100%	Aust	Non-trading

All subsidiary companies have the same balance date as the their parent company of 31 March and all subsidiaries were owned for the full financial year. A number of subsidiaries have been amalgamated into Smartpay Limited post balance date.

15. Property, Plant and Equipment

	Merchant terminals at cost		Furniture, fixtures, office and computer equipment and motor vehicles at cost		Group Total	
	2021	2020	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening carrying value	7,217	9,484	418	615	7,635	10,099
Additions	-	-	74	43	74	43
Transfers from Capital work in progress	1,993	1,676	-	-	1,993	1,676
Depreciation	(2,893)	(3,295)	(189)	(238)	(3,082)	(3,533)
Cost of sales	(11)	(257)	-	-	(11)	(257)
Impairment	(113)	(345)	-	-	(113)	(345)
FX adjustments	161	(46)	8	(2)	169	(48)
Closing carrying value	6,354	7,217	311	418	6,665	7,635
Capital work in progress						
Opening carrying value	1,437	2,022	-	-	1,437	2,022
Additions	3,249	1,307	-	-	3,249	1,307
Transfers to fixed asset	(1,993)	(1,676)	-	-	(1,993)	(1,676)
Impairment	(355)	(208)	-	-	(355)	(208)
FX adjustments	42	(8)	-	-	42	(8)
Closing carrying value	2,380	1,437	-	-	2,380	1,437
Total	8,734	8,654	311	418	9,045	9,072
Reconciled to:						
Cost	20,296	19,271	1,591	1,518	21,887	20,789
Less accumulated depreciation and impairment	(13,732)	(11,743)	(1,280)	(1,100)	(15,012)	(12,843)
Less impairment provision	(210)	(311)	-	-	(210)	(311)
Closing carrying value	6,354	7,217	311	418	6,665	7,635
Capital work in progress	2,380	1,437	-	-	2,380	1,437
Total	8,734	8,654	311	418	9,045	9,072

Merchant terminals represents the equipment contracted by customers, primarily EFTPOS terminals.

ASB Bank Limited has security over all the assets of the Group with all companies in the Group providing cross guarantees and indemnities in favour of the Bank.

16. Right-of-Use Assets

Right-of-use assets are principally the rental of offices, and other assets such as motor vehicles.

	Right-of-use Property at cost		Other Right-of-use assets at cost		Group Total	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Opening carrying value	825	1,275	24	49	849	1,324
Additions	46	-	10	-	56	-
Amortisation	(469)	(446)	(15)	(25)	(484)	(471)
FX adjustments	17	(4)	-	-	17	(4)
Closing carrying value*	419	825	19	24	438	849
Reconciled to:						
Cost	2,368	2,248	48	82	2,416	2,330
Less accumulated amortisation	(1,949)	(1,423)	(29)	(58)	(1,978)	(1,481)
Closing carrying value	419	825	19	24	438	849

*Refer to Note 23 for details of the Lease Liability associated with these assets.

17. Intangible Assets and Contract Costs

i) Intangible Assets

Software and development costs are intangible assets.

	Software and development costs at cost		Customer contracts at cost		Group Total	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Opening carrying value	13,900	11,713	1,200	1,623	15,100	13,336
Additions	3,013	4,282	-	-	3,013	4,282
Amortisation	(3,036)	(2,094)	(423)	(423)	(3,459)	(2,517)
Disposals	-	-	-	-	-	-
FX adjustments	6	(1)	-	-	6	(1)
Closing carrying value*	13,883	13,900	777	1,200	14,660	15,100
Reconciled to:						
Cost	19,445	20,050	4,235	4,235	23,680	24,285
Less accumulated amortisation	(5,562)	(6,150)	(3,458)	(3,035)	(9,020)	(9,185)
Closing carrying value	13,883	13,900	777	1,200	14,660	15,100

* This balance includes development in progress totalling \$6,773,000 (2020 \$5,353,000)

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

Significant Software and Development

(i) Internally Developed Software

Internally developed software to operate and manage the EFTPOS terminals has a carrying value of \$13,883,000 (2020: \$13,900,000) including capital work in progress of \$6,773,000 (2020: \$5,353,000).

The Group undertakes development in New Zealand in relation to projects on its EFTPOS terminal fleet for both New Zealand and Australia. The combination of the development undertaken in this financial year and previous financial years resulted in the completion of internally developed software amounting to \$1,591,000 (2020 \$3,018,000). The work in progress software amounting to \$6,773,000 (2020: \$5,353,000) relates to ongoing EFTPOS terminal development, the development of the internal Enterprise Resource Planning (ERP) system, the development of the transaction processing and merchant management system to support the Merchant Acquiring business. This release allowed Smartpay to launch a number of acquiring products into the market. The second phase of development on the system is currently under development and will ensure the system remains resilient and robust as well as providing new products and enhancements to the existing platform.

Customer Contracts

Customer contracts relate to the terminal contracts purchased as part of the business combination of Viaduct. The customer contracts acquired as part of a business combination are valued at fair value.

ii) Contract Costs

Contract costs are sales commissions paid to employees and third parties for service contracts and amortised over the life of the contract.

	Group	
	2021 \$'000	2020 \$'000
Opening carrying value	934	867
Additions	707	891
Amortisation	(778)	(829)
FX adjustments	28	5
Closing carrying value	891	934
Reconciled to:		
Cost	1,864	1,842
Less accumulated amortisation	(973)	(908)
Closing carrying value	891	934

18. Goodwill

	Group	
	2021	2020
	\$'000	\$'000
Opening value net of accumulated impairment	14,772	14,772
Impairment	-	-
Closing carrying value	14,772	14,772
Reconciled to:		
Cost	14,772	14,772
Less accumulated impairment	-	-
Closing carrying value	14,772	14,772

Impairment

At 31 March 2021 the directors tested the goodwill for impairment. The impairment testing was performed over the New Zealand business on the basis that the goodwill relates only to New Zealand.

The value in use methodology has been applied using past experience of sales, growth and margin to determine the expectations for the future. These cash flows are based on the Directors' view of the projected cash flows for 2 years and beyond that used an average growth rate of 2%. For cash flows beyond 5 years a terminal value has been used based on the average of the 5 years net cash flows. The cash flows are discounted using a nominal rate of 11.5% after tax.

The recoverable amount was determined by taking the value in use compared to the carrying amount. The value in use was also tested against market capitalisation. This testing indicated no impairment had occurred.

Adverse changes in actual performance or future rates of growth will reduce the calculated recoverable amount. An increase to the discount rate used of 0.8%, reduction in revenue of 1.7% or a 11% reduction in the terminal value is required for the carrying amount of goodwill to equal the recoverable amount. When performing our assessment we have allocated some costs and assets to the Australian Cash Generating Unit (e.g. software, salary, compliance expenses). We have allocated the costs based on whether the expense is being used to generate revenue in Australia or New Zealand.

Forecast capital expenditure for the New Zealand business includes spend on software development and EFTPOS terminals. The assumptions have been based on past experience and include forecast fleet upgrades. The carrying value used includes Net Working Capital and Total Fixed Assets including Software for the New Zealand business.

The assumptions are considered to be a view of the reasonable outcomes as the business is mature. We do consider COVID-19 to be a significant uncertainty due to the unpredictable nature of it and the potential changes it can have to our WACC and future cash flows.

19. Deferred Tax Asset / (Liability)

	Group	
	2021	2020
	\$'000	\$'000
Movements in deferred tax:		
Opening balance	25	(94)
Charge to profit and loss	(242)	119
Balance at end of the year	(217)	25
Deferred tax balance reconciliation:		
Employee entitlements	-	122
Receivables impairment provision	-	12
Non deductible accruals	-	33
Revenue recognition differences	-	939
Computer software and development and customer contracts	(217)	(616)
Deferred tax asset not recognised for accounting	-	(465)
Total deferred tax balance	(217)	25
Deferred tax asset / (liability) - New Zealand	(217)	25

a. Tax losses

The Group has aggregate estimated New Zealand net tax losses of \$22,649,000 as at 31 March 2021 (31 March 2020 actual \$20,916,000) and in Australia estimated net tax losses at the same date of A\$9,802,000 (31 March 2020 actual A\$11,074,000). No tax losses have been recognised in the balance sheet as deferred tax in either reporting period. Subject to IRD confirmation and maintaining the required shareholder or business continuity (subject to satisfying the requirements), these losses are available to carry forward in aggregate from the individual New Zealand companies within the Group. In Australia a different test is required to carry forward and utilise the losses. This requires that the same business continues to be conducted to maintain the availability of the losses. There are no plans to change the type of business.

In prior years deferred tax assets were recognised for deductible temporary differences. However the Directors have reversed the deferred tax asset as it is unlikely the tax asset will be fully utilised in the following financial year. The deferred tax liability is attributable to the deferred tax recognised as part of the Viaduct acquisition. On completion of the 2020 tax returns the shareholder continuity has remained constant and no further tax losses have been forfeited, and in 2021 no tax losses (2020: \$1,400,000) have been utilised in relation to the R&D grant. Utilisation of the tax losses requires that the shareholder continuity remains above 49% or business continuity is satisfied. Currently based on the reset date shareholder continuity is above this threshold. Because of the uncertainty of when these losses will be utilised no losses have been recognised for 2021. No new temporary differences have been recognised.

20. Trade Payables and Accruals

	Group	
	2021	2020
	\$'000	\$'000
Trade payables	2,361	2,229
Merchant payables	7,188	1,778
GST	180	133
Accruals	529	436
Related party accrual (see Note 30)	128	72
Deferred revenue (contract liabilities see Note 6c)	97	103
Employee entitlements	981	675
Total trade payables and accruals	11,464	5,426

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

Within trade payables are accrued costs of \$41,000 (2020:\$63,000) for capex purchases.

Merchant payables represents amounts that are due to acquiring customers in respect of transactions that have been processed.

21. Income Tax Payable/(Receivable)

	Group	
	2021	2020
	\$'000	\$'000
Current Tax		
Opening balance	(15)	(24)
RWT credits (received)/used	-	9
Balance at end of the year - receivable	(15)	(15)

Imputation credit account balances

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

22. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk see Note 31.

	Group	
	2021	2020
	\$'000	\$'000
Borrowings		
Secured - at amortised cost		
Current	1,235	3,218
Non-current	11,000	17,505
Total Borrowings	12,235	20,723

a. Summary of borrowing arrangements

On 11 July 2012 the Group's subsidiary Smartpay New Zealand Limited entered into a term loan facility and a committed cash advance facility (CAF) with ASB Bank Limited. On the 30 June 2020 the loan agreement was amended so that the term loan facility was repaid in full, amounting to \$8,500,000, and the facility cancelled. The existing CAF has been extended and increased to \$12,000,000 and will expire on 1 October 2022. Quarterly amortisations of the CAF commence on 30 June 2021 when an amount of \$250,000 is payable and \$250,000 payable each quarter thereafter until termination. No repayments of the CAF have been made during this financial year.

The interest rate is the BKBM (90 day bill rate) plus a margin set at 1.5%. In addition a line fee is payable quarterly and is currently set at 1.0% based on the facility limit.

ASB Bank Limited has security over all the assets of the Group with all companies in the Group providing cross guarantees and indemnities in favour of the Bank (refer to Note 14 for a list of the group companies).

The specific covenants relating to financial ratios the Group was required to meet in 2021 are:

- i) Interest cover ratio
- ii) Net leverage ratio

The covenants were monitored and reported to the ASB Bank Limited on a quarterly basis. The Group was in compliance with its covenants during the period.

The Group also has a short term facility loan with Synergy Finance amounting to \$235,000 (\$218,000 2020) with interest rates of 3.56% and 3.95% and a term of twelve months. The remainder of the borrowings has been provided by ASB.

23. Lease Liabilities

Leases as Lessee

Non cancellable lease liabilities are payable as follows:

	Group	
Lease Commitments	2021	2020
	\$'000	\$'000
Within one year	538	413
After one year but not more than five years	11	619
Total lease liability commitments	549	1,032

	Group
Lease Liabilities at undiscounted values due	2021
	\$'000
Within 1 year	548
After one year but not more than two years	11
Total lease liabilities at undiscounted values	559
Amounts recognised in Statement of Comprehensive Income	
Depreciation (included in Depreciation and Amortisation)	484
Interest (included in Net Finance Costs)	55
Amounts recognised in Statement of Cash Flows	
Interest paid	47
Payments of lease liabilities	531

The Group leases its office and warehouse premises situated in Auckland. The lease period of the premises is 6 years from December 2015. The Group also leases office premises in Sydney and a small shared office in Wellington.

The Group also leases various motor vehicles under cancellable operating lease agreements.

24. Convertible Notes

On 16 July 2018 15 convertible notes were originally issued with a face value of AUD 500,000 each for an aggregate value of AUD 7,500,000 (NZD 8,226,000) and carry an interest rate of 8% per annum. The notes were to mature at 16 October 2020 and are convertible into 30,000,000 ordinary shares at AUD 0.25 per share at the option of the noteholder. The convertible noteholders have the option to convert the notes to shares at any time during the course of the period of the note on the same terms.

The terms of the convertible notes were amended on 16 April 2020. The changes to the terms were an extension of the termination date to 16 October 2021 and a reduction in the interest rate from 8% to 6.4% from April 2020. In addition, all interest for the period 1 April 2020 to 30 September 2020 was paid in kind (PIK). That is, the PIK interest amount was added to the principal amount at the same conversion rate of AUD 0.25 cents per share.

The modifications to the convertible notes are not substantial and therefore do not require Smartpay to derecognise the convertible note liability. However as a result of the modification a gain amounting to NZD 835,000 in relation to the convertible note liability was recognised and a loss in relation to the option amounting to NZD 442,000 was recognised.

The convertible notes have characteristics associated with a financial liability as they have an obligation to make fixed interest payments, and deliver cash on redemption in the event that the holder does not exercise the conversion option. All payments are in Australian dollars (AUD).

The option is an embedded derivative within the host liability. The option did not meet the requirements of an equity instrument as the option represents an obligation to issue a fixed number of shares for a variable amount of cash. Although, the cash is fixed in AUD terms, it is variable in NZD and the amount to be settled depends on the foreign exchange rate at the date of settlement.

Measurement

The fair value of the option was determined using the Black-Scholes model using the inputs in the following table at each valuation date.

	Valuation dates			
	16/07/18	31/03/19	31/03/20	31/03/21
Underlying share price (AUD)	0.18	0.19	0.29	0.89
Strike price (AUD)	0.25	0.25	0.25	0.25
Volatility (%)	48.75	48.75	66.33	67.00
Time to expiry (years)	2.25	1.55	0.54	0.54
Risk free rate (%)	1.84	1.84	0.81	0.32

The host contract liability's (i.e. the loan component) carrying value at initial recognition is the residual difference between the fair value of the convertible notes and the option's fair value. As the option was not closely related to the host contract it was separately recognised. The reason for this is that the fair value of the conversion feature is affected by changes in the fair value of AUD denominated Smartpay's shares, while the fair value of the loan is not.

The convertible note loan is then accounted for at amortised cost with foreign exchange differences recognised in the income statement on translation of the financial liability. The option liability is measured at fair value, with changes in the fair value being recorded in the income statement. In addition a calculation was required to impute an interest rate between the host contract liability at inception and maturity to unwind over time being recorded in the income statement.

24. Convertible Notes *(continued)*

On 23 December 2020 a noteholder exercised their option and the convertible notes with a face value of AUD 5,500,000 plus PIK interest of AUD 160,757 was converted into 22,643,028 ordinary shares at AUD 0.25 cent per share. The market value of the shares at the date of issue was AUD 0.69 and at an FX conversion rate of 0.93 the NZD equivalent was NZD 0.74.

In the prior financial year an options were exercised and the convertible note with a face value of AUD 500,000 was converted into 2,000,000 ordinary shares at AUD 0.25 cent per share. The market value of the shares at the date of issue was AUD 0.52 and at an FX conversion rate of 0.96 the NZD equivalent was NZD 0.54.

	\$'000	AUD '000
Carrying value at initial recognition at 16 July 2018		
Convertible note	7,158	6,526
Option	1,068	974
	8,226	7,500
Less Fees	411	375
Convertible note balance at 16 July 2018	7,815	7,125
Carrying value at 31 March 2019		
Option fair value movement	(155)	
Amortisation (option and fees)	394	
Unrealised FX movement	(331)	
Convertible note balance at 31 March 2019	7,723	
Carrying value at 31 March 2020		
Convertible note balance at 31 March 2019	7,723	
Conversion of convertible notes 17 December 2019	(1,083)	
Option fair value movement	1,809	
Amortisation (option and fees)	664	
Unrealised FX movement	(125)	
Convertible note balance at 31 March 2020	8,988	
Carrying value at 31 March 2021		
Convertible note balance at 31 March 2020	8,988	
Conversion of convertible notes 23 December 2020	(16,722)	
Debt modification gain	(835)	
Option fair value movement	13,222	
Amortisation (option and fees)	860	
Realised and Unrealised FX movement	344	
Convertible note balance at 31 March 2021	5,857	

	2021	2020
Convertible Notes ageing	\$'000	\$'000
Within one year	5,857	8,988
After one year but not more than five years	-	-
Total convertible notes net of arrangement fees	5,857	8,988
Movement in Unrealised Fair value of the option	\$'000	\$'000
Fair value at 31 March 2020 / 2019	2,159	913
Fair value at 31 March 2021 / 2020	4,276	2,159
Movement in unrealised fair value of the option	(2,117)	(1,246)
Option modification loss	(442)	-
Realised fair value at 23 December 2020 at time of conversion	(10,663)	(563)
Total movement in fair value of the option	(13,222)	(1,809)
Conversion of Options (17 December 2019)	\$'000	AUD '000
Face value of convertible note	520	500
Fair value at conversion (17 December 2019)	563	
Market value of shares issued	1,083	
	\$'000	
Fair value at 31 March 2019	61	
Fair value at conversion (17 December 2019)	563	
Fair value movement	(502)	
Conversion of Options (23 December 2020)	\$'000	AUD '000
Face value of convertible note	5,887	5,500
PIK interest	172	161
Fair value at conversion (23 December 2020)	10,663	
Market value of shares issued	16,722	
	\$'000	
Fair value at 31 March 2020	1,697	
Fair value at conversion (23 December 2020)	10,663	
Fair value movement	(8,966)	

25. Share Capital

	Group	
	2021	2020
Share Capital	\$'000	\$'000
Opening balance	54,433	53,454
Conversion of 11 (2020:1) convertible notes into 22,643,030 (2020: 2,000,000) ordinary shares	16,722	1,083
Share placement of 30,952,381 ordinary shares	13,928	-
Rights share issue of 4,761,903 ordinary shares	2,130	-
Costs of share issues	(518)	-
Costs of share issues (convertible notes)	(32)	-
Share based payments:		
Value of share options issued to management which were not exercised and which lapsed during the year.	-	(104)
Total shares issued during the year	32,230	979
Balance at end of the year	86,663	54,433

a. Ordinary Shares

As at 31 March 2021 there were 232,109,592 (2020:173,752,278) ordinary shares on issue. Shares totalling 35,714,284 (2020: Nil) were issued as part of 2 cash issues on 28 May 2020 and 25 June 2020 and 22,643,030 shares on the conversion of 11 convertible notes on 23 December 2020 (2020: 2,000,000 shares) . All ordinary shares are fully paid and rank equally with one vote attaching to each share. The ordinary shares have no par value. Ordinary shares are considered equity.

	Group	
Movements in the Number of Ordinary Shares on issue	2021	2020
	'000	'000
Opening balance	173,752	171,752
28 May 2020 Rights issue	30,952	-
25 June 2020 Rights issue	4,762	-
Conversion of convertible notes on 23 December 2020	22,643	2,000
Balance at end of the year	232,109	173,752

b. Share Options

There are now no management options on issue. The final 2,000,000 management options on issue expired during the 2020 financial year.

c. Convertible Notes

At the 31 March 2021 as part of the issue of the Convertible Notes an option is attached to the noteholders to convert to 6,175,000 shares (2020: 28,000,000 shares). See Note 24 above.

Capital Management

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

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

To maintain or alter the capital structure the Group has the ability to issue new shares, decide whether to pay a dividend to shareholders and what size that may be, reduce or increase debt or sell assets.

	Group	
Gearing Ratios	2021	2020
	\$'000	\$'000
Total borrowings, lease liabilities and convertible notes (see Note 22 to 24)	18,641	30,743
less Cash and cash equivalents (see Note 11)	(9,021)	(1,417)
Net debt	9,620	29,326
Total Equity	27,534	10,213
Total Capital	37,154	39,539
Ratio of Net debt to Total Capital	25.9%	74.2%

26. Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all exchange rate differences arising from translating the financial statements of the foreign currency operations (see Note 2 g (ii)).

Movements are shown in the Statement of Changes in Equity.

27. Operating Cash Flows Reconciliation

Group		
	2021	2020
	\$'000	\$'000
(Loss) / profit for the period	(15,200)	(4,472)
Add/(deduct) non-cash items:		
Depreciation & amortisation	7,803	7,350
Loss / (gain) on disposal of fixed assets	-	(4)
Financing costs and merchant chargeback	(41)	112
Change in fair value of convertible note	12,731	1,809
Change in fair value of interest rate swap	-	(47)
Convertible note option and fees	860	664
Unrealised foreign exchange	(74)	214
Tax expense / (benefit)	242	(119)
Impairment charges	468	553
Add/(deduct) changes in working capital items:		
Trade and other receivables	(11)	9
Derivative financial instruments	(22)	(28)
Payables and accruals	1,859	425
Provision for current tax	-	9
Net cash inflow/(outflow) from operating activities	8,615	6,475

28. Contingencies

Guarantees

The Group has provided bank guarantees in favour of NZX of \$75,000 (2020: \$75,000) and for the Sydney office of A\$138,000 (2020: A\$138,000) are issued.

ASB Bank Limited has security over all the assets of the Group with all companies in the Group providing cross guarantees and indemnities in favour of the Bank (refer to Note 14 for a list of the group companies).

29. Capital Commitments

The Group has no capital commitments at 31 March 2021 (2020: Nil).

30. Related Parties

Parent and ultimate controlling party

The parent company of the Group and the listed entity is Smartpay Holdings Limited.

Identity of related parties with whom material transactions have occurred.

Note 14 identifies all entities within the Group. All those entities are related parties of the Parent. In addition, the directors, companies with which the directors and key management are associated and key management personnel of the Group are also related parties.

a. Transactions with Directors and key management or entities related to them
Gregor Barclay is a Director and principal of Ngatapa Trustees Ltd, and provided consulting services in relation to Directors' fees on normal commercial terms amounting to \$58,000 (2020: \$60,000). He is also a potential beneficiary in respect of Ngatapa Advisory Ltd. Ngatapa Trustees Ltd and Ngatapa Advisory Ltd hold 576,910 and 49,404 shares respectively in Smartpay (2020: 576,910 and 49,404 respectively).

Bradley Gerdis resigned as CEO and Managing Director of Smartpay Holdings Limited effective 1 September 2020 and remained engaged in the business in a transitional capacity for a further 3 months. Bradley Gerdis is a Director of Haymaker Investments Pty Limited (HIL) which is the Trustee of the Haymaker Trust which is a shareholder of Smartpay Holdings Limited.

Bradley Gerdis or his associated entities have received:

- Salary received NZ\$548,000 (2020: NZ\$497,000) which included a bonus of NZ\$210,000, this was paid in FY21 but relates to FY20 (2020: NZ\$46,000).

HIL is a shareholder of the Company and Bradley Gerdis has an interest in these shares by virtue of being a potential beneficiary of a discretionary trust. HIL holds 6,587,422 (2020: 6,515,422) ordinary shares.

A secured loan amounting A\$1,500,000 was provided by Smartpay Holdings Ltd to HIL on 6 July 2020. The term of the loan is 18 months and the interest rate is 3% per annum.

Martyn Pomeroy is Managing Director and Chief Executive of Smartpay and joined the Company in January 2013 and is a shareholder and director of TEOV Limited (formerly Viaduct Limited) whose assets were acquired by Smartpay on 23 January 2013. At 31 March 2021 he holds 3,399,053 shares (2020: 3,399,053) indirectly via the Pomeroy Asset Protection Trust. Martyn Pomeroy was appointed a director of the Company on 1 April 2014.

Martyn Pomeroy or his associated entities have received:

- Salary received \$788,000 (2020: \$344,000) which included a bonus of \$350,000, of this \$350,000 only \$200,000 relates to FY21 and the other \$150,000 relates to FY20 (2020: \$33,000).

Matthew Turnbull was appointed a Director of the Company on 1 April 2013 and is also a Director of Black Rock Capital Limited, and received Directors' fees of \$53,167 (2020: \$55,000) and advisory fees of \$10,000 (2020: 0).

William Pulver was appointed a director of the Company on 11 December 2018. New Greenwich Pty Ltd (as trustee of the New Greenwich Superannuation Fund) is a shareholder of the Company and William Pulver has an interest in 2,195,373 (2020: 1,575,413) ordinary shares by virtue of being a potential beneficiary of the Superannuation Fund. New Greenwich Pty Ltd is a holder of a convertible note issued by the Company which entitled the holder to purchase shares and holds shares in the Company, up to a maximum of 2,347,310, (2020: 2,288,853) . Directors fees earned amounted to \$51,830 (2020: \$53,000). William Pulver is also owed \$128,000 at year end in directors fees and is recorded as a Related Party Accrual (see Note 20).

Carlos Gil was appointed a director of the company on 5 December 2018. He is a director of Microequities Asset Management Pty Ltd and they hold directly and indirectly 34,609,979 (2020: 33,127,406) ordinary shares in the Company. He received \$51,830 (2020: \$53,000) directors fees in 2021.

30. Related Parties (continued)

b. Key management and director compensation

Key management personnel comprises of the following positions (Chief Financial Officer, Chief Business Officer, Chief People & Customer Officer, Company Secretary, GM New Zealand, Head of Engineering, Financial Controller and Head of Sales Australia). In the prior year only the Chief Business Officer and the Company Secretary were included under Key Management personnel, but since then there has been a change in reporting lines. Bradley Gerdis and Martyn Pomeroy are excluded as this information is provided above and is included in Directors' remuneration. Key management personnel compensation comprised short term benefits and share instruments for the year ended 31 March 2021 of \$1,517,000 (2020: \$418,000). Directors remuneration was \$1,191,000 (2020: \$841,000).

Key Management Compensation	2021 \$'000	2020 \$'000
Salaries and other short term employee benefits	1,517	418

31. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Foreign exchange risk
- Credit risk
- Interest rate risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

a. Financial Instruments by Category

Group			
	Measured at fair value through profit and loss	Measured at amortised cost	Total
2021	\$'000	\$'000	\$'000
Financial assets			
Cash and bank balances	-	9,021	9,021
Trade and other receivables	-	7,625	7,625
Derivative financial instruments	3	-	3
	3	16,646	16,649
Financial liabilities			
Trade payables and accruals	-	10,206	10,206
Borrowings	-	12,235	12,235
Lease liability	-	549	549
Convertible notes and option	4,276	1,581	5,857
	4,276	24,571	28,847
Group			
	Measured at fair value through profit and loss	Measured at amortised cost	Total
2020	\$'000	\$'000	\$'000
Financial assets			
Cash and bank balances	-	1,417	1,417
Trade and other receivables	-	2,688	2,688
	-	4,105	4,105
Financial liabilities			
Trade payables and accruals	-	4,515	4,515
Derivative financial instruments	19	-	19
Borrowings	-	20,723	20,723
Lease liabilities	-	1,032	1,032
Convertible notes and option	2,159	6,829	8,988
	2,178	33,099	35,277

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

31. Financial Risk Management *(continued)*

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Fair value measurement using					
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$'000	\$'000	\$'000	\$'000
Assets and Liabilities measured at fair value					
Derivative financial liabilities					
Forward exchange contracts	31-Mar-21	3		3	
Convertible Note option (Note 24)	31-Mar-21	(4,276)	-		(4,276)

There were no transfers between Level 1 and Level 2 during 2021.

Fair value measurement using					
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$'000	\$'000	\$'000	\$'000
Liabilities measured at fair value					
Derivative financial liabilities					
Forward exchange contracts	31-Mar-20	(19)	-	(19)	
Convertible note option (Note 24)	31-Mar-20	(2,159)	-		(2,159)

There were no transfers between Level 1 and Level 2 during 2020.

b. Foreign currency exchange risk management

The Group is not exposed to significant foreign currency risk arising from its Australian operations on the basis that the receivables and payables are denominated in the same foreign currency which is AUD. For accounting purposes, this works as a 'natural' hedge because the gains and losses from the foreign currency on all those items are immediately recognised in the income statement. There is a translation risk as a result of the financial statements of the Australian subsidiaries being denominated in NZD.

c. Credit risk

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

Group		
	2021	2020
Maximum exposure to credit risk at balance date is:	\$'000	\$'000
Cash and cash equivalents	9,021	1,417
Trade receivables (net of impairment)	5,995	2,644
Acquiring settlement facility security deposit	245	231
Secured loan to related party	1,633	-

The amount of loss allowance is based on the simplified Expected Credit Loss (ECL) approach which involves the Group estimating the lifetime ECL at each balance date. The lifetime ECL is calculated using a provision matrix based on historical credit loss experience and adjusted for forward looking factors specific to the debtors and the economic environment. The receivables are classified into the following categories.

- Merchant receivable
- Unbilled (contract assets)
- Current trade receivables
- Payments overdue 10-60 days (arrears)
- Payments overdue 61-100 days (collections) and
- Greater than 101 days overdue (salvage).

2021				2020		
	\$'000			\$'000		
	Gross carrying amount	Loss rate	Loss allowance	Gross carrying amount	Loss rate	Loss allowance
Merchant receivable	4,560	0.00%	-	1,264	0.00%	-
Unbilled (contract assets)	824	0.00%	-	1,153	0.80%	9
Current trade receivables	1,457	5.56%	81	1,364	0.80%	11
Arrears	-	2.00%	-	10	2.00%	-
Collections	-	2.00%	-	6	2.00%	-
Salvage	237	75.0%	178	82	75.0%	62
	7,078		259	3,879		82

Loss rates are based on actual credit loss experience over previous years and multiplied by a factor based on the Group's view of economic conditions over the expected lives of the receivables. The COVID-19 pandemic has had minimal impact on the collectability of our receivables.

Action is taken as soon as the receivables are in arrears and consequently overdue payments are rectified within a short period of time. The policy is to write off the receivables if they remain uncollected after 120 days and pass the collection to third party debt collectors.

In terms of geographic location the merchant receivable category relates only to Australia and the other categories relate to both New Zealand and Australia. The Merchant receivable is considered to have a very low credit risk due to the short term of settlement.

31. Financial Risk Management *(continued)*

d. Interest Rate Risk

Disclosure is required of the fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The Group has interest rate risk on the CAF facility and the interest coupon on the convertible notes. At 31 March 2021 if interest rates had changed by +/- 1% from the year end rates with all other variables held constant, the Group’s post tax profit for the period (annualised) would have been \$211,000 lower or \$211,000 higher.

The carrying amount has been determined in accordance with level three above.

e. Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

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

	\$'000		\$'000
	Total	Within 12 Months	Within 1 to 5 years
ASB Bank Limited	12,000	1,000	11,000
Other borrowings	235	235	-
Lease liabilities	549	538	11
Convertible notes	1,581	1,581	-
Total Group Debt	14,365	3,354	11,011
Total Aging of Financial Liabilities Commitments	Total	Within 12 Months	Within 1 to 5 years
Group			
2021			
Trade Payables and accruals	11,367	11,367	-
Future interest payments on borrowings (Note 1)	909	403	506
Borrowings	12,235	1,235	11,000
Lease liabilities	549	538	11
Convertible notes	1,581	1,581	-
	26,641	15,124	11,517
2020			
Trade Payables and accruals	5,323	5,323	-
Future interest payments on borrowings (Note 1)	1,925	1,286	639
Borrowings	20,723	3,218	17,505
Lease liabilities	1,032	413	619
Convertible notes	6,829	6,829	-
	35,832	17,069	18,763

1. The future interest payment on borrowings are based on an estimate of the floating interest rate.

32. Subsequent Events

There have been no events subsequent to balance date.



Independent Auditor's Report

To the shareholders of Smartpay Holdings Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Smartpay Holdings Limited (the 'Company') and its subsidiaries (the 'Group') on pages 40 to 91:

- i. present fairly in all material respects the Group's financial position as at 31 March 2021 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2021;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$158,500 determined with reference to a benchmark of group revenue. We chose the benchmark because, in our view, this is a key measure of the group's performance and the growth phase of the business means that revenue is a more appropriate benchmark than loss before tax.





Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of goodwill	
<p>The Group has goodwill of \$14.8 million as disclosed in note 18 of the financial statements, which relates solely to the NZ cash generating unit ('CGU').</p> <p>Valuation of goodwill is considered to be a key audit matter due to the significance of the intangible asset and the models used in the impairment test included a range of subjective assumptions about future performance. Particular attention was paid to the forecast sales growth and the discount rate.</p> <p>The wider economic impacts of COVID-19 remain an indicator of impairment. Covid-19 has created increased uncertainty around future cash flow forecasts, in particular around scenarios that might apply and the appropriateness of any weighted average cost of capital used in supporting models.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none">— challenging the appropriateness of the revenue and cost forecasts by comparing these forecasts to actual growth rates achieved historically;— Involving a KPMG valuation specialist to challenge management's methodology used in impairment model;— Involving a KPMG valuation specialist to challenge key judgements, which included weighted average cost of capital and terminal growth rate used in the impairment model;— Performing sensitivity analysis considering a range of likely outcomes for various scenarios;— comparing the group's market capitalisation with the net asset value, as an indicator of possible impairment.— challenging management's assumptions in particular around the sales growth rate. <p>We found no material issues in the impairment assessment or on the reported amount of goodwill but did note that the calculation is particularly sensitive to changes in all the variables such as forecast cashflows, weighted average cost of capital, allocation of overheads and the terminal growth rate.</p>
Carrying value of terminal assets	
<p>The group has merchant EFTPOS terminal assets of \$8.7 million, as disclosed in note 15 of the financial statements. These terminals are held by customers on service contracts.</p> <p>The valuation of terminal assets is a key audit matter due to the significance of the asset and the possibility of impairment. Terminal</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none">— assessing Management's methodology for writing down slow moving and idle terminals and challenging inputs on a sample basis;— comparing Management's judgments over technological obsolescence to externally obtained compliance requirements; and— performing a count of inventory held in the warehouse at year end together with testing of terminal assets with customers on a sample basis to confirm their existence.



assets may be impaired due to technology changes and terminal model sunset dates required by the industry compliance requirements.

We found no material issues in our work over the reported amounts.

Operation of IT systems and controls

Many financial reporting controls depend on the correct functioning of IT systems. These include interfaces between transactional processing and financial reporting systems and automated controls that prevent or detect inaccurate or incomplete transfers of financial information between systems.

Due to the IT control deficiencies noted in last years auditors report still being remedied we did not perform controls testing in the effected area of transactional revenue and utilised a fully substantive audit approach. This has the impact of significantly increasing testing samples sizes throughout the audit

Where general IT controls were not operating effectively we were unable to rely on the related automated IT controls. We addressed the increased risk that financial information was affected by extending the scope of our work. To do this we:

During last years audit, we identified and tested the general IT controls in one key IT system that supports the acquiring of transactional revenue.

- performed additional substantive testing of the transactional revenue through extended sample sizes and tracing recorded amounts back to external evidence;
- performed data analysis routines over the full population of transactions; and
- obtained cash balance confirmations for the merchant settlement account.

The controls testing failed which increases the risk of error in reported financial information, including the data underlying the preparation of the statutory financial statements.

Based on the substantive procedures performed we found no material issues in the transactional revenue.

This is an area of significant risk in our audit due to the complexity of the IT infrastructure.

Valuation and presentation of convertible notes

Refer to note 24 to the financial statements.

Our audit procedures included, amongst others:

Convertible notes represent a financial instrument that have complex accounting, valuation and presentation issues

- obtaining management’s assessment of the conversion and comparing it to the requirements of the relevant reporting standards;
- reviewing the terms of the modified agreement agreements to identify whether there has been a substantial modification to the terms which could have a potentially significant impact on the accounting treatment or related disclosures;
- Involving a KPMG valuation specialist to assess the appropriateness of the valuation approach and subjective inputs used.

The modification to the terms of the notes during the year creates additional accounting implications.

Based on the procedures performed we found no material issues with the reported convertible notes balance.

The conversion of some of the notes in the year required management to make judgments over the accounting impact.

The valuation of the financial instruments required judgmental



assumptions to be made by management.

Other Information

The Directors, on behalf of the group, are responsible for the other information included in the Annual Report. Other information may include the Chairman’s Report, Chief Executives Review, Board of Directors, Corporate Governance Statement, Directors’ Responsibility Statement, Statutory Information, Security Holder Information and Directory (the ‘Other Information’). Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this independent auditor’s report

This independent auditor’s report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor’s report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor’s report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is John Kensington

For and on behalf of

KPMG

KPMG
Auckland

21 June 2021



Statutory information

Directors and Former Directors

Directors holding office

At 31 March 2021 the directors holding office were Gregor Barclay, Carlos Gil, William Pulver, Martyn Pomeroy and Matthew Turnbull.

Directors holding office during the year to 31 March 2021 and their appointment dates are detailed below:

Name	Date Appointed	Position	Independence (Yes/No)
Greg Barclay	1 April 2010	Non-Executive Director	Yes
*Bradley Gerdis	1 July 2012	Executive Director and	No
Carlos Gil	5 December 2018	Non-Executive Director	No
Marty Pomeroy	1 April 2014	Executive Director	No
Bill Pulver	11 December 2018	Non-Executive Director	Yes
Matt Turnbull	1 April 2013	Non-Executive Director	Yes

*Bradley Gerdis stepped down as a director on 1 September 2020.

Independent Directors

In accordance with the requirements of the Listing Rules the Board has determined that Greg Barclay, Matt Turnbull and Bill Pulver are Independent Directors.

Subsidiary Company Directorships

At 31 March 2021, subsidiary companies had directors as follows:

New Zealand Subsidiary Companies	Director
Smartpay Rental Services Limited*	Gregor Barclay, Marty Pomeroy
Smartpay Limited*	Gregor Barclay, Marty Pomeroy
Smartpay Ethos Limited*	Gregor Barclay, Marty Pomeroy
Smartpay Software Limited*	Gregor Barclay, Marty Pomeroy
Smartpay New Zealand Limited	Gregor Barclay, Marty Pomeroy
Viaduct Limited*	Gregor Barclay, Marty Pomeroy

*On 1 April 2021 Smartpay Rental Services Ltd, Smartpay Ltd, Smartpay Ethos Ltd, Smartpay Software Ltd and Viaduct Ltd were amalgamated by way of a short form amalgamation under section 222(2) of the Companies Act 1993 with Smartpay Limited being the ongoing amalgamated entity and the others removed from the Register.

Australian Subsidiary Companies	Director
Smartpay Rentals Pty Limited	Gregor Barclay, Carlos Gil, Marty Pomeroy
Smartpay Australia Pty Limited	Gregor Barclay, Carlos Gil, Marty Pomeroy
Cadmus Payment Solutions Pty Limited	Gregor Barclay, Carlos Gil, Marty Pomeroy
Product Rentals Pty Limited	Gregor Barclay, Carlos Gil, Marty Pomeroy
Pax Technology Pty Limited	Carlos Gil, Marty Pomeroy
Smartpay Taxis Pty Limited	Carlos Gil, Marty Pomeroy
Smartpay Epayments Pty Limited	Carlos Gil, Marty Pomeroy

There were no changes to the Australian subsidiary companies of the group during the period.

Directors’ and Senior Managers’ interests

Directors interests in external entities

In accordance with Section 140(2) of the Companies Act 1993, the directors named below have made a general disclosure of interest by a general notice disclosed to the Board and entered in the Company's interest register. General notices given by directors which remain current as at 31 March 2021 are as follows:

Director	Interest	Entity
Greg Barclay	Consultant	Claymore Partners Limited
	Director	Various Claymore client trustee companies
	Director	Claymore Property Limited
	Director	Franchised Businesses Limited
	Director	Pacific Forest Products NZ Limited (and various related or subsidiary companies)
	Director	Planet Fun Limited
	Director	Rugby Hospitality New Zealand Limited (and related)
	Director & Shareholder	Kervus Property Group Limited
	Director	New Zealand Cricket Association
	Chair	International Cricket Council
	Director	ICC Development (International) Limited
	Director	ICC Business Corporation NZ LLC
	Director	Boffa Miskell Limited
	Director	Ngatapa Finance Limited
	Director	Ngatapa Legal Limited
	Director	Ngatapa Trustees Limited
	Director	Stress Crete Group, including Stress Crete Northern
Matt Turnbull	Director	Black Rock Capital Limited
	Director	Verbier Limited
	Director	Mangawara Farms Limited
	Director	Browning Street Limited
Marty Pomeroy	Director	Pearlfisher FM Fund I GP Ltd
	Director	TEOV Limited
	Director	iHoldings Limited
	Director	iGenerate Limited
	Director	Microequities Asset Management Pty Limited
Carlos Gil	Director	
Bill Pulver	Director	Appen Pty Limited

Changes in the reporting period:

- Matt Turnbull made a general disclosure of interest in Pearlfisher FM Fund I GP Ltd during the reporting period
- Bradley Gerdis stepped down as a director with effect from 1 September 2020, the following details included in the Company's interest register as at 31 March 2020 have been removed as at 31 March 2021:
 - Director: Haymaker Investments Pty Limited
 - Director: Active Capital Partners Pty Limited

Information Used by Directors

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

Director and Senior Managers Interests in Shares of The Company

Directors held interests in the following Ordinary shares in the Company as at 31 March 2021:

Director	Name of shareholder	Nature of relevant interest	Balance at 31/03/2020	Movement in period	Balance at 31/3/2021
Gregor Barclay	Ngatapa Trustees Ltd	Potential beneficiary under a discretionary trust	576,910	0	576,910
	Ngatapa Advisory Ltd	Potential beneficiary under a discretionary trust	49,404	0	49,404
Martyn Pomeroy	Pomeroy Asset Protection Trust	Potential beneficiary under the trust	3,399,053	0	3,399,053
William Pulver	New Greenwich Pty Limited	Potential beneficiary of the superannuation fund	1,575,413	619,960	2,195,373
Carlos Gil	Microequities Asset Management Pty Limited	Power to control the acquisition or disposal of securities or exercise the right to vote	33,127,406	1,482,573	34,609,979

In accordance with definition provided by section 6 of the Financial Markets Conduct Act 2013 Senior Managers of the company include anyone who is not a director but occupies a position that allows that person to exercise significant influence over the management or administration of the Company. Senior Managers of the Company are required by the Financial Markets Conduct Act 2013 to disclose their interests in the Company. The Senior Managers of the Company include the Chief Executive office, the Chief Financial Officer and the Company Secretary.

As at the balance date no Senior Managers, who are not also directors, held disclosable interests in the shares or convertible notes of the company.

As at the balance date Bradley Gerdis was no longer a director of the Company, in accordance with section 301 of the Financial Markets Conduct Act 2013 he is required to disclose his interests for 6 months following his resignation. He resigned with effect from 1 September 2020 and his interests to the balance date are disclosed as set out below, however movements thereafter will no longer be disclosed.

Director	Name of shareholder	Nature of relevant interest	Balance at 31/03/2020	Movement in period	Balance at 31/3/2021
Bradley Gerdis	Haymaker Investments Pty Limited (Haymaker Account)	Potential beneficiary under a discretionary trust	6,515,422	72,000	6,587,422

Directors and Senior Managers Interests in Options of The Company

There were no options on issue during the reporting period.

Directors’ and Senior Managers’ interests (continued)

Directors and Senior Managers Interests in Convertible Notes of The Company

Directors held interests in the following Convertible Notes in the Company as at the balance date:

Director	Name of holder	Nature of relevant interest	Balance at 31/03/2020	Movement in period	Balance at 31/3/2021	Maximum number of shares on conversion
William Pulver	New Greenwich Pty Limited	Potential beneficiary of the superannuation fund	1	0	1	2,347,310*

*As at 31 March 2020 the maximum number of shares on conversion was 2,288,853, the increase in the period is due to the capitalisation of interest.

As at the balance date no senior managers, who are not also directors, held disclosable interests in the shares or convertible notes of the company.

Directors’ Insurance

The Group has arranged Directors and Officers Liability Insurance which is underwritten by Berkshire Hathaway Speciality Insurance Company, AIG Insurance and Chubb Insurance New Zealand Limited which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors.

Directors’ Indemnity

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

Directors’ Remuneration

Directors’ fees and other remuneration are set out in detail in Note 30 to the financial statements.

Directors’ Interests in Loans

A secured loan amounting to AU\$1,500,000 was provided by Smartpay Holdings to Haymaker Investments Pty Limited on 6 July 2020. The term of the loan is 18 months and the interest rate is 3% pr annum. Haymaker Investments Pty Limited is the Trustee for the Haymaker Trust of which Bradley Gerdis is a potential beneficiary.

Other disclosures

Listing

The ordinary shares of Smartpay Holdings Limited are listed on the securities exchanges operated by the New Zealand Exchange Limited (NZX) and the Australian Securities Exchange (ASX). The NZX is the Company’s primary listing and with its ASX Listing being a Foreign Exempt Listing. The Company confirms that it continues to comply with the New Zealand Stock Exchange Listing Rules.

Shareholders continue to be able to trade their shares on either the NZX or the ASX and the Company’s main share register is maintained by Computershare in New Zealand, with an Australian sub register also managed by Computershare.

Summary of Waivers and Exemptions

There were no waivers or exemptions granted specifically to Smartpay Holdings Limited during the period from 1 April 2020 to 31 March 2021.

The Company relied on the following waivers and reliefs granted generally:

- Class relief granted on 19 March 2020 in relation to financial reporting timeframes. The Company filed its Preliminary Full Year Result for FY20 on 23 June 2020.
- Class Waiver ruling on Listing Rule 7.1 dated 11 February 2019 in relation to its Notice of its 2020 Annual Meeting of Shareholders which included the proposed change of constitution.
- Section 10 of the COVID-19 Response (Requirements For Entities – Modifications and Exemptions) Act 2020 to use electronic means for voting at its shareholder meetings held during 2020.
- Smartpay’s Share Purchase Plan Offer made in June 2020 was made to Eligible Shareholders under the exclusion in clause 19 of Schedule 1 of the Financial Markets Conduct Act 2013 (FMCA) and in reliance on a class waiver issued by NZX Regulation dated 19 March 2020. In Australia, the Offer was made to Eligible Shareholders in accordance with the relief granted under ASIC Corporations (Share and Interest Purchase Plans) Instrument 2019/547.
- Smartpay’s Offer of new fully paid ordinary shares in Smartpay (New Shares) to sophisticated and professional investors under an institutional placement was made in reliance upon the exclusion in clause 19 of Schedule 1 to the FMCA and it gave notice under clause 20(1)(a) of Schedule 8 to the FMC Regulations.

Investors Enquiries

Shareholders should address any queries regarding the operations of the Company to Mr Marty Pomeroy, Managing Director at the Company’s business address.

Shareholders with administrative enquiries relating to their holdings should address these to Computershare whose contact details in each country are:

New Zealand
Computershare Investor Services Limited
Private Bag 92119 Auckland 1142
Level 2, 159 Hurstmere Road, Takapuna,
Auckland
Phone: +64 488 8700
Fax: +64 9 488 8787

Australia
Computershare Investor Services Pty Limited
GPO Box 3329, Melbourne VIC 3001
Phone: 1800 501 366
Fax: +61 3 9473 2500

Security holder information

Securities on Issue

The Securities on issue at the time of publication of the Annual Report are as follows:

Listed Securities

232,109,592 Ordinary fully paid shares, all shares in this class carry a 1 vote per share voting right.

Unlisted Options

None.

Unlisted Convertible Notes

3 Convertible Notes.

For further detail on the Convertible Notes please see Note 24 of the Financial Statements.

Range of Shareholders

As at 31 May 2021.

Range	Total holders	Units	% of Issued Capital
Less than 5,000	1,345	2,064,993	0.88
5,000 - 9,999	312	2,059,488	0.89
10,000 - 49,999	486	9,465,792	4.08
50,000 - 99,999	88	5,560,781	2.40
100,000 - 499,999	84	16,233,022	6.99
500,000 - 999,999	13	8,430,487	3.63
Over 1,000,000	19	188,295,029	81.12
Total	2,347	232,109,592	100.00

Geographical Distribution of Shareholders

As at 31 May 2021.

Country	Number of shares held	% of Issued capital	Number of shareholders	% of total number of shareholders
Switzerland	17,500	0.01	2	0.09
France	100,000	0.04	1	0.04
United Kingdom	17,027	0.01	3	0.13
Malaysia	153,911	0.07	6	0.26
Philippines	30,000	0.01	1	0.04
U.S.A.	24,000	0.01	1	0.04
Singapore	37,500	0.02	2	0.09
Australia	176,314,568	75.96	1,235	53.00
New Zealand	55,415,086	23.87	1,096	46.70
Grand Total	232,109,592	100.00	2,347	100.00

Twenty Largest Registered Shareholders

As at 31 May 2021.

Rank	Name*	Units	% of Units
1	JP Morgan Nominees Australia Limited	68,962,667	29.71
2	Anacacia Pty Ltd (Wattle Fund A/C)	22,658,109	9.76
3	National Nominees Limited - NZCSD (NNLZ90)	22,372,497	9.64
4	National Nominees Limited	14,575,375	6.28
5	HSBC Custody Nominees (Australia) Limited	10,327,792	4.45
6	Broadgate Investments Pty Ltd	5,735,630	2.47
7	UBS Nominees Pty Limited	5,699,312	2.46
8	Haymaker Investments Pty Limited (The Haymaker A/C)	6,587,422	2.84
9	New Zealand Depository Nominee Limited (A/C1 Cash Account)	3,879,428	1.67
10	Citicorp Nominees Pty Limited	4,837,240	2.08
11	Martyn Pomeroy + Sara Pomeroy (Pomeroy Asset Protection A/C)	3,399,053	1.46
12	Harrogate Trustee Limited (Brandywine A/C)	3,135,502	1.35
13	Walker & Hall Fine Gifts Limited	3,071,428	1.32
14	Microequities Asset Management Pty Ltd (Microequities Nanocap 9 A/C)	3,004,106	1.29
15	BNP Paribas Nominees Pty Ltd (IB AU NOMS RETAILCLIENT DRP)	2,432,675	1.05
16	New Greenwich Pty Ltd (New Greenwich S/F A/C)	2,195,373	0.95
17	Accident Compensation Corporation - NZCSD (ACCI40)	1,405,292	0.61
18	Broadgate Investments Pty Ltd	1,374,278	0.59
19	JDA Investments Pty Ltd	1,089,278	0.47
20	Castlereagh Equity Pty Ltd	820,000	0.35
Total held by top 20 shareholders		194,149,879	83.64
Total held by other holders		37,959,713	16.36
Total Issued Capital		232,109,592	100.00

* The shareholders listed are those on our share register and do not, in all cases reflect the underlying beneficial holders.

Substantial security holders

The names and holdings of Smartpay’s substantial product holders based on notices filed with Smartpay under the Financial Markets Conduct Act 2013 as at 8 June 2021 were:

Name	Total Ordinary Shares*
Microequities Asset Management Pty Limited	34,609,979
Milford Asset Management Limited	29,533,558
Anacacia Pty Limited	22,658,109
Moelis Australia Asset Management Ltd.	14,697,764
Jencay Capital Pty Limited	10,486,197

* Total Ordinary shares held by the substantial product holder is the number of shares disclosed in the latest Substantial Product Holder Notice filed with Smartpay as at 8 June 2021.

Directory

Registered Office

205 - 209 Wairau Road, Wairau Valley
PO Box 100490,
North Shore Mail Centre
Auckland, New Zealand
Phone: +64 9 442 2700
Email: info@smartpay.co.nz
Website: www.smartpayinvestor.com

Australian Office

Level 2, 117 York Street
Sydney
NSW 2000
Phone: +61 2 8876 2300
Website: www.smartpay.com.au

Board

Marty Pomeroy - Chief Executive & Managing Director
Matthew Turnbull - Independent Director
Carlos Gil - Non-Executive Director

Greg Barclay - Independent Director
Bill Pulver - Independent Director

Key Management

Aidan Murphy - Chief Business Officer
Peter Thomas - Chief People & Customer Officer
Gustavo Herrera - Head of Engineering
Toni Cookson - Financial Controller

Mark Fortugno - Chief Financial Officer
Lucy Williams - General Manager New Zealand
Gerard Yeterian - Head of Sales Australia
Rowena Bowman - Company Secretary

Auditors

KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland
Phone: +64 9 367 5800

Share Registrar - New Zealand

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2, 159 Hurstmere Road
Takapuna, Auckland,
New Zealand
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Share Registrar - Australia

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