



smartpay limited interim report
for the six months to 30 September

2010

smartpay



welcome

to SmartPay's interim report for the six months to 30 September 2010.

We have a hard-won and deserved reputation for products and services that add value.

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about smartpay

SmartPay is a listed company on the New Zealand stock exchange (nzx:spy) and is one of New Zealand's leading providers of integrated merchant services.

SmartPay is a one-stop-shop where merchants can find products and services to enhance their business offerings, attract more customers, reduce telecommunication costs and increase revenue.

our business

SmartPay is New Zealand's number one provider of technology services for merchants and retailers.

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 30,000 customers.

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 with recurring and repeatable business streams – using broadband as a delivery mechanism.

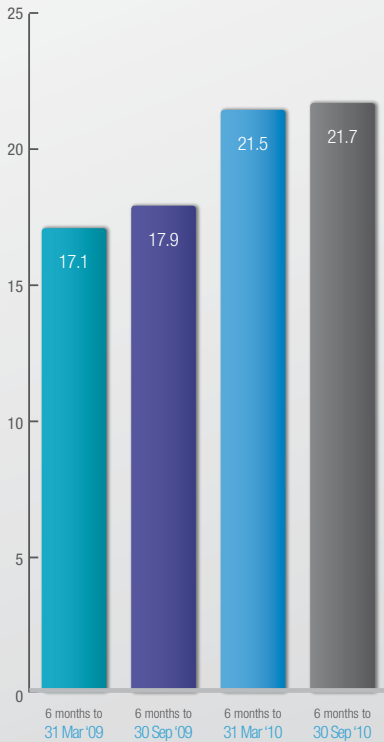


business performance

for six months to 30 September 2010

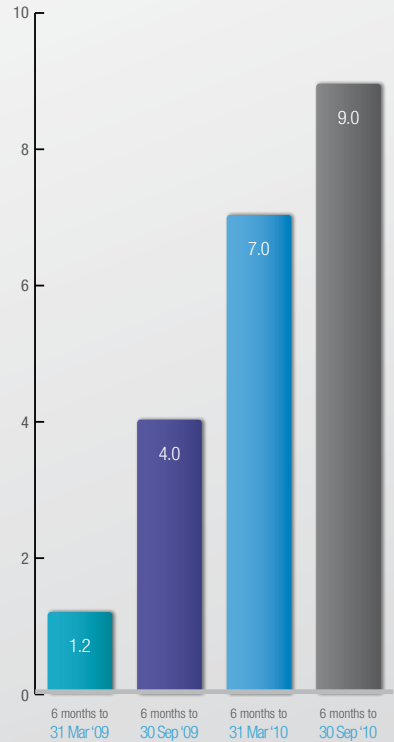
Revenue

\$ MILLIONS



Gross Profit

\$ MILLIONS



chairman's report



Following last year's game-changing acquisition of the payments division of ProvencoCadmus, the entire SmartPay team has been hard at work.

As we have reported previously, the purchase quadrupled the size of our business. Since then the rate of change has been unrelenting, as we move quickly to optimise the business and ensure appropriate financing is in place in this difficult market, and capitalise on the many opportunities before us.

The past 12 months have been characterised by scale and momentum. SmartPay is now recognised as a leader in its chosen field of integrated merchant services. We have a business with a large number of customers, boasting some of the biggest and best-known names in the New Zealand retail sector.

The changes to banking rules governing the processing and security of electronic transactions both here and in Australia represent a significant opportunity for SmartPay to upgrade its existing customer base as well as win new customers. Rest assured the team is doing all it can to secure as much of this business as it possibly can.

Financial performance

In the six months to 30 September 2010, we continued to build our reputation for growing margins and operational profits. Revenue and gross profit improved for the fourth half in a row and earnings before interest, tax, depreciation and amortisation (EBITDA) have been in the black for the past 18 months.

“The company has a bright future.”

While SmartPay is not yet at the stage of generating net profits due to high interest rates and depreciation, the business has demonstrated momentum in its financial performance. Revenue for the period was \$21.7 million, 21% better than the prior comparable period. Gross profit was \$9.0 million a 125% improvement on the year before. EBITDA was \$1.7 million, compared to \$1.5 million in the first half of 2009. Net loss for the period was -\$2.0 million, compared to a profit of \$0.4 million for the six months to September 2009, and reflects costs associated with the reorganisation of the business, and high interest costs relating to our funding arrangements.



The company has issued EBITDA guidance for the 12 months to 31 March 2011, in the range of \$7.0 million to \$7.5 million. Based on our half year performance together with confirmed and contracted forward orders for delivery prior to the end of March, we are well on track to achieve this goal.

Interest costs and capital structure

Our most pressing task is to reduce the interest burden on the company by securing long term funding from tier one lenders such as major trading banks. Once achieved, SmartPay will reduce its cost of funds and dramatically improve profitability. Kiwibank has recently become one of the bulk funders of our rental book, and we are in the early stages of discussions with other banks to find a sustainable source of corporate funding.

During the year we have taken a number of steps to change our capital structure, including launching a shareholder purchase plan, and undertaking private placements. These actions were necessary to provide funds for working capital, and meet the needs of our growing company.

Australia

While SmartPay is a trans-Tasman business, our primary focus since listing, has been the New Zealand market. Australia, being much larger than New Zealand, represents a much greater long term opportunity, and we will be investing more resources into the Australian market in the near future. Many of our New Zealand corporate customers are Australasian companies and we will seek to leverage our existing relationships with these entities as we expand our Australian business.

We are also investigating a possible dual listing on the Australian Stock Exchange, to facilitate doing business in that market and introduce SmartPay to a much bigger pool of shareholders and financiers.

Board changes

The move to Australia will require a different mix of skills and experience. Our founding chairman, John Seton has chosen to step down as chairman, and pursue his other business interests. John's contribution to SmartPay has been immense. He leaves a company firmly established as a leader in its field with the promise of bottom line profits on the horizon. We thank John for his dedication and leadership and wish him well.

Summary

The board and management believe the company has a bright future, with considerable upside and value in the company still to be recognised. We are taking the steps necessary to put in place the long term funding lines the business needs in order to better manage interest costs and improve the bottom line. The achievements of the past six months would simply not have been possible without the commendable effort of the entire team. They have, time and again gone above and beyond the call of duty. We are making strong progress, and I look forward to sharing our achievements with you again in 2011.

A handwritten signature in black ink, appearing to read 'Wayne Johnson', written in a cursive style.

Wayne Johnson
Chairman



managing director's report

Consolidation and growth are the key themes of the past six months. Much effort has gone into ensuring that SmartPay has the right strategy, structure and financial resources to deliver on the potential of the company.

In the past two years we have transformed our company, and continued to do so in the six months under review. We are now a much bigger organisation, offering a broader range of services to a bigger base of customers. Our sales focus is on the provision of an increasing number of added value services to our customers, developing sustainable and recurring revenue streams. We continue to evaluate our product offering, ensuring we have the right mix of goods and services to support our business strategy.

We have expanded the range of terminals we market, moved away from manufacturing and launched an e-payment solution so our customers can accept payments online.

Our sales team has been hard at work winning contracts – for software and hardware supply - with some of New Zealand's best known retailers ahead of the adoption of new banking standards and our proprietary software for the taxi industry has found favour on both sides of the Tasman.

The foundation has been laid for solid and improving financial performance, with earnings guidance achieved for the year to March 2010, and a target range of \$7.0 million to \$7.5 million set for this current financial year. Despite half year earnings before interest, tax, depreciation and amortisation (EBITDA) being \$1.7 million, taking account of the forward orders already

contracted we are well on track to achieve our 12 month EBITDA goal. It is a bold target, but well within the capabilities of the business and its motivated employees.

Financial performance

SmartPay has significantly improved its financial performance, and is generating strong revenues and good margins. Our recent move to an outsourced manufacturing model will allow us to devote more to research and development, focusing on software to craft a unique range of services. This change in focus will facilitate better revenue and stronger margins.

“We expect to have a much bigger presence in Australia in coming years.”

For the six months to 30 September SmartPay again improved both revenue and gross profit, and we are pleased with our financial performance and the progress made. Strong growth in EBITDA reflects our expanded range of products and services and our growing market share, particularly among corporate customers.

Our financial performance between the two half year periods is not directly comparable. In August 2009, we purchased the payments division of Provenco Cadmus, and with it a substantial customer base. Consequently, 2009's half year includes just six weeks trading from Provenco Cadmus, compared to a full six month contribution in 2010.

Achievements

SmartPay has been hard at work to improve and streamline the business. In the first six months of the year alongside improved operating profits and increased market share we have:

- Launched Chinese-manufactured PAX EFTPOS terminals to the New Zealand market
- Moved to an outsourced manufacturing model, centred on PAX hardware and local supplier GPC
- Developed an internet payments gateway service
- Won \$11 million worth of contracts with high profile nationwide retail chains including, Postie Plus, Paper Plus, Restaurant Brands, Noel Leeming and Foodstuffs Auckland.
- Improved our capital structure by taking a number of steps including a \$4.3 million private placement of shares, as well as repaying debt. We continue to seek out more cost effective sources of finance.

We continue to gain momentum and build scale, with a database of approximately 30,000 customers that generates strong and ongoing cashflows. To finance the growing demands of our rental book we have completed an agreement with Kiwibank and also developed our own bulk funding facility, SmartPay Subscriptions Limited specifically for high net worth investors with a minimum of \$500,000 to invest.

Looking ahead

Accessing more cost effective forms of finance will enhance our long term profitability. Currently we are paying a premium over main bank lending rates. The board and management team are highly focused on taking the steps necessary to re-finance our corporate debt at lower rates. This is a priority as reduced interest costs will deliver improved shareholder value.

Both the New Zealand and Australian markets are on the brink of introducing new payment card industry standards, requiring merchants to upgrade their EFTPOS units. This development represents a strong opportunity for SmartPay not only to re-sign its existing customers, but also to form relationships with completely new customers. In New Zealand approximately 45,000 units have to be upgraded before 30 June 2011, and in Australia, approximately 600,000 terminals will be replaced



over the next three years. Naturally, we are putting a lot of emphasis and focus on capturing as much market share as we possibly can.

With an Australian market share of just three percent, there is lots of scope to grow our presence across the Tasman. Our software is being certified by Australian banks and switch providers, which will give SmartPay access to national and regional banks. With these pre-qualifiers achieved, our sales team will be able to market many of the products that have been successful in New Zealand.

We also recently announced we had signed a heads of agreement with Generate Group to provide EFTPOS terminals into Australian clubs and the hospitality sector throughout Australia.

Demonstrating an increasing focus on the Australian market, we announced our intention to list on the ASX. Our objective is to have a much bigger presence in Australia. The listing will facilitate doing business, and expose the company to a new pool of potential investors and lenders. I will be focused on preparing the company for expansion in Australia. Entering this new and much bigger market will undoubtedly require different skills across our team. We will assess the needs of our business and make the changes necessary to support growth in Australia in due course.

“Strong growth in EBITDA
reflects our expanded range
of products and services.”

Summary

Our team continues to work with incredible drive and passion. They - like me - believe in the potential of our business and in the SmartPay story. It is an exciting time for the company as we set strong foundations to create a sustainable and long term business, capitalise on our potential and build value for our shareholders. I thank all staff, stakeholders and shareholders for the continued support.

Ian Bailey
Managing Director



directors' profiles

1. Wayne Johnson 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 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.

4. John Seton Independent Director

Resigned from board in December 2010

John Seton is an Auckland based solicitor with extensive experience in commercial law and stock exchange listed companies. He is a director and former President of Olympus Pacific Minerals Inc (TSX/ASX:OYM), a director of Manhattan Corporation Limited (ASX:MHC), a former director and Chairman of Summit Resources Limited and has held directorships in several companies listed on the Australian and New Zealand Stock Exchanges. Mr Seton is also the former Chairman of the Vietnam/New Zealand Business Council and holds a number of private company directorships.



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 Financial Officer

Andrew joined SmartPay in September. He has extensive experience in both the UK and New Zealand markets with start-up companies, entrepreneurial technology companies, venture capitalists and listed companies. He is adept at knowing how to quickly scale up and build credibility for a technology company like SmartPay.

As CFO Andrew has wide-ranging responsibilities including business and financial strategy, regulatory and legal reporting and financial and management reporting. He will play a key role in helping SmartPay to realise its aggressive growth plans, particularly as the New Zealand and Australian markets move towards the adoption of new international payment card industry data security standards.



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 for 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

How does SmartPay make its money?

Our strategy is to provide payments solutions to our retail customers. We sell both EFTPOS related hardware and software on a subscription basis, where customers sign a contract for a fixed term – typically 36 to 60 months – paying a fixed monthly rental. We also provide a range of other value added services such as in-store advertising, Wi-Fi, on-line payments and mobile phone top-ups.

SmartPay's debt is growing – why?

Our debt reflects our growing business. We have two kinds of debt. The first is corporate debt, where we borrowed to purchase ProvencoCadmus and to provide working capital. The second relates to our rental book, where we factor receivables from customer contracts. This provides money “up front” to run the business which is repaid as customers make their monthly contracted payments. The debt relating to the financing of the rental book is exceeded by the value of customer contracts outstanding.

Does SmartPay have the ability to service its finance 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. As we have a large number of small value contracts,

the overall exposure and risk is relatively low. We also have over \$20m of committed facilities from our 3rd party finance providers, with further extensions already indicated to cover for anticipated future growth.

Why are interest costs so high?

Most of our current borrowings, both corporate and rental book, are from second tier lenders. This type of funding commands a higher interest rate than main bank funding. We intend to source lower-cost funds to meet the anticipated growth in our rental book, and our new relationship with Kiwibank is the first example of this as is the recent release of our own financing product called Smartpay Subscriptions Limited, targeted to high net worth individuals.

Why is SmartPay in the market so frequently for funding?

The purchase of the Provenco Cadmus payments business was accomplished using short term debt. We have been to the market to raise funds to replace this debt as it matures as well as to provide working capital for the growing business. The size of our rental book continues to grow rapidly in both New Zealand and Australia and this requires additional funding. We are working hard to make SmartPay more attractive to main bank lenders, who typically require a stronger balance sheet. Providing we undertake this strengthening we envisage access to a greater

pool of funds at lower interest rates in the future. Our latest placement has largely completed our need for funds.

When will SmartPay begin to make net profits?

Our EBITDA performance is beginning to have some consistency, with EBITDA being positive for three consecutive six month periods and a forecast \$7M - \$7.5M EBITDA for the year to March 2011. The next step is to secure more cost effective forms of finance which will reduce interest costs and add value to the bottom line. Once this milestone is achieved we would expect our "bottom line" performance to improve substantially.

What are SmartPay's plans for the Australian market?

Alongside our New Zealand business, we plan to put more of our focus and effort into the Australian market in future years. As a substantially bigger market, there is more opportunity for SmartPay to significantly expand its business and generate revenues, profits and shareholder value. As part of this process we have advised the market we intend to pursue a listing on the ASX. Smartpay already has a significant customer base in Australia and a growing business in that market. Many of our NZ corporate customers are also Australian owned

and/or have operations there giving us a further growth opportunity.

Why is SmartPay considering an ASX listing?

It would support our aspirations in the Australian market, providing a local presence as we seek to acquire new customers in that market. It will also provide greater access to capital to help fund our growth in Australia. The company would be exposed to a larger pool of investors and more sources of finance.

How is SmartPay's financial performance tracking?

EBITDA guidance for the year to 31 March 2011 is between \$7.0 and \$7.5 million, and we are confident of achieving this goal. Taking EBITDA at the half year, together with forward orders already contracted for delivery prior to 31 March, we have surpassed 60% of our full year target, with six months' trading still to go.

Would the company consider a share consolidation?

The directors are contemplating a share consolidation. If it goes ahead, it will be within the next 12 months and would most likely be a 10 for 1 consolidation.

income statement

for the six months ended 30 September 2010

	GROUP		
	30 SEP 2010 6 MTHS - UNAUDITED \$'000	30 SEP 2009 6 MTHS - UNAUDITED \$'000	31 MAR 2010 12 MTHS - AUDITED \$'000
Continuing Operations			
Revenue	21,711	17,933	39,388
Cost of Sales	12,742	13,900	28,319
Gross Profit	8,969	4,033	11,069
Gain on sale of fixed assets	-	-	11
Other income	-	-	2
Operating Expenditure			
Administration Expenses	1,689	811	1,858
Audit Fees	51	21	130
Directors Fees	72	69	109
Employee Costs	4,939	1,432	6,310
Marketing Expenses	165	86	214
Occupancy Costs	317	90	427
	7,233	2,509	9,048
Earnings Before Interest, Tax, Depreciation and Amortisation	1,736	1,524	2,034
Depreciation and Amortisation	(1,950)	(567)	(2,279)
Interest Income	1	3	6
Finance Costs	(1,946)	(487)	(2,409)
	(3,895)	(1,051)	(4,682)
Profit / (Loss) Before Tax	(2,159)	473	(2,648)
Tax Benefit / (Expense)	190	(120)	2
Profit / (loss) for the period from continuing operations of owners	(1,969)	353	(2,646)
Foreign Currency Translation Differences For Foreign Operations	(14)	-	-
Total Comprehensive Income Of Owners	(1,983)	353	(2,646)
Earning per share from continuing operations attributable to the equity holders of the company during the year.			
Basic earnings/(loss) per share - cents	(0.23)	0.05	(0.36)
Diluted earnings/(loss) per share - cents	(0.19)	0.05	(0.35)

statement of changes in equity

for the six months ended 30 September 2010

	GROUP			TOTAL EQUITY \$000
	SHARE CAPITAL \$000	RETAINED DEFICITS \$000	FOREIGN CURRENCY TRANSLATION RESERVE \$000	
	Balance at 31 March 2009 (restated)	14,179	(7,435)	
Total comprehensive income of owners	-	353	-	353
Contributions from owners recognised directly in equity	540	-	-	540
Total changes in equity	540	353	-	893
Balance at 30 September 2009	14,719	(7,082)	-	7,637
Total comprehensive income of owners	-	(2,999)	-	(2,999)
Share options recognised for value received	1,033	-	-	1,033
Contributions from owners recognised directly in equity	3,688	-	-	3,688
Total changes in equity	4,721	(2,999)	-	1,722
Balance at 31 March 2010	19,440	(10,081)	-	9,359
Profit/(loss) for the period	-	(1,969)	-	(1,969)
Exchange adjustment	-	-	(14)	(14)
Total comprehensive income of owners	-	(1,969)	(14)	(1,983)
Contributions from owners recognised directly in equity	2,370	-	-	2,370
Costs of equity	(109)	-	-	(109)
Total changes in equity	2,261	(1,969)	(14)	278
Balance at 30 September 2010	21,701	(12,050)	(14)	9,637

Reconciliation of Group Opening Retained Earnings and Total Equity

TOTAL EQUITY
\$000

Impact of change in accounting policy for year ended March 2009	547
Balance 30 September 2009 as reported in 2009 interim report	7,090
Restated 30 September 2009	7,637

balance sheet

as at 30 September 2010

GROUP

	NOTE	30 SEP 2010 UNAUDITED \$'000	31 MAR 2010 AUDITED \$'000
Current Assets			
Cash and Cash Equivalents		434	914
Trade and Other Receivables		3,123	2,412
Finance Leases	6	7,707	5,247
Inventories		4,107	2,197
Total Current Assets		15,371	10,770
Non-Current Assets			
Property, Plant and Equipment		3,719	3,902
Computer Software and Development		9,366	9,164
Goodwill		5,350	5,350
Finance Leases	6	5,209	2,540
Deferred Tax		249	114
Total Non-Current Assets		23,893	21,070
Total Assets		39,264	31,840
Current Liabilities			
Bank Overdraft		76	14
Trade Payables and Accruals		7,924	5,478
Provisions		2,353	2,755
Borrowings		12,952	12,716
Total Current Liabilities		23,305	20,963
Non-Current Liabilities			
Borrowings		6,322	1,518
Total Non-Current Liabilities		6,322	1,518
Total Liabilities		29,627	22,481
Net Assets		9,637	9,359
Equity			
Share Capital		21,701	19,440
Retained Deficits		(12,050)	(10,081)
Foreign Currency Translation Reserve		(14)	-
Total Equity		9,637	9,359

statement of cash flows

for the six months ended 30 September 2010

GROUP

	30 SEP 2010 6 MTHS - UNAUDITED \$'000	30 SEP 2009 6 MTHS - UNAUDITED \$'000
Cash flows from operating activities		
Receipts from customers	13,116	14,518
Interest received	1	3
Payments to suppliers	(19,310)	(14,503)
Interest paid	(1,290)	(404)
Income taxes paid	-	(34)
Net cash inflow/(outflow) from operating activities	(7,482)	(420)
Cash flows from investing activities		
Purchase of property, plant & equipment	(68)	(372)
Development of computer software	(471)	(55)
Investment in subsidiaries	-	(6,030)
Net cash inflow/(outflow) from investing activities	(539)	(6,457)
Cash flows from financing activities		
Proceeds from borrowings	5,721	7,224
Repayment of borrowings	(503)	0
Shares issued	2,260	540
Net cash inflow/(outflow) from financing activities	7,479	7,764
Net increase/(decrease) in cash equivalents	(542)	887
Add opening cash equivalents	900	56
Closing cash equivalents	358	943
Reconciliation of closing cash equivalents to the balance sheet:		
Cash and cash equivalents	434	957
Bank overdraft	(76)	(14)
Closing cash equivalents	358	943

Net Tangible Assets Per Security as at 30 September 2010

GROUP

	30 SEP 2010 6 MTHS - UNAUDITED	30 SEP 2009 6 MTHS - UNAUDITED
Net Tangible Assets Per Security	3 cents per share	2 cents per share

notes to the financial statements

for the six months ended 30 September 2010

1. General Information

SmartPay 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 annual report.

The condensed consolidated financial statements of SmartPay Limited comprise the Parent and its subsidiaries (together referred to as the “Group”). The interim report 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 of the group as the full financial report. This 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 2010.

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

2. Basis of Preparation

The condensed consolidated 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 same accounting policies and methods of computation are followed in these condensed financial statements as compared with the financial statements in the Company’s Annual Report, ended 31 March 2010.

The financial statements for the six months ended 30 September 2010 are expressed in New Zealand dollars (\$).

3. Debt and Equity Securities

On 3 May 2010, 11,991,845 shares were issued to a private investor, they were issued for cash received to further improve SmartPay’s balance sheet with a view to providing a platform for future growth. These were issued at \$0.03 per security for a total issue price of \$400,000.

On 21 May 2010, SmartPay entered an agreement with Finance Now for a 2 year Bulk Funding Facility with a limit of \$5 Million. This facility is secured against the ongoing rental stream of SmartPay’s rental contracts.

On 23 June 2010, 26,082,252 shares were issued as part of the company's Share Purchase Plan. This allowed existing shareholders the opportunity to purchase securities at \$0.03 up to a maximum value of \$15,000 per shareholder. The plan realised \$870,000 in total.

On 9 September 2010, 55,000,000 shares were issued to private investors who provided funds for ongoing working capital. These were issued at \$0.02 per security for a total issue price of \$1,100,000.

4. Operating Cash Flows Reconciliation

	GROUP	
	30 SEP 2010 6 MTHS - UNAUDITED \$000	30 SEP 2009 6 MTHS - UNAUDITED \$000
Profit/(loss) for the period	(1,969)	353
Add/(deduct) non-cash items:		
Depreciation & amortisation	1,950	567
Deferred tax	(190)	120
Add/(deduct) changes in working capital items:		
Trade and other receivables	(6,756)	(3,431)
Inventories	(1,987)	(334)
Payables and accruals	1,470	2,305
Net cash inflow/(outflow) from operating activities	(7,482)	(420)

5. Segment Information

The Group has adopted NZ IFRS 8 Operating Segments with effect from 1 April 2009. 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 financing, 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.

Geographical Segments

	NEW ZEALAND		AUSTRALIA		TOTAL	
	30 SEP 2010 6 MTHS - UNAUDITED \$000	30 SEP 2009 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000	30 SEP 2009 6 MTHS - UNAUDITED \$000	30 SEP 2010 6 MTHS - UNAUDITED \$000	30 SEP 2009 6 MTHS - UNAUDITED \$000
Sales - external	21,181	17,294	530	639	21,711	17,933
Sales - inter segment	166	173	-	-	166	173
Operating earnings (EBITDA)	2,261	1,166	(525)	358	1,736	1,524
Interest income	1	3	-	-	1	3
Finance costs	1,946	487	-	-	1,946	487
Profit / loss before tax	(1,620)	126	(539)	347	(2,159)	473
Computer software and development asset	9,366	5,069	-	-	9,366	5,069
Total assets	36,812	21,198	2,452	3,660	39,264	24,858
Total liabilities	(26,708)	(12,984)	(2,919)	(4,784)	(29,627)	(17,768)
Capital expenditure	539	427	-	-	539	427
Depreciation and amortisation expense	1,936	557	14	10	1,950	567

6. Finance Leases

Leases as lessor

Finance leases relate to EFTPOS terminals, and bundled software, leased to the lessee as an integrated solution, with varying lease terms.

	GROUP	
	30 SEP 2010 6 MTHS - UNAUDITED \$000	31 MAR 2010 6 MTHS - AUDITED \$000
Current Receivables		
Finance leases - gross receivables	9,660	6,375
Unearned finance income	(1,724)	(1,128)
Less: Provision for impairment of finance leases receivables	(229)	-
	7,707	5,247
Non-Current Receivables		
Finance leases - gross receivables	6,340	3,104
Unearned finance income	(1,131)	(564)
	5,209	2,540

Gross receivables from finance leases

Less than one year	9,431	6,375
Between one and five years	6,340	3,104
More than five years	-	-
	15,771	9,479

Unearned future finance income on finance leases	(2,855)	(1,692)
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Net investment in finance leases	12,916	7,787
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The net investment in finance leases is as follows

Less than one year	7,707	5,247
Between one and five years	5,209	2,540
More than five years	-	-
	12,916	7,787

7. Commitments

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

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

8. Subsequent Events

On 4 October 2010, 2,008,634 shares were issued in consideration for employment services. On the same day, 160,000,000 shares were issued to private investors who provided funds for ongoing working capital. These securities were issued at \$0.02 per security and raised \$3,200,000.

Also on 4 October 2010, 23,081,160 options were issued in consideration for an extension of loan facilities. These options will be valued for the year ended 31 March 2011.

On 12 October 2010, an agreement was reached with Kiwibank for the provision of a 5 year Bulk Funding Facility, the first tranche of which has a value of \$4 Million. This facility is secured against the ongoing rental stream of SmartPay's rental contracts.

On 23 November 2010 SmartPay released its own Bulk Funding Finance Offer, via 100% owned subsidiary SmartPay Subscriptions Limited to provide funding lines for its rapidly growing rental book. The offer will be open to high net worth individuals with a minimum of \$500,000 to invest and will attract higher than bank interest rates.

On 14 December 2010 John Seton resigned as Chairman of the Board and Wayne Johnson was appointed Chairman. John Nimmo was also appointed as a director.

shareholder information

as at 29 November 2010

Twenty Largest Registered Holders

HOLDER NAME	SHARES HELD	%
Walker & Hall Fine Gifts Limited	100,933,450	9.27
Galileo Investments Trustee Limited	75,600,000	6.94
Southbury Group Limited	74,151,592	6.81
River Horse Trustee Limited	72,759,634	6.68
Frederika Elfriede Crawford	71,832,918	6.60
Chapter 52 Trustee Limited	59,960,016	5.51
Gregory Kevin Molloy + Claymore Trustees Limited	48,915,291	4.49
Walter Mick George Yovich	46,357,546	4.26
Omega Investments Limited	38,447,986	3.53
National Communications Corporation Ltd	31,059,321	2.85
Dave Wetherell + Trish Wetherell + Pravir Tesiram	28,937,677	2.66
Patrick Mccammon + North Harbour Trustee Company Ltd	22,956,840	2.11
Murray Henshall + Victoria Jane Henshall + Cyril Warren Mckenzie	20,841,062	1.91
Terence Roland Harrison + Grant Lindsay Curry	20,139,485	1.85
Anthony James Thorpe + Marilyn Ruth Thorpe + David Alistair Thorpe	17,125,033	1.57
Ross Purdy	16,106,820	1.48
Manaia Management Limited	13,983,027	1.28
Gregor John Barclay + Maria Anne Mcelwee	12,206,361	1.12
John Andrew Gowans Seton + Patrick James Mchugh	11,288,187	1.04
Craw Limited	10,739,886	0.99
Top 20 Holders	794,342,132	72.95

smartpay directory

Registered Office

SmartPay Cadmus 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@smartpay.co.nz

Website: www.smartpay.co.nz

Board

Wayne Johnson Chairman & Independent Director

Ian Bailey Managing Director

Greg Barclay Director

John Nimmo Independent Director
(appointed December 2010)

John Seton Independent Director
(resigned in December 2010)

Management

Linc Burgess Chief Executive Officer

Carey Davis Manager MIPS Financial Services

Andrew Donaldson Chief Financial Officer

Andrew MacIntyre Development Manager,
Software Applications

Lauren Midgley Operations Manager

Pat O'Brien General Manager, SmartPay Australia

Auditors

Hayes Knight Audit

470 Parnell Road, Parnell, 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 Law

Level 2, 63 Fort Street, Auckland

smartpay

www.smartpay.co.nz