



smartpay 2011

smartpay holdings interim report
for the six months to 30 September





welcome

to SmartPay's interim report for the six months to 30 September 2011.

We design, develop and implement innovative payment solutions for customers in New Zealand and Australia.

SmartPay aims to add value to its clients' businesses, providing a total payments solution. We know the products, the industry and the technology - inside and out.

Contents

About SmartPay	03
Our Business	04
Merchant Infrastructure	05
Business Performance	06
SmartPay in New Zealand and Australia	08
Our Customers	10
Chairman's Report	11
Chief Executive Officer's Report	13
Directors' Profiles	17
Management Team Profiles	18
Frequently Asked Questions	20
Interim Financial Statements	22
Shareholder Information	34
SmartPay Directory	35



about smartpay

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

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

our business

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

It is our vision to own the merchant space, and in doing so develop sustainable and ongoing revenue streams, delivering products and services that add value to our customers on both sides of the Tasman.

Our products and services include:

Payments

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

Telecommunications

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

Marketing Media

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

merchant infrastructure

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

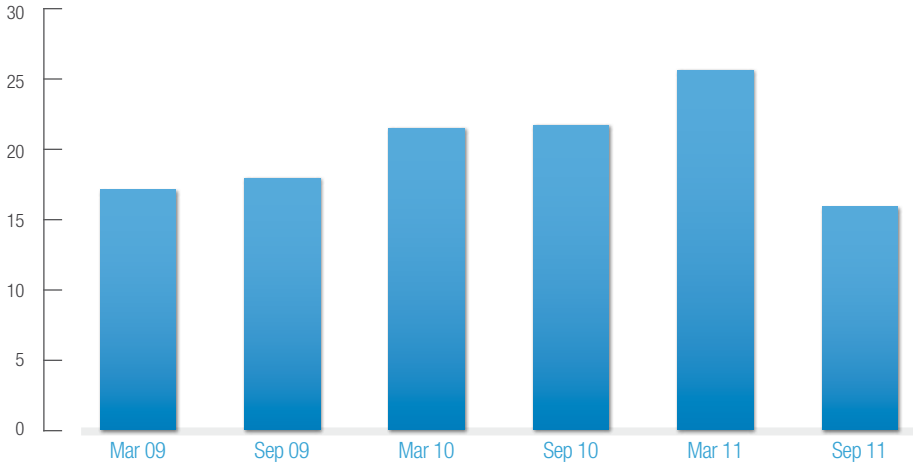


business performance

for six months to 30 September 2011

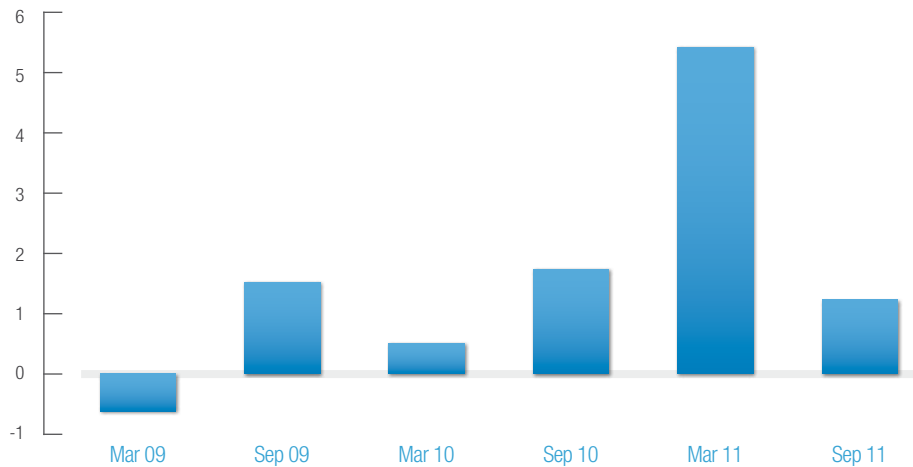
Revenue Six Monthly Performance

\$ MILLIONS



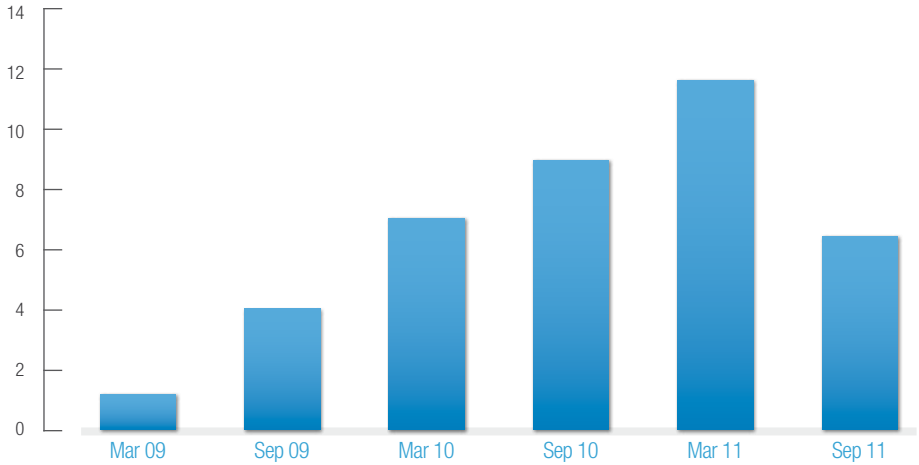
EBITDA Six Monthly Performance

\$ MILLIONS



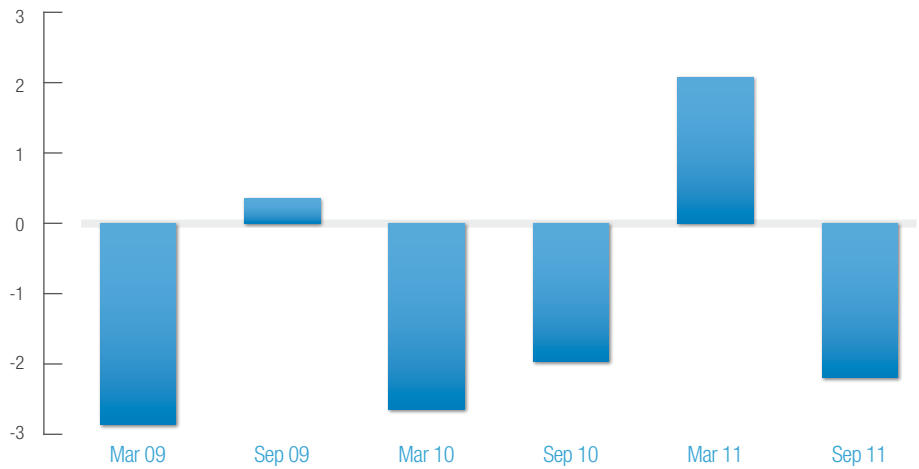
Gross Profit Six Monthly Performance

\$ MILLIONS



Net Profit After Tax Six Monthly Performance

\$ MILLIONS





smartpay in New Zealand & Australia

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





new zealand

- » New Zealand's number one provider of technology services for merchants and retailers
- » Electronic commerce leader providing payment products, Wi-Fi services, internet banking products, in-store marketing media products and telephony services
- » Strong relationships with taxi companies
- » Large share of the corporate market
- » In house team that can develop applications to operate on EFTPOS networks
- » Bespoke financing through SmartPay Subscriptions Limited
- » Marketing the PAX range of EFTPOS products at the forefront of compliance and security standards
- » Listed on the NZX.



australia

- » Approximately 5.5 years' experience in the market
- » Growing customer base
- » Significant installations in the Australian taxi market
- » Large terminal base installed with a major regional bank
- » Obtained certification for PAX products
- » Agreement signed with Generate Group to drive into the club and hospitality sector
- » Pursuing an ASX listing
- » Processing approximately 16% of taxi transactions

our customers

Our customer base spans all industries and sectors. We provide advanced payment and data management solutions to businesses ranging in size from small owner-operators to large multi-site trans-Tasman companies. Here is a snapshot of our customers.



OfficeMax®



BRIDGESTONE



MASSEY UNIVERSITY
TE KUNENGA KI PŪREHUROA

chairman's report



The momentum of change continues at a rapid rate for SmartPay. We have made encouraging progress in Australia and at home in New Zealand, and we have significantly reduced our overheads without compromising our service levels.

Financial Performance

The soft domestic retail market has impacted our financial results for the six months to 30 September 2011. Revenue was \$15.9 million, down 26.8% on the prior comparable period. Earnings before interest, tax, depreciation and amortisation (EBITDA) was \$1.2 million, down 29%. The decline in EBITDA has been contained to a \$0.5 million, due to a strong focus on cost management. Net loss before taxation was -\$2.4 million, compared to -\$2.2 million for September 2010. In spite of this, we have maintained our market share and expect revenue to lift in the second half of the year. There are a large number of terminals in New Zealand that have to be upgraded to new banking and card security standards before the 2012 deadline and we expect to win our share of these contracts, while also closing out a number of strategic new customer sales in Australia.

Financial Position

We continue to improve our financial position in relation to debt. In September we announced the roll over of the majority of our short term corporate debt at significantly lower interest rates. This achievement reflects our corporate funders' growing confidence in the strategy and financial performance of the company.

We now have the opportunity to obtain main bank funding which has previously been unavailable to the company. Additionally, we are in advanced discussions with parties who have the ability to invest in the business and provide substantial funds to assist in achieving our Australian and New Zealand growth objectives, secure potential acquisitions and the listing on the ASX.

“We are well positioned for growth”

The ASX listing remains firmly in our sights, but the timetable for this has been extended. Uncertainty in the global equity market may have slowed our progress but it remains a cornerstone of our strategy to improve shareholder value, substantially reduce borrowing costs and underpins the growth objectives for the business. We expect to complete the ASX listing in 2012.

These are all positive signs, providing us with further confidence that our strategy for the business is solid.



A Team Effort

Andrew Donaldson and his team have significantly reduced operating expenses, down by \$2 million on this time last year. We may have trimmed expenses, but not at the cost of customer service.

Our corporate sales team is making good progress on both sides of the Tasman and a number of significant deals are expected to close before year end. Australian certification has been obtained for the PAX S90, S80 and SP30 terminals and this has helped to drive revenue in the Australian market.

CEO Andrew Donaldson has announced that he is leaving SmartPay to pursue a significant career opportunity with a state owned energy enterprise which is preparing for a partial listing on the stock exchange. An executive search is underway for his replacement and we expect to make an announcement very soon as to his replacement. Andrew has made a tremendous difference to the company in a very short time. My fellow directors and I wish him well.

Summary

As far as SmartPay's future is concerned, we are well positioned for growth. We have made good progress in securing our financial position, and reducing interest costs together with growing our customer base continues to be the focus for the team. The achievements over the past six months are encouraging, whilst we have not given guidance for 2012 we do expect EBITDA to be broadly flat with 2011 with an improved bottom line due to lower interest costs and a focus on overhead control.

As we reflect on the company's performance and our journey over recent years, it is appropriate once again to thank the entire SmartPay team – directors, management, employees and shareholders - for their support and belief in the company. Keep the momentum up, we can't do it without you!

A handwritten signature in black ink, which appears to read "Wayne Johnson". The signature is fluid and cursive.

Wayne Johnson
Chairman

CEO's report



While challenging economic conditions and uncertain equity markets have slowed our progress in the past six months, we haven't lost our focus and determination to significantly grow our business and with it, shareholder value.

As expected, the New Zealand market has been slow following the completion of the 5.1 terminal upgrade to new card and security standards earlier this year. However the focus and investment in the Australian market is beginning to show results, with a number of significant deals expected to close before year end, and we continue to look for new sales opportunities on both sides of the Tasman.

Over the first half of this financial year we have also had strong focus on our customers. We have refined the new technology recently installed and improved our credibility not only with customers, but also with the large banks. This will provide a strong platform for future growth. Very pleasing too, has been the completion of the business restructure which resulted in savings in overheads of more than \$2 million for the first six months alone, without sacrificing customer service.

Our key areas of focus remain:

- Continuing to seek new capital and opportunities to reduce our costs of funds.
- Growing our Australian business by completing new Australian bank certifications and securing new customers.
- Increasing our New Zealand market share by leveraging our improved banking relationships and upgrading our 5.2 customers ahead of the 2014 deadline.
- Adding further value to our customers through our suite of additional added value services.
- Delivering new technologies such as VISA and MasterCard contactless payment and our next generation of integrated cloud based software which will streamline performance and reduce our cost-to-serve for large corporate and retail customers.
- Securing an ASX listing as a cornerstone of the company's strategy to improve shareholder value, substantially reduce borrowing costs and underpin growth objectives.



Financial Performance

Having achieved full year EBITDA guidance for 2011, the New Zealand market has since softened. As expected, this has caused first half revenue to slip, however the completion of the cost reduction programme combined with relatively stable gross margins have enabled us to contain the reduction in EBITDA to just over \$0.5 million compared to the last period.

The focus has been to consolidate our leading New Zealand position and concentrate our growth efforts on the Australian market.

The next phase of merchant upgrades to new card and security standards will soon take place in New Zealand with approximately 20,000 terminals needing to be replaced. In Australia, there are around 200,000 terminals that will also need to also be upgraded to the latest EMV and chip card standards in the next few years. Rest assured, our sales team will be working hard to win as many these contracts as possible - in both markets - over the coming months.

New Zealand

Our recently announced partnership with Snapper - subsidiary of infrastructure company Infracore - has enabled SmartPay to be part of the largest contactless payments market centred around

the public transportation industry. Contactless payment is the latest innovation in transaction processing and it is a very convenient and fast method of payment for small ticket items. Via Snapper we will be targeting merchants in public transport hubs to capture a greater share of the small transaction market.

Also planned to launch in early 2012 is our Visa and MasterCard contactless platform, which will allow our wider customer base to take advantage of this rapidly growing market. Following closely, will be our next generation of integrated payments software. SmartPay already has the largest share of the corporate and large retailer market in New Zealand. This next generation of software is cloud based to improve performance and reduce time and costs related to customer service.

SmartPay recently became the first EFTPOS terminal vendor to enter into a "Payment Solution Vendor Agreement" with Paymark. SmartPay is recognised as a Paymark Partner and Certified Reseller, which provides our customers, banks, and the market as a whole with confidence that SmartPay is credited as a business that delivers payment solutions which are fully certified by Paymark. It also provides assurance that SmartPay will stand behind its products to ensure that customers obtain a reliable and fully compliant payment environment.

We have been working hard to strengthen and grow the business and had hoped to be in a position to share details of a number of significant sales contracts and other strategic announcements with shareholders in the lead up to this report. These announcements are in the final stages and we will share the good news with you as soon as we are able.

Australia

SmartPay's future growth prospects lie in Australia. It is a big, fragmented market with lots of opportunities. For the past six months we have invested significant resource and effort into the Australian market, led by our experienced managers who visit regularly to assist the local team to grow the business. We anticipate very strong growth in our market share this year, albeit from a small base. Our goal is to be the third largest supplier in the market, and we believe that our unique offering and credibility gained in New Zealand leaves us well placed to achieve this ambitious goal.

We have obtained Westpac banking certification for our PAX S90, S80 and SP30 terminals and are focused on completing certifications with other Australian banks. This is a challenging and time consuming process, but once completed gives a solid platform to grow our customer base.

Our planned ASX listing will cement our position in Australia and make it easier to raise funds to grow our company and pursue acquisition targets. It is a must do for us and we continue to work through the requirements of the ASX to ensure this is successful.

“We are beginning to make real inroads into the Australian market”

Managing our costs

Like any growing business it is important that we maintain firm control of our overheads. Knowing that revenue for the first six months was going to be impacted by the soft retail market, we took action and reduced our cost structure accordingly. The majority of our overhead savings has come from re-focusing on our core payments business and streamlining our processes, which has significantly reduced our headcount. The restructuring of our business has not come at the expense of customer service, which is improving steadily.

We have also made good progress towards reducing finance costs, another major expense category. The majority of our corporate debt has



been rolled over at significantly reduced interest rates with immediate benefit to our bottom line, and our SmartPay Subscriptions funding facility for our rental book finance has also delivered interest rate reductions. Interest expense for the period is broadly flat compared because growth in our rental book receivables - reflecting sales - and the related borrowing have largely offset those interest rate reduction benefits.

Balance Sheet Strength

While corporate debt is slowly reducing, loans relating to the financing of our rental book grow with almost every sale we make. These loans are secured by customer receivables and the financing structure is a key part of SmartPay's business model. It provides the funds upfront that we need to operate the business, and the related loans are repaid as customers make their contracted monthly payments. We typically finance up to 80% of the face value of a customer contract, so the related loans will always be less than total customer receivables.

Summary

Over the past few years SmartPay has transformed from a low margin business to one that delivers high margin added value services. Our progress has been nothing short of spectacular becoming the lead player in the New Zealand market, especially when the difficult equity and debt market is factored in.

We are beginning to make real inroads into the Australian market, which will drive growth in our business for the foreseeable future. Our strategic partnerships with PAX and payment card company Snapper strengthen our offering on both sides of the Tasman. None of which could have been achieved without the on-going commitment of our amazing team.

Andrew Donaldson
Chief Executive Officer



directors' profiles

1 Wayne Johnson Chairman & Independent Director

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

2 Ian Bailey Managing Director

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

3 Greg Barclay Non Independent Director

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

4 John Nimmo Independent Director

John has had over 20 years' experience as Chief Executive of manufacturing, marketing, exporting and distribution businesses with turnovers of up to \$100 million. In conjunction with Ian Bailey, John was a founder of Cadmus Technology Ltd (CTL) listing it on the NZX in November 2000. He served as Commercial Director until his retirement in December 2007, prior to the merger with Provenco. In July and August 2009 he assisted SmartPay with the purchase of the payments division of ProvencoCadmus and provided consultancy services to SmartPay until his appointment to the board in December 2010.



management team profiles

1 Linc Burgess

General Manager - Sales

Linc Burgess has more than 30 years' experience in the financial services and payments industry. He has been heavily involved - at a management level - in the development of fleet/fuel cards and loyalty systems, and the technology that supports these services. He also launched Taxicharge - a payment system specifically for the industry before being appointed Chairman of Taxicharge New Zealand, a role he held until 2004.

Linc joined SmartPay in 2004, playing a leading role in the establishment of the company. Since then he has had responsibility for group sales management. Linc played a key role integrating the ProvencoCadmus assets into SmartPay, leading the sales team and securing a substantial part of the business that had been previously held by ProvencoCadmus.

2 Carey Davis

Manager MIPS Financial Services

Carey comes from a strong customer service and finance background, with over 25 years' experience in the life insurance and financial services sectors. A career change saw her

move to credit control and credit assessment at Fisher & Paykel Finance Ltd. Taking that experience she took on the role of Product Rentals Limited Manager at Cadmus Technology Limited. In December 2009 she joined SmartPay subsidiary MIPS Financial Services Limited to manage the growing finance book. She brings a wealth of knowledge and best practice to the organisation with much enthusiasm.

3 Andrew Donaldson

Chief Executive Officer

Andrew joined SmartPay in September 2010, as Chief Financial Officer, and in January 2011 was promoted to the role of CEO. He has extensive executive experience in both the UK and NZ most recently as Managing Director for Brightstar. Prior to joining Brightstar, he was CFO at Telecom Retail. Andrew's experience covers listed companies, start-ups, entrepreneurial technology businesses and venture capitalists. He is adept at knowing how to quickly scale up and build credibility for technology groups like SmartPay.

He will be leaving SmartPay in mid January to pursue a significant career opportunity with Genesis Energy and will be missed. The search to find a replacement is underway.



4. Andrew MacIntyre

Development Manager - Software Applications

Andrew has 16 years' experience in information technology operations and software development. He has spent the last seven years developing software within the payments industry.

With experience in integrated, interfaced, and stand-alone solutions, he has designed and implemented EFTPOS and associated applications for the New Zealand, Australia and Singapore markets. As the team leader for the software development team, Andrew's main responsibilities are the design and delivery of embedded terminal applications, as well as customised solutions. Andrew has a degree in Computer Science and Information Systems.

5 Lauren Midgley

Operations Manager

Lauren brings 10 years of business and finance experience in the merchant services industry to SmartPay's operational team. Her responsibilities include providing operational services to customers and ensuring customer satisfaction. Lauren joined the company in 2007 as the management accountant. Prior to this she contracted with various companies as a systems

analyst. Earlier in her career Lauren spent five years with Cadmus Technology Limited prior to its merger with Provenco. Lauren's vast experience including many years working for publicly listed companies is invaluable in her current role.

6. Pat O'Brien

General Manager, SmartPay Australia

Pat has held executive positions in Australia and the United Kingdom working in telecommunications and financial transaction services for over 25 years. As General Manager of SmartPay's Australian operation he has built a significant business and created the foundation for future growth in this key market. These activities include the establishment of the Australian taxi payments business, becoming an approved ISO reselling banking services with three banks both directly and through our reseller capability. Pat is now working on the introduction of the PAX devices across multiple banks in several vertical markets having already contracted existing and new partners. He holds a Degree in Electronics and Software Engineering from the University of Limerick, Ireland.

frequently asked questions

1 How does SmartPay make its money?

Our strategy is to provide an increasing range of products and services to customers that help them run their businesses better, increase revenues or add value to their customers.

We sell both EFTPOS related hardware and software on a subscription basis, where customers sign a contract for a fixed term – typically 36 months – paying a fixed monthly rental. We also sell a range of other services such as in-store advertising, Wi-Fi, on-line payments and mobile phone top ups.

2 SmartPay's debt is growing – why?

Our debt reflects our growing business. We have two kinds of debt. The first is corporate debt, funding acquisitions and providing working capital. The second relates to our rental book, where we fund receivables from contracts signed by our customers. This provides money “up front” to run the business that is repaid as customers make their monthly contracted payments. The future cashflows from the rental contracts are significantly more than the debt related to our rental book. As at 30 September 2011, rental book debt was \$18.0 million with related gross receivables of \$22.7 million.

3 Does SmartPay have the ability to service its rental book debt?

Yes. The liabilities relating to the financing of the rental book are exceeded by the value of the future cashflows from customer contracts, including interest on those debts. As we have a large number of small value contracts the overall exposure and risk is relatively low.

4 Why are interest costs so high?

We have secured interest rate reductions on most of our corporate borrowings, and this has had a flow on effect on our interest expense. But, we have taken on more rental book debt as a result of sales growth, and this has largely cancelled the benefit of interest rate reductions. Most of our borrowings are from second tier lenders. This type of funding commands a higher interest rate than main bank funding. We still intend to source lower cost funds to meet the anticipated growth in our rental book and hope that we can reduce interest costs significantly over the next year, adding to the net profit of the group.

5 What action is being taken to reduce interest costs?

We have taken a number of steps including launching our own financing facility, issuing convertible notes and negotiating interest rate reductions with most of our corporate lenders.

We are also continuing to seek new capital and other opportunities to reduce our cost of funds.

6 When will SmartPay begin to make net profits?

We made our first net profit last financial year. The next step is to secure more cost effective forms of finance to improve profitability. We have reduced overheads by \$2 million in this financial period and taken a number of other steps to streamline our business.

7 Is the company setting guidance for 2012?

No guidance range has been set, but we expect 2012 EBITDA to be broadly in line with last year.

8 What actions have been taken to reduce other costs in the business?

We have reviewed the business and removed layers of costs without impacting on our ability to service customers. Last year we moved to an outsourced manufacturing model and rationalised the number of stock lines carried.

9 How is the Australian business performing?

We are very pleased with progress. Certification had been obtained for the PAX S90, S80 and SP30 EFTPOS terminals and this is helping to drive revenue.

10 What is the timeline for the ASX listing?

We expect to complete our ASX listing in 2012.

11 Why is the Paymark partnership important to SmartPay?

Paymark is New Zealand's leading electronic payments provider. It was established in 1989 and is owned by the four major banks (ASB, BNZ, National Bank and Westpac). Its network processes more than 75% of all electronic transactions in this country. Therefore with SmartPay approved as a Paymark Partner, this is a strong endorsement for SmartPay, our product, our product delivery and service support records.

12 Why were the SmartPay Investments Limited redeemable preference shares redeemed?

The redeemable preference share offer was closed on 19 September 2011. It did not achieve the levels required for a stock exchange listing, which was one of the expectations of the offer. The redeemable preference shares were therefore redeemed on 12 December 2011.

statement of comprehensive income

for the six months ended 30 September 2011

GROUP

	30 SEP 2011 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000	31 MAR 2011 12 MTHS - AUDITED \$000
Continuing Operations			
Revenue	15,898	21,711	47,339
Cost of sales	9,454	12,742	26,751
Gross Profit	6,444	8,969	20,588
Gain on sale of fixed assets	12	0	1
Other income	1	0	9
Operating expenditure			
Administration expenses	576	553	1,429
Communications	442	596	1,004
Consultancy services	15	424	260
Employee costs	3,382	4,939	8,969
Marketing expenses	41	165	263
Occupancy costs	437	317	739
Other costs	214	141	545
Travel and accommodation	123	98	234
	5,230	7,233	13,443
Earnings before interest, tax, depreciation and amortisation	1,227	1,736	7,155
Depreciation and amortisation	(1,677)	(1,950)	(3,774)
Interest income	-	1	-
Finance costs	(1,973)	(1,946)	(4,120)
	(3,650)	(3,895)	(7,894)
Profit / (loss) before tax	(2,423)	(2,159)	(739)
Tax benefit / (expense)	-	190	846
Profit / (loss) for the period from continuing operations of owners	(2,423)	(1,969)	107
Foreign currency translation differences for foreign operations	(6)	(14)	(22)
Total comprehensive income of owners	(2,429)	(1,983)	85
Earning per share from continuing operations attributable to the equity holders of the company during the year.			
Basic earnings/(loss) per share - cents	(2.01)	(0.23)	0.01
Diluted earnings/(loss) per share - cents	(1.90)	(0.19)	0.01

statement of changes in equity

for the six months ended 30 September 2011

	GROUP			
	SHARE CAPITAL \$000	FOREIGN CURRENCY TRANSLATION RESERVE \$000	RETAINED DEFICITS \$000	TOTAL EQUITY \$000
Balance at 31 March 2010	19,440	-	(10,081)	9,359
Total comprehensive income of owners	-		(1,969)	(1,969)
Exchange adjustment	-	(14)	-	(14)
Shares issued	2,261	-	-	2,261
Total changes in equity	2,261	(14)	(1,969)	278
Balance at 30 September 2010	21,701	(14)	(12,050)	9,637
Total comprehensive income of owners	-	-	2,076	2,076
Exchange adjustment	-	(8)	-	(8)
Convertible notes issued - equity component	50	-	-	50
Share options recognised at fair value	259	-	-	259
Shares issued	5,421	-	-	5,421
Total changes in equity	5,730	(8)	2,076	7,798
Balance at 31 March 2011	27,431	(22)	(9,974)	17,435
Total comprehensive income of owners	-	-	(2,423)	(2,423)
Exchange adjustment	-	(6)	-	(6)
Share issue costs	(39)	-	-	(39)
Total changes in equity	(39)	(6)	(2,423)	(2,468)
Balance at 30 September 2011	27,392	(28)	(12,397)	14,967

statement of financial position

as at 30 September 2011

	GROUP		
NOTE	30 SEP 2011 6 MTHS - UNAUDITED \$'000	30 SEP 2010 6 MTHS - UNAUDITED \$'000	31 MAR 2011 12 MTHS - AUDITED \$'000
Current assets			
Cash and cash equivalents	351	434	2,331
Trade and other receivables	12,261	10,830	11,129
Inventories	4,314	4,107	3,605
Total current assets	16,926	15,371	17,065
Non-current assets			
Property, plant and equipment	2,316	3,719	2,584
Computer software and development	7,369	9,366	8,469
Goodwill	5,350	5,350	5,350
Finance leases - gross receivables	6	11,663	5,209
Deferred tax	961	249	961
Total non-current assets	27,659	23,893	29,616
Total assets	44,585	39,264	46,681
Current liabilities			
Bank overdraft	-	76	-
Trade payables and accruals	5,239	7,891	6,117
Provisions	7	50	2,353
Income tax payable	53	33	53
Borrowings			
Group A - Corporate	4,275	4,389	4,846
Group B - Rental Book	7,142	8,563	5,860
Total current liabilities	16,759	23,305	18,664
Non-current liabilities			
Borrowings			
Group A - Corporate	1,882	1,949	1,794
Group B - Rental Book	10,977	4,373	8,788
Total non-current liabilities	12,859	6,322	10,582
Total liabilities	29,618	29,627	29,246
Net assets	14,967	9,637	17,435
Equity			
Share capital	27,392	21,701	27,431
Foreign currency translation reserve	(28)	(14)	(22)
Retained deficits	(12,397)	(12,050)	(9,974)
Total equity	14,967	9,637	17,435

statement of cash flows

for the six months ended 30 September 2011

GROUP

	30 SEP 2011 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000	31 MAR 2011 12 MTHS - AUDITED \$000
Cash flows from operating activities			
Receipts from customers	12,737	13,116	33,592
Interest received	1	1	10
Payments to suppliers	(16,146)	(19,138)	(41,974)
Interest paid	(1,317)	(1,290)	(3,534)
GST received/(paid)	226	(172)	146
Net cash inflow/(outflow) from operating activities	(4,499)	(7,482)	(11,760)
Cash flows from investing activities			
Proceeds from disposal of assets	12	-	1
Purchase of property, plant & equipment	(70)	(68)	(19)
Development of computer software	(240)	(471)	(1,499)
Net cash inflow/(outflow) from investing activities	(298)	(539)	(1,517)
Cash flows from financing activities			
Proceeds from borrowings	3,199	5,721	13,072
Repayment of borrowings	(343)	(503)	(6,084)
Shares issued	-	2,370	7,963
Share issue costs	(39)	(109)	(243)
Net cash inflow/(outflow) from financing activities	2,817	7,479	14,708
Net increase/(decrease) in cash equivalents	(1,980)	(542)	1,431
Add opening cash equivalents	2,331	900	900
Closing cash equivalents	351	358	2,331
Reconciliation of closing cash equivalents to the statement of financial position:			
Cash and cash equivalents	351	434	2,331
Bank overdraft	-	(76)	-
Closing cash equivalents	351	358	2,331

notes to the financial statements

for the six months ended 30 September 2011

1 General Information

SmartPay Holdings Limited (the “Parent”) is a New Zealand company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (“NZX”). The Parent is an issuer in terms of the Financial Reporting Act 1993. The addresses of its registered office and principal place of business are disclosed in the directory to the interim report.

The condensed consolidated interim financial statements of SmartPay Holdings Limited comprise the Parent and its subsidiaries (together referred to as the “Group”). The interim report is unaudited, and does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as comprehensive an understanding of the financial performance, financial position, and financing and investing activities as the full financial report. The interim report should be read in conjunction with the financial statements and related notes included in the company’s annual report for the year ended 31 March 2011.

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

2 Basis of Preparation

a. Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with New Zealand equivalents to International Accounting Standard (“NZ IAS”) No.34 “Interim Financial Reporting” issued by the New Zealand Institute of Chartered Accountants.

The condensed consolidated interim financial statements were approved by the Board of Directors on 20 December 2011.

b. Estimates

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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 March 2011.

c. Functional and Presentation Currency

The condensed consolidated interim financial statements for the six months ended 30 September 2011 are expressed in New Zealand dollars (\$), which is the Parent's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

3 Debt and Equity Securities

On the 28th April 2011 there was an issue of 650,000 convertible notes at \$1.00 each for a total consideration of \$650,000. Each convertible note represents a debt obligation of the Parent and is convertible at the option of the holder into ordinary shares of the Parent at \$0.015 per share which would result in 43,333,333 ordinary shares being issued. Interest is payable on the convertible notes at 10% per annum payable monthly in arrears. The convertible notes are redeemable by SmartPay on 15th February 2013.

On 13th May 2011 35,000,000 March 2014 Directors' Incentive Options and 35,000,000 March 2016 Directors' Incentive Options were issued. Each Directors' Incentive Option entitles the holder to subscribe for one ordinary share in the Parent on or before 31 March 2014 or 31 March 2016. All options were issued for Nil cash consideration. Ordinary shares allotted to option holders on the exercise of the March 2014 Directors' Incentive Options shall be issued at \$0.04 each and the March 2016 Directors' Options shall be issued at \$0.05 each. The expiry date of the options is 31 March 2014 and 31 March 2016 respectively.

On the 23rd May 2011 the Parent completed the 1 for 10 consolidation of its ordinary shares. Following the share consolidation SmartPay had 120,371,407 shares on issue. The consolidation also affected the Directors' Incentive Options as such that the number of shares over which the options can be exercised shall be divided by 10 and the exercise price of each option will be multiplied by 10. For the convertible notes, the conversion price was increased to 15 cents as a result of the consolidation.

On 3rd August 2011 20,000,000 March 2016 options were issued. Each option entitles the holder to subscribe for one tenth of an ordinary share in the Parent on 31 March 2016. All options were issued for Nil cash consideration. Ordinary shares allotted to option holders on the exercise of the March 2016 options shall be issued at \$0.40 each. The expiry date of the options is 31 March 2016.

On 25 August 2011 SmartPay Holdings Limited entered into a \$3,000,000 bulk funding facility with Saffill Securities Limited. The interest rate on the facility is 15% and it terminates on 25 August 2014.

On 19 September 2011, SmartPay Investments Limited closed its Redeemable Preference Share offer. On 6th December 2011 SmartPay Investments Limited wrote to its shareholders to advise of its intention to redeem the preference shares and on 12 December 2011 the preference shares were redeemed.

4 Operating Cash Flows Reconciliation

	GROUP	
	30 SEP 2011 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000
Profit/(loss) for the period	(2,423)	(1,969)
Add/(deduct) non-cash items:		
Depreciation & amortisation	1,674	1,950
Deferred tax	-	(190)
Add/(deduct) changes in working capital items:		
Trade and other receivables	(9,443)	(6,756)
Inventories	(712)	(1,987)
Payables and accruals	6,405	1,470
Net cash inflow/(outflow) from operating activities	(4,499)	(7,482)

5 Segment Information

Management has determined the operating segments of the business based on the information that is used for control and decision making purposes. A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments, whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

The Group's business provides technology solutions through various product lines into the same markets, to the same customers, with all product lines being reported as a single business. There is no discrete management information by any segmentation of the business except some geographical reporting primarily for internal control purposes between New Zealand and Australia.

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

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

Geographical Segments

	NEW ZEALAND		AUSTRALIA		TOTAL	
	30 SEP 2011 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000	30 SEP 2011 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000	30 SEP 2011 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000
Sales - external	14,228	21,181	1,670	530	15,898	21,711
Sales - inter segment	164	166	-	-	164	166
Operating earnings (EBITDA)	137	2,261	1,090	(525)	1,227	1,736
Interest and related costs	1,973	1,946	-	-	1,973	1,946
Profit / loss before tax	(2,511)	(1,620)	88	(539)	(2,423)	(2,159)
Computer software and development asset	7,369	9,366	-	-	7,369	9,366
Total assets	38,883	36,812	5,702	2,452	44,585	39,264
Total liabilities	(24,191)	(26,708)	(5,427)	(2,919)	(29,618)	(29,627)
Capital expenditure	310	539	-	-	310	539
Depreciation and amortisation expense	1,675	1,936	2	14	1,677	1,950

6 Finance Leases

Finance Lease Receivable

30 September 2011	Current	1-5 Years	Total
Finance leases - gross receivable	9,641	13,050	22,691
less unearned finance income	(1,584)	(1,329)	(2,913)
	8,057	11,721	19,778
less provision for impairment of finance leases	(158)	(58)	(216)
Total finance lease receivables	7,899	11,663	19,562
30 September 2010	Current	1-5 Years	Total
Finance leases - gross receivable	9,660	6,340	16,000
less unearned finance income	(1,724)	(1,131)	(2,855)
	7,936	5,209	13,145
less provision for impairment of finance leases	(229)	-	(229)
Total finance lease receivables	7,707	5,209	12,916
31 March 2011	Current	1-5 Years	Total
Finance leases - gross receivable	7,618	13,782	21,400
less unearned finance income	(1,586)	(1,495)	(3,081)
	6,032	12,287	18,319
less provision for impairment of finance leases	(174)	(35)	(209)
Total finance lease receivables	5,858	12,252	18,110

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

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

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

7 Provisions

A provision of \$2,224,000 was created for the swap out costs on terminal equipment that required replacement and became the Group's responsibility at the time of the acquisition of the Australian subsidiaries. The provision had a carrying value at 31 March 2011 of \$1,574,000, and at 30 September 2010 of \$2,088,000, and an agreement was made in July 2011 for settlement of the obligation to the value of \$328,000. The remainder of the provision has now been released and the carrying value is \$Nil.

A provision of \$1,575,000 was created in respect of the liabilities for the swap out of New Zealand terminal equipment at the customer site for all customers acquired at the date of acquisition. At 31 March 2011 it had a carrying value of \$164,000, and at 30 September 2010 of \$314,000, which has now been released, leaving the provision with a carrying value of \$Nil.

A provision for warranty cost in respect of faulty equipment supplied was made in 2010. It is anticipated that the warranty costs will largely be covered by manufacturers warranty.

8 Commitments

a. Operating Lease Commitments

	GROUP		
	30 SEP 2011 6 MTHS - UNAUDITED \$'000	30 SEP 2010 6 MTHS - UNAUDITED \$'000	31 MAR 2011 12 MTHS - AUDITED \$'000
Within one year	515	447	524
After one year but not more than five years	1,756	1,905	2,013
After more than five years	-	-	-
Total operating lease commitments	2,271	2,352	2,537

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

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

b. Guarantees

The Group has provided bank guarantees in favour of Telecom and Vodafone to the value of \$300,000 each (30 September 2010: \$300,000 each, 31 March 2011: \$300,000 each).

9 Contingent Liabilities

Contingent liabilities at the end of the period were \$Nil (30 September 2010: \$Nil, 31 March 2011: \$Nil).

10 Related Parties

Parent and ultimate controlling party

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

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

Claymore Law provided legal services to the Group on normal commercial terms amounting to \$191,000 (30 September 2010: \$211,000, 31 March 2011: \$351,000). Greg Barclay is a principal of Claymore Law Partnership and director and shareholder of SmartPay Holdings Limited. The balance outstanding at 30 September 2011 was \$170,000 (30 September 2010: \$135,000, 31 March 2011: \$78,000). He is also a director and principal of Ngatapa Trust, and provided consulting services in relation to his directorship on normal commercial terms amounting to \$19,000 (30 September 2010: \$19,000, 31 March 2011: \$38,000). In addition he received 20,000,000 options (30 September 2010: 0, 31 March 2011: 0) as part of the directors' incentive scheme.

Ian Bailey is a director and shareholder of Riverhorse Holdings Limited and the managing director and shareholder of SmartPay Holdings Limited. A subsidiary of the Group entered into a loan agreement with Riverhorse Holdings Limited. The balance at 30 September 2011 was \$28,000 (30 September 2010: \$28,000, 31 March 2011: \$28,000) and the interest expensed during the half year ended 30 September 2011 was \$3,000 (30 September 2010: \$3,000, 31 March 2011: \$5,000).

Ian Bailey provided consulting services to the Group on normal commercial terms amounting to \$153,000 (30 September 2010: \$153,000, 31 March 2011: \$305,000). The company entered into a consulting services agreement with Ian Bailey comprising \$305,000 per annum cash component, and a \$90,000 bonus. In addition he received 20,000,000 options (30 September 2010: 0, 31 March 2011: 0) under the terms of the consulting agreement with him.

Murray Henshall is a director and shareholder of Galileo Investments Trustee Limited ("Galileo") and is a shareholder of SmartPay Holdings Limited. A subsidiary of the Group entered

into a loan agreement with Galileo which at 30 September 2011 had a balance of \$535,000 (30 September 2010: \$608,000, 31 March 2011: \$535,000). During the half year, interest of \$41,000 (30 September 2010: \$35,000, 31 March 2011: \$73,000) was expensed.

Wayne Johnson is a director and shareholder of SmartPay Holdings Limited and is a director and shareholder of Noblemen Ventures Limited. He has provided consulting services to the Group on normal commercial terms amounting to \$75,000 (30 September 2010: \$Nil, 31 March 2011: \$70,000). He is also a director and shareholder of Baroda Hill Investments Limited, and provided consulting services in relation to his chairmanship on normal commercial terms amounting to \$30,000 (30 September 2010: \$19,000, 31 March 2011: \$45,000). In addition he received 30,000,000 options (30 September 2010: 0, 31 March 2011: 0) as part of the directors' incentive scheme.

John Nimmo is a shareholder and director of SmartPay Holdings Limited and a director and shareholder of Nimrod Group Limited. During the year he provided consulting services to the Group in relation to his directorship on normal commercial terms amounting to \$19,000 (30 September 2010: \$Nil, 31 March 2011: \$11,000). In addition he received 20,000,000 options (30 September 2010: 0, 31 March 2011: 0) as part of the directors' incentive scheme. (refer also note 3).

Linc Burgess is the General Manager - Sales of the Group, and is a director and shareholder of Manaia Management Limited which has provided consulting services to the Group on normal commercial terms amounting to \$90,000 (30 September 2010: \$80,000, 31 March 2011: \$170,000).

11 Subsequent Events

In October 2011 SmartPay was alerted to a failure of product supplied to a large Australian customer. The customer and SmartPay are co-operating to resolve the matter. Our manufacturer/supplier has replaced all faulty equipment at no cost. We have made a formal insurance claim for associated costs of providing continued excellent service to our customer. Insurers are reviewing the claim.

shareholder information

as at 28 November 2011

Twenty Largest Registered Holders

HOLDER NAME	SHARES HELD	%
Walker & Hall Fine Gifts Limited	10,093,345	8.39
Kim Crawford + Three H Limited + Frederika Elfriede Crawford (KCW A/C)	7,720,637	6.41
Hubbard Churcher Trust Management Limited (Under Statutory Management)	7,714,265	6.41
Galileo Investments Trustee Limited	7,560,000	6.28
River Horse Trustee Limited	7,275,963	6.04
Chapter 52 Trustee Limited	5,996,002	4.98
HSBC Nominees (New Zealand) Limited - NZCSD (HKBN90)	5,012,795	4.16
Gregory Kevin Molloy + Claymore Trustees Limited (Cicero A/C)	4,891,529	4.06
Walter Mick George Yovich	4,622,015	3.84
Omega Investments Limited	3,555,788	2.95
National Communications Corporation Ltd	3,040,932	2.53
Anthony James Thorpe + Marilyn Ruth Thorpe + David Alistair Thorpe (AJ & Mr Thorpe Family A/C)	2,962,503	2.46
Dave Wetherell + Trish Wetherell + Pravir Tesiram (Jewell Family A/C)	2,893,768	2.40
Patrick Mccammon + North Harbour Trustee Company Ltd	2,295,684	1.91
Murray Henshall + Victoria Jane Henshall + Cyril Warren Mckenzie (Whakarua A/C)	2,084,106	1.73
Ross Purdy	1,610,682	1.34
Manaia Management Limited	1,398,303	1.16
Terence Roland Harrison	1,290,000	1.07
David Alistair Thorpe	1,250,000	1.04
Gregor John Barclay + Maria Anne Mcelwee (Abergeldie A/C)	1,220,636	1.01
Top 20 Holders	84,488,953	70.19

smartpay directory

Registered Office

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

Telephone: +64 9 442 2700
Facsimile: +64 9 442 2722
Email: info@smartpayltd.com
Website: www.smartpayltd.com

Australian Office

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

Board

Wayne Johnson	Chairman & Independent Director
Ian Bailey	Managing Director
Greg Barclay	Director
John Nimmo	Independent Director

Management

Linc Burgess	General Manager, Sales
Carey Davis	Manager MIPS Financial Services
Andrew Donaldson	Chief Executive Officer
Andrew MacIntyre	Development Manager, Software Applications
Lauren Midgley	Operations Manager
Pat O'Brien	General Manager, SmartPay Australia

Auditors

Hayes Knight Audit
1 Broadway, Newmarket, Auckland

Share Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
Telephone: +64 9 488 8700
Email: enquires@computershare.co.nz

Solicitors

Claymore Partners Limited
Level 2, 63 Fort Street, Auckland

smartpay

www.smartpayltd.com