PayGroup delivers strong financial performance in H1 FY21

Appendix 4D – Half Year Financial Review

- **Revenue of $6.8M in H1 FY21 (up 100% vs H1 FY20), driven by organic growth & acquisitions**
- **Material earnings improvement with EBITDA of $1.6M and NPAT of $444,000**
- **Creation of full service HCM module suite via acquisition of TalentOz**
- **Record new contract growth of $5.4M in H1 FY21 (98% of total FY20 new contract TCV)**
- **Continued operating activities cash flow generation; $2.1M operating activities cash inflow surplus in H1 FY21**
- **Closing cash balance of $5.3M, following successful $3.5M capital raising**
- **Acquisition of Payroll HQ expected to settle in mid-December 2020; immediately adds 100 new clients and leading AU-based management & sales team to drive Australian growth strategy**

Melbourne, 24 November 2020: Human Capital Management and payroll provider PayGroup Limited ("PayGroup", "the Group"; ASX: PYG), is pleased to report its half year financial results for the six months ended 30 September 2020 (H1 FY21).

Financial summary

Revenues for H1 FY21 were $6.8M, an increase of 100% on H1 FY20 ($3.4M). The Group's strong revenue performance has been driven by organic growth as well as the impact of acquisitions (Astute One acquired in November 2019 and TalentOz acquired in July 2020).

PayGroup also reports a material improvement in profitability in H1 FY21 with EBITDA of $1.6M (compared to H1 FY20 loss of $1.0M) and NPAT of $444,000 (compared to H1 FY20 loss of $1.4M), due to the benefits of strong revenue growth, continued cost efficiencies, and government wage subsidy programs in Australia (*JobKeeper*) and Asia as a result of the COVID-19 pandemic. This profit improvement was delivered despite strong ongoing investment in technology and staff throughout the period.

Operating cash inflow for H1 FY21 was $2.1M (up from $0.6M outflow in H1 FY20) and reflective of PayGroup's sustained operating cashflow generation that has occurred since Q3 FY20.

The Group's closing cash balance as at 30 September was $5.3M, following a successful $3.5M capital raise undertaken in September 2020. Funds raised are being used to accelerate PayGroup's expansion strategy and to enhance the roll-out of its full service HCM and payroll offering to a larger customer base, following the acquisition of TalentOz in July 2020.

The benefits of the Company's recent acquisitions have already led to new early stage customer opportunities, as demonstrated by the sale of the first full service HCM & payroll contract to Volvo Group Singapore in October 2020 and the strong momentum in new contract sales. PayGroup sold $5.4M in new contracts (in total contract value) in H1 FY21 compared to $2.8M in H1 FY20.

Segment performance

PayGroup's SwaS (payroll) segment processed 44,175 payslips as at month end for H1 FY21, a 13.5% increase on H1 FY20 (38,913 payslips). This segment accounted for approximately 50% of PayGroup's H1

FY21 revenue. Growth in PayGroup's SwaS (payroll) segment is expected to be further strengthened in H2 FY21 by the Payroll HQ acquisition, which is due to settle in mid-December 2020.

PayGroup's SaaS segment accounted for 45% of H1 FY21 Group revenue, with revenue contributions from the Astute One, TalentOz, and PayAsia businesses. By the end of H1 FY21, total SaaS Active Users was 0.40 million, up from 0.33 million at the end of H2 FY20, and includes the benefit of the TalentOz acquisition during H1 FY21. Astute One's volumes were affected in Q1 FY21 by initial COVID-19 related restrictions, but began to recover in Q2 FY21. This recovery has strengthened in Q3 FY21 as the Victorian economy reopens.

The Treasury Services segment continued to report excellent growth momentum in H1 FY21 with 11,204 transactions processed in H1 FY21, compared to 155 transaction in H1 FY20 (early after first launch). This segment accounted for 5% of PayGroup revenues in H1 FY21.

Outlook

PayGroup has a strong outlook in H2 FY21 as it completes the acquisition of Payroll HQ and capitalises on the strongly re-bounding Asian Pacific economies following the initial COVID-19 lock down challenges.

Mark Samlal, PayGroup's Managing Director said, *"We have now transitioned our business to become a full-service provider of Human Capital Management and payroll services. This is opening up a significant number of new customer opportunities.*

"I am very pleased with the financial performance of PayGroup this half as we have reported a profitable period, supported by a strong and growing base of contract revenues. We expect continued growth in contracted sales and earnings as we see the full contribution from our acquisitions and the benefits from our enlarged customer base and addressable markets".

-ENDS-

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This announcement was authorized by the Board of Directors of PayGroup Ltd.

About PayGroup

Headquartered in Melbourne, Australia, PayGroup is the holding company for PayAsia, TalentOz, and Astute One, a specialist provider of payroll and human capital management solutions.

PayAsia is addressing the needs of multinational companies of any size by delivering Software-with-a-Service (SwaS) HCM and payroll solutions and leveraging a Cloud (SaaS) based Human Capital Management platform TalentOz. Clients are typically Multi-National Companies within multiple countries across Asia Pacific and the Middle East.

Astute One is the leader in workforce management solutions for complex businesses especially for Workforce Management Companies in Australia and New Zealand.

PayGroup has now 229 employees located in 11 countries are servicing over 995 client entities representing more than 5 million payslips per annum.

More information on PayGroup can be found at www.paygrouplimited.com.

PAYGROUP LIMITED

ACN 620 435 038

INTERIM REPORT

30 SEPTEMBER 2020

Contents

ASX Appendix 4D

Half-year report announcement to the market

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

Reporting Periods

Financial half year ended ('current period')	Financial half year ended ('previous corresponding period')
30 September 2020	30 September 2019

Results for announcement to the market

Key information	Current period $	Previous corresponding Period $	Percentage change increase %	Amount increase $
Revenue from ordinary activities	$6,828,459	$3,410,040	100%	$3,418,419
Profit/(Loss) from ordinary activities after tax	$444,003	($1,445,283)	n/a	$1,889,286
Net profit/(loss) attributable to members of parent company	$444,003	($1,445,283)	n/a	$1,889,286

Dividends

No dividends were paid during the half year ended 30 September 2020 and 30 September 2019.

Net tangible assets

Net tangible asset backing per ordinary share	Current period Cents	31 March 2020 Cents	Previous corresponding period Cents
Net tangible asset backing per ordinary share	1.7	(1.9)	(1.1)

Audit review

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

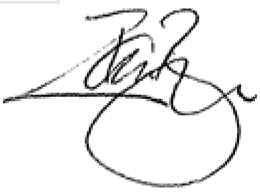
Attachments

Details of attachments (if any):

The Interim Report of PayGroup Limited for the half-year ended 30 September 2020 is attached.

Signed

On behalf of the directors



Ian Basser
Chairman
24 November 2020

Melbourne

Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as "the Group", "PYG", or "PayGroup") consisting of PayGroup Limited and its controlled entities at the end of, or during, the half-year ended 30 September 2020.

Directors

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

Ian Basser
Mark Samlal
David Fagan
Franck Neron-Bancel
Shane Gild (appointment date 2 November 2020)

Review of Operations

Principal Activities

PayGroup Limited headquartered in Melbourne, Australia is the parent entity of a group of companies providing specialised Software-with-a-Service (SwaS) payroll solutions and Cloud (Software-as-a-Service or SaaS) Human Capital management platforms.

The Group operates under a number of trading groups – PayAsia, AstuteOne, TalentOz, and PayAsia Management.

PayAsia delivers SwaS payroll solutions and leveraging a Cloud SaaS based Human Capital Management platform, HROnline, for reporting and critical workflows to both MNCs and SME markets, focusing on APAC and AMEA.

AstuteOne is a leading payroll SaaS solution provider especially to workforce management companies as well as provider of managed payroll services (MPS) to Australian and New Zealand companies.

With the successful asset acquisition of TalentOz Sdn Bhd and Forzia Tech Private Limited (TalentOz) effective 1 July 2020, the Group complimented its HROnline HCM solution with a complete SaaS solution offering 27 modules from hire to retire. TalentOz provides comprehensive cloud-based HCM software with Payroll modules for Malaysia and India customers. It has an innovative SaaS HCM, analytics and payroll product suite with leading end-user functionality, enabling businesses to unlock the full value of their workforce across all devices.

PayAsia Management is a workforce management solution provider of the Group operating out of India and mainly services large global and local corporations.

Financial performance

PayGroup reported a net profit after tax for the half-year ended 30 September 2020 of $444,003, against a net loss of $1,445,283 in the prior comparable period.

Statutory revenue reported for the half year was $6.8 million. PayAsia (inclusive of TalentOz) and PayAsia Management contributed $3.6 and AstuteOne contributed $3.2 million.

Reported statutory EBITDA showed an improvement of $2.6 million given EBITDA of $1.6 million for half year ended 30 September 2020 against EBITDA loss of $1 million for half year ended 30 September 2019.

Cash on hand as at 30 September 2020 was $10.8 million, of which $5.5 million related to restricted funds held on behalf of payroll clients.

Uplift of $2.3 million in intangible assets against the 31 March 2020 reported balance were mainly driven by $1.7 million recognised as the fair value of the intangible assets acquired from the purchase of the TalentOz and continued software productive development of the AstuteOne SaaS platform.

On 9 September 2020 the Group successfully completed $3.5 million capital raise via placement to institutional investors. Proceeds are planned to be utilized to fund growth and acquisition costs.

The statutory result includes one-off costs associated with the acquisition of TalentOz of $220K.

Directors' report
(continued)

Business Strategies, Prospects and Risks for the Future Financial Years

First half of FY21 has been an interesting and busy period for the Group. Despite Covid-19, the Group had unprecedented contract sales wins in Total Contract Value as well as completed the acquisition of TalentOz and completed the successful placement of $3.5M to fund growth.

Total Contract Value (TCV) of new sales contract signed up to 30 September 2020 was $5.4M. This is 106% of the total TCV signed in FY20. The increasing regulatory requirements on companies to get payroll and workforce management payroll accurate together with growing demand of HCM SaaS solution has contributed to the growth in sales wins despite Covid-19. The Group expects this strong sales momentum to continue for the rest of the financial year.

PayGroup now has 995 client entities as at 30 September 2020 (up from 875 as at 31 March 2020) and maintains its high customer retention rate at 95% during the financial year.

In July, the Group acquired the TalentOz business along with its HCM SaaS software solution creating a full comprehensive HCM platform with total of 27 modules covering hire to retire capabilities. Shortly post the TalentOz acquisition, the Group signed with Volvo Group Singapore its first notable full-service payroll and HCM win offering key Talentoz HCM modules.

The Group's Global Partner Program (GPP) contributed 7% to the total Group revenue for the half-year ended 30 September 2020. Continued strong growth is expected as the Group delivers cost effective payroll solution to its Global Partners. Treasury services now makes up 10% of the PayAsia's total revenue. In October, the Group announced the offering of accessing wages earned to staff and client employees in partnership with CircoPay in Singapore and Malaysia.

Technology platform development and Group strategy remains a key focus for the Group. The Group has commenced a study of its technology stacks to rationalise future technology strategies and development costs.

With the announcement of the acquisition of Payroll HQ Pty Ltd on 4 November 2020 subject to shareholder approval, the Group expects to strong sales pipeline contributed from this acquisition.

Impact of COVID-19 on the Group

For the half-year, Covid-19 has had some but minor impact to the Group notwithstanding greater impact globally. All our employees remain working remotely from home in line with regulatory requirements of each country in which we are present, with little disruption to the Group's operational performance. Whilst Covid-19 has presented headwinds this half-year, there has been no material client loss to the Group as a result of Covid-19.

Demand for specialised payroll services and Cloud HCM remains strong due to increasing regulatory requirements. We expect with the easing of Covid-19 restrictions operational tailwinds for growth should return in the near term.

Significant changes in the state of affairs

The Group successfully completed institutional placement of shares for $3.5 million in September and acquired the business of TalentOz effective 1 July 2020.

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

Directors' report
(continued)

Subsequent Events

Effective 2 November 2020, the Board of Directors' appointed Shane Gild as a Non-Executive Director. Shane brings to the Paygroup Board a highly complementary skillset with over 20 years of equity market experience, including corporate advisory, M&A strategy and investor relations experience.

On 3 November 2020, the Group executed a binding Share Purchase Agreement subject to shareholder approval to acquire 100% of the issued share capital of Payroll HQ Pty Ltd ("Payroll HQ"), a company based in Australia offering payroll solutions to Australian companies. Initial purchase consideration is expected to be circa $2.5 million payable through the issuing of 4,122,694 PYG shares. An additional provisional pay-out of $1.28 million is payable through issuing of the PYG shares on completion (held on trust), based on the target forecast performance for Payroll HQ year-end (30 June 2021) and will be adjusted with actual 30 June 2021 results. The acquisition will grow the group's payroll client base by 100 clients, contribute high value sales funnel pipeline and provide a very experienced executive leadership. The Group expects the acquisition to be completed in December 2020 subject to shareholder approval.

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

Auditor's independence declaration

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

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

On behalf of the directors

Ian Basser
Chairman
24 November 2020
Melbourne

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Auditor's Independence Declaration

To the Directors of PayGroup Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of PayGroup Limited for the half-year ended 30 September 2020. I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton Audit Pty Ltd
Chartered Accountants

E W Passaris
Partner – Audit & Assurance

Melbourne, 24 November 2020

Consolidated statement of profit or loss and Other Comprehensive Income

For the half year ended 30 September 2020

	Notes	Half year ended 30 September 2020	2019
Revenue	5	6,828,459	3,410,040
Other income	6	170,546	225,762
Expenses:			
Subcontractors		(585,245)	(567,541)
Hosting services		(235,580)	(23,916)
Employee benefits expense		(2,789,555)	(2,244,070)
Rent and occupancy		(63,913)	(108,803)
Consulting and professional fees		(1,050,175)	(1,103,338)
Allowance for credit losses		(45,667)	(23,630)
Travelling expenses		(5,517)	(117,598)
License fee		(116,482)	(180,232)
Other expenses		(543,169)	(316,438)
Profit/ (loss) before depreciation, amortisation, interest and income tax expense		**1,563,702**	**(1,049,764)**
Depreciation and amortisation expense		(1,099,650)	(328,263)
Profit/ (loss) before interest and income tax expense		**464,052**	**(1,378,027)**
Interest income		19,595	6,102
Interest expense		(72,149)	(65,229)
Net interest and financing costs		(52,554)	(59,127)
Profit/ (loss) before income tax expense		**411,498**	**(1,437,154)**
Income tax expense		32,505	(8,129)
Profit/ (loss) after income tax expense		**444,003**	**(1,445,283)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(81,105)	(119,339)
Total other comprehensive (loss)/income for the period		**(81,105)**	**(119,339)**
Total comprehensive income/(loss) for the period		**362,898**	**(1,564,622)**

		Cents per share	Cents per share
Earnings per share			
Basic earnings per share	11	0.63	(2.80)
Diluted earnings per share	11	0.63	(2.80)

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

Consolidated statement of financial position
As at 30 September 2020

	Notes	30 September 2020 $	31 March 2020 $ (Restated)
Assets			
Current assets			
Cash and cash equivalents	10a	10,780,360	9,041,450
Trade and other receivables	10b	2,859,195	3,849,861
Income tax recoverable		455,178	558,804
Prepayments		179,992	164,567
Contract assets		322,383	245,714
Other assets		511,682	510,867
Total current assets		**15,108,790**	**14,371,263**
Non-current assets			
Trade and other receivables	10b	549,134	322,187
Right-of-use assets		1,701,642	1,622,520
Property, plant and equipment	7	172,662	181,934
Intangibles	8	14,904,829	12,564,478
Deferred tax assets		71,990	80,615
Contract assets		866,532	740,582
Total non-current assets		**18,266,789**	**15,512,316**
Total assets		**33,375,579**	**29,883,579**
Liabilities			
Current liabilities			
Trade and other payables	10c	10,195,506	12,562,256
Borrowings	10d	97,716	7,171
Current tax liabilities		14,236	64,579
Lease liability		581,714	624,505
Provisions		795,216	569,206
Contract liabilities		264,217	154,910
Total current liabilities		**11,948,605**	**13,982,627**
Non-current liabilities			
Contract liabilities		447,784	446,315
Lease liability		1,183,539	1,096,274
Provisions		705,215	472,892
Total non-current liabilities		**2,336,538**	**2,015,481**
Total liabilities		**14,285,143**	**15,998,108**
Net assets		**19,090,436**	**13,885,471**
Equity			
Issued capital	12	41,055,994	36,213,927
Reserves	13	(16,988,974)	(16,907,869)
Accumulated losses		(4,976,584)	(5,420,587)
Total equity		**19,090,436**	**13,885,471**

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

Consolidated statement of changes in equity

For the half year ended 30 September 2020

	Issued capital $	Reserves $ (Restated)	Accumulated losses $	Total equity $ (Restated)
Balance at 1 April 2019	**24,076,417**	**(16,675,819)**	**(3,526,104)**	**3,874,494**
Profit/ (loss) after income tax expense for the half-year	–	–	(1,445,283)	(1,445,283)
Movement in foreign exchange	–	(119,339)	–	(119,339)
Total comprehensive income/ (loss)	**–**	**(119,339)**	**(1,445,283)**	**(1,564,622)**
Total transactions with owners in their capacity as owners	**–**	**–**	**–**	**–**
Balance at 30 September 2019	**24,076,417**	**(16,795,158)**	**(4,971,387)**	**2,309,872**
Balance at 1 April 2020	**36,213,927**	**(17,509,296)**	**(5,420,587)**	**13,284,044**
Restatement of retention shares receivable pursuant to Astute acquisition	–	601,427	–	601,427
Restated balance at 1 April 2020	**36,213,927**	**(16,907,869)**	**(5,420,587)**	**13,885,471**
Profit/ (loss) after income tax expense for the half-year	–	–	444,003	444,003
Movement in foreign exchange	–	(81,105)	–	(81,105)
Total comprehensive income/ (loss)	**–**	**(81,105)**	**444,003**	**362,898**
Transactions with owners in their capacity as owners:				
Shares issued pursuant to TalentOz acquisition	1,534,567	–	–	1,534,567
Shares issued – capital raise	3,500,000	–	–	3,500,000
Cost of share issued recorded directly in equity	(192,500)	–	–	(192,500)
Total transactions with owners in their capacity as owners	**4,842,067**	**–**	**–**	**4,842,067**
Balance at 30 September 2020	**41,055,994**	**(16,988,974)**	**(4,976,584)**	**19,090,436**

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

Consolidated statement of cash flows

For the half year ended 30 September 2020

	Half year ended 30 September	
	2020	2019
	$	$
		(Restated)
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT/SST)	8,654,640	3,947,607
Payments to suppliers and employees (inclusive of GST/VAT/SST)	(7,422,415)	(4,481,241)
Government grants and tax incentives	923,477	–
Interest received	19,159	6,102
Interest and other finance costs paid	(72,149)	(49,011)
Net cash generated from/(utilised by) operating activities	**2,102,712**	**(576,543)**
Cash flows from investing activities		
Payments for purchase of intangible assets	(1,350,585)	(519,336)
Payments for purchase of plant and equipment	(13,140)	(84,890)
Payments for acquisition of subsidiaries & businesses, net of cash acquired	(170,381)	–
Payments for acquisition-related transaction costs (1)	(227,228)	–
Net cash utilised by investing activities	**(1,761,334)**	**(604,226)**
Cash flows from financing activities		
Proceeds from issue of share capital	3,307,500	–
Repayment of principal on lease liability (2)	(240,254)	(102,543)
Payment of employee loan	–	(1,834)
Proceeds from borrowings	–	570,168
Repayment of borrowings	–	(40,808)
Net cash generated from/(utilised by) financing activities	**3,067,246**	**424,983**
Net increase/(decrease) in cash and cash equivalents	**3,408,624**	**(755,786)**
Cash and cash equivalents at the beginning of the financial year (3)	1,967,603	1,428,748
Effects of exchange rate changes on cash and cash equivalents	(99,964)	191,428
Cash and cash equivalents at end of the half year (3)	**5,276,263**	**864,390**

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

(1) *Payment of acquisition-related transaction costs to be classified under the cash flows used in investing activities in the consolidated statement of cash flows. The Group has been previously presenting these costs under operating cash flows. The comparative period balances have been reclassified to conform with the current period presentation.*

(2) *In the prior period repayment of principal on lease liabilities were previously disclosed within cash flows from operating activities. To be consistent with the current period classification, it is now disclosed within cash flows from financing activities.*

(3) *The cash and cash equivalents disclosed above do not include $5,504,097 (30 September 2019: $3,934,754) which are held in separate bank accounts held by the Group. These client monies are restricted for the purpose of payment of salaries to their employees, as part of payroll processing services and are therefore not available for general use by the Group. Refer to note 10c for the corresponding liability account. The client money is not included in the statement of cash flows. The comparative period statement of cash flows is reclassified to conform with the presentation in the current year.*

Notes to the consolidated financial statements

For the half year ended 30 September 2020

Note 1. Nature of operations

PayGroup Limited and its controlled entities (the Group) is headquartered in Melbourne, Australia. PayGroup is the holding company for PayAsia, TalentOz, and AstuteOne, a specialist provider of payroll and human capital management solutions.

PayAsia is addressing the needs of multinational companies of any size by delivering Software-with-a- Service (SwaS) HCM and payroll solutions and leveraging a Cloud (SaaS) based Human Capital Management platform TalentOz. Clients are typically Multi-National Companies within multiple countries across Asia Pacific and the Middle East.

AstuteOne is the leader in workforce management solutions for complex businesses especially for Workforce Management Companies in Australia and New Zealand.

PayGroup has 229 employees located in 11 countries are servicing over 995 client entities representing more than 5 million payslips per annum.

Note 2. General information and basis of preparation

Introduction

The interim consolidated financial statements (the interim financial statements) of the Group are for the six months ended 30 September 2020 and are presented in Australian Dollars ($AUD), which is the functional currency of the parent company. PayGroup is a company limited by shares whose shares are traded on the Australian Securities Exchange (ASX). PayGroup is incorporated and domiciled in Australia.

Principles of consolidation

The interim financial statements incorporate the assets and liabilities of all subsidiaries of PayGroup Limited ('company' or 'parent entity') as at 30 September 2020 and the results of all subsidiaries for the half year then ended. PYG Limited and its subsidiaries together are referred to in this interim financial statements as the 'Group'.

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

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

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

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

Basis of preparation

These interim financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The interim financial statements do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2020, together with any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and Corporations Act 2001.

The interim financial statements have been approved for issue by the Board of Directors on 23 November 2020.

New standards adopted as at 1 April 2020

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods commencing on or after 1 April 2020 including the following:

- **AASB 3 *Business combinations* (amendments)**
  Definition of a business

- **AASB 101 and AASB 108 (amendments)**
  Definition of material

Notes to the consolidated financial statements
For the half year ended 30 September 2020

- **Conceptual Framework for Financial Reporting (updated 2018)**
  Amendments to and reference to the Conceptual Framework in IFRS Standards

- **AASB 2019-3 Amendments to Australian Accounting Standards**
  Interest rate benchmark reform

- **AASB 2019-5 Amendments to Australian Accounting Standards**
  Disclosure of the Effect of New IFRS Standards not yet issued in Australia

- **AASB 2020-4 Amendments to Australian Accounting Standards**
  COVID-19 related rent concessions

The group applied AASB 2020-4 Amendments to Australian Accounting Standards pertaining to COVID-19 related rent concessions. In applying the practical expedient, the Group recognised the forgiveness of rent amounting to $48,035 as a negative variable lease payment in the consolidated statement of Profit and Loss. The forgiveness of rent is unconditional and qualifies to be accounted using the practical expedient available in AASB 16 Leases.

Apart from above, none of these standards have had a material impact on the Group in the current period and are not expected to have a material impact in future reporting periods or on foreseeable future transactions.

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following new accounting standards, amendments and interpretations have been published that are not mandatory for 30 September 2020 reporting periods and have not yet been applied by the Group within this financial report:

- **AASB 10 and AASB 128 (amendments)**
  Sale or contribution of assets between an investor and its associate or joint venture

- **AASB 17 Insurance contracts**
  Measurement of insurance liabilities

- **AASB 2020-1 Amendments to Australian Accounting Standards**
  Classification of liabilities as current or non-current

- **AASB 2020-3 Amendments to Australian Accounting Standards**
  Annual improvements 2018-2020 and other amendments

The Group does not believe these new accounting standards, amendments and interpretations will have a material impact on the financial statements of the Group in future periods.

Critical accounting judgements, estimates and assumptions

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

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31 March 2020. The only exceptions are the estimate of income tax liabilities which is determined in the Interim Financial Statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Note 3. Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 March 2020, except for the following:

Acquisition-related transaction costs

Payment of acquisition-related transaction costs to be classified under the cash flows used in investing activities in the consolidated statement of cash flows. The group has been previously presenting these costs under operating cash flows. The comparative period balances have been reclassified to conform with the current period presentation.

Notes to the consolidated financial statements
For the half year ended 30 September 2020

Note 4. Segment reporting

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

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

- PayAsia (including TalentOz) delivers predominantly SwaS payroll solutions and HCM platform as well as payroll Treasury, Lodgement and other payroll related services globally. Most of its business is delivered in the APAC region.
- Astute provides SaaS payroll and workforce management solutions to Australian and New Zealand clients.
- India predominantly provides workforce management solutions to both local and multinational entities in India.

c) Reportable segments:

Half year ended 30 September 2020	**PayAsia**	**Astute**	**India**	**Total**
Revenue:				
External revenues	3,253,858	3,193,611	380,990	6,828,459
Inter-segment revenue	807,444	381,818	471,120	1,660,382
Total revenue	**4,061,302**	**3,575,429**	**852,110**	**8,488,841**
Results:				
Profit before depreciation, amortisation, interest and income tax expense	563,181	1,392,327	71,711	2,027,219
Depreciation and amortization	408,406	590,486	100,758	1,099,650
Profit/ (loss) before interest and income tax expense	**154,775**	**801,841**	**(29,047)**	**927,569**
Interest income	3,535	2,156	13,807	19,498
Interest expense	16,167	35,929	17,710	69,806
Profit/ (loss) before income tax expense	**142,143**	**768,068**	**(32,950)**	**877,261**

Assets and liabilities:				
Segment assets	13,935,932	16,246,105	3,498,473	33,680,510
Segment liabilities	9,994,650	5,023,666	2,933,268	17,951,584

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

	Half year ended 30 September 2020
i. Segment revenue	
Total reportable segment revenues	8,488,841
Elimination of inter-segment revenue	(1,660,382)
Total revenue from continuing operations	**6,828,459**
ii.*Segment Operating Profit/(Loss)*	
Total reportable segment operating profit	877,261
Corporate(1) employee benefit expenses	(24,768)
Corporate(1) consulting and professional fees	(332,119)
Corporate(1) other expenses	(140,818)
Corporate(1) interest income	97
Corporate(1) interest expense	(2,343)
Elimination and consolidation adjustments	34,188
Profit/(loss) before income tax expense	**411,498**

Notes to the consolidated financial statements

For the half year ended 30 September 2020

	30 September 2020
iii. Segment Assets	
Total reportable segment assets	33,680,510
Corporate(1) assets including investment in subsidiaries	30,033,619
Elimination and consolidation adjustments	(30,338,550)
Total assets	**33,375,579**
iv. Segment liabilities	
Total reportable segment liabilities	17,951,584
Corporate(1) liabilities	450,805
Elimination and consolidation adjustments	(4,117,246)
Total liabilities	**14,285,143**

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

e) Geographical information:

Revenue from external customers is attributed to geographic location based on the location of customers. The revenue from external customers by geographical location for the half year ended 30 September 2020 is set out below. The location of non-current assets as at 30 September 2020 is set out below;

	Revenue ($)	Non-current assets ($)
Australia and New Zealand	3,563,320	12,548,738
Asia	3,265,139	5,718,051
	6,828,459	**18,266,789**

Previous corresponding period

Given the nature of operations of the company up to 30 September 2019, the company does not have any segment based reporting.

Note 5. Revenue

	Half year ended 30 September	
	2020	2019
	$	$
Payroll services	6,607,508	3,199,400
Workforce management service fee	220,951	210,640
	6,828,459	**3,410,040**

Note 6. Other income

	Half year ended 30 September	
	2020	2019
	$	$
Foreign exchange gain/ (loss)	(3,497)	187,628
Government grant income *(1)*	29,172	23,014
Other *(2)*	144,871	15,120
	170,546	**225,762**

(1) Government grant income included within other income do not include employment-related government grants of $ 1,154,805. These government grants are deducted against employee benefits expense.

(2) Other includes rent concessions of $48,035 obtained from the landlord, in response to the COVID-19 pandemic. The forgiveness of rent is unconditional and qualifies to be accounted using the practical expedient available in AASB 16 Leases. In applying the practical expedient, the Group recognised this forgiveness of rent as a negative variable lease payment in the consolidated statement of Profit and Loss.

Notes to the consolidated financial statements
For the half year ended 30 September 2020

Note 7. Property, plant and equipment

	Leasehold Improvement & Renovations $	Office Equipment $	Furniture & Fittings $	Computers $	Total $
Cost:					
Balance 1 April 2019	169,343	191,190	214,873	110,650	686,056
Additions	55,229	41,581	–	61,622	158,432
Balance 31 March 2020	**224,572**	**232,771**	**214,873**	**172,272**	**844,488**
Additions	–	1,163	–	11,977	13,140
Acquired as part of the TalentOz acquisition 1 July 2020	–	10,751	1,850	18,274	30,875
Balance 30 September 2020	**224,572**	**244,685**	**216,723**	**202,523**	**888,503**
Accumulated depreciation:					
Balance 1 April 2019	141,598	145,501	189,265	72,725	549,089
Charge for the year	39,258	24,054	24,696	25,457	113,465
Balance 31 March 2020	**180,856**	**169,555**	**213,961**	**98,182**	**662,554**
Charge for the period	12,566	13,333	1,917	25,471	53,287
Balance 30 September 2020	**193,422**	**182,888**	**215,878**	**123,653**	**715,841**
Net Book Value:					
Balance 31 March 2020	**43,716**	**63,216**	**912**	**74,090**	**181,934**
Balance 30 September 2020	**31,150**	**61,797**	**845**	**78,870**	**172,662**

Note 8. Intangible assets

	Goodwill $	Software $	Software under development $	Customer contracts & relationships $	Trademark & tradename $	Total $
Cost:						
Balance 1 April 2019	–	1,662,227	532,620	210,034	–	2,404,881
Acquired as part of Astute acquisition 1 Nov 2019	1,688,511	6,300,000	–	1,000,000	200,000	9,188,511
Additions	–	14,120	2,144,221	–	–	2,158,341
Reclassification	–	1,329,527	(1,329,527)	–	–	–
Balance 31 March 2020	1,688,511	9,305,874	1,347,314	1,210,034	200,000	13,751,733
Restatement based on final purchase price allocation of the Astute acquisition 1 Nov 2019	601,427	–	–	–	–	601,427
Restated balance 31 March 2020	**2,289,938**	**9,305,874**	**1,347,314**	**1,210,034**	**200,000**	**14,353,160**
Acquired as part of the TalentOz acquisition 1 July 2020	687,161	1,035,445	–	–	–	1,722,606
Additions	–	84,229	1,266,356	–	–	1,350,585
Reclassification	–	1,417,781	(1,417,781)	–	–	–
Balance 30 September 2020	**2,977,099**	**11,843,329**	**1,195,889**	**1,210,034**	**200,000**	**17,426,351**
Accumulated amortisation:						
Balance 1 April 2019	–	932,998	–	–	–	932,998
Charge for the year	–	695,758	–	143,259	16,667	855,684
Balance 31 March 2020	**–**	**1,628,756**	**–**	**143,259**	**16,667**	**1,788,682**
Charge for the period	–	638,451	–	74,389	20,000	732,840
Balance 30 September 2020	**–**	**2,267,207**	**–**	**217,648**	**36,667**	**2,521,522**
Net Book Value:						
Restated balance 31 March 2020	**2,289,938**	**7,677,118**	**1,347,314**	**1,066,775**	**183,333**	**12,564,478**
Balance 30 September 2020	**2,977,099**	**9,576,122**	**1,195,889**	**992,386**	**163,333**	**14,904,829**

Note 9. Goodwill

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

During the half year, and at the date of this report, no indicators were identified that would require a reassessment of the recoverable amount of goodwill for the PayAsia and Astute Cash Generating Units (CGUs). For Astute, the last valuation was performed at the time of acquisition (1 November 2019). Therefore, goodwill allocated to Astute was tested for impairment at the half year end date.

For the Astute CGU tested, the recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses pre-tax cash flow projections that are based on the most recent forecast updated for current performance and is discounted at an appropriate pre-tax discount rate taking into account the Group's weighted average cost of capital adjusted for any risks specific to the CGU.

Terminal growth rates applied in the DCF are based on estimates of long-term Industry growth in the country in which the CGU primarily operates.

The allocation of goodwill to Astute CGU tested for impairment in the half year ended 30 September 2020 and the assumptions applied in calculating the recoverable amounts of the goodwill in testing for impairment are as follows:

	Allocated Goodwill		Pre-tax discount rate		Long term growth rate	
	30 September 2020	31 March 2020 (Restated)	**30 September 2020**	31 March 2020	**30 September 2020**	31 March 2020
	$	$	**%**	%	**%**	%
Astute	2,289,938	2,289,938	12.1%	n/a	5%	n/a

No impairment of goodwill has been recognised in the half year to 30 September 2020 (2019: nil).

Significant estimates made

The continued profitability and growth of the Astute business is dependent on retaining existing client revenue. Loss of existing client revenue would result in reduced headroom or impairment of the goodwill allocated to the Astute CGU. The cash flow projections also assume an increased number of clients using the software provided by the business over the forecast period. If the business is not able to achieve the increased revenue from new client sales then it will result in reduced headroom or impairment of the goodwill allocated to the Astute CGU.

Note 10. Financial assets and financial liabilities

(a) Cash and cash equivalents

	30 September 2020	31 March 2020
	$	$
Cash at bank	5,274,325	1,964,816
Cash on hand	1,938	2,787
Unrestricted cash and cash equivalents	5,276,263	1,967,603
Clients' monies*	5,504,097	7,073,847
	10,780,360	**9,041,450**

**The cash and cash equivalents disclosed above include $5,504,097 (31 March 2020: $7,073,847) which are held in separate bank accounts held by the Group. These client monies are restricted for the purpose of payment of salaries to their employees, as part of payroll processing services and are therefore not available for general use by the Group. Refer to note 10c for the corresponding liability account. The client money is not included in the statement of cash flows. The comparative period statement of cash flows is reclassified to conform with the presentation in the current year.*

(b) Trade and other receivables

	30 September 2020 $	31 March 2020 $
CURRENT		
Trade receivables	2,705,089	3,291,399
Less: allowance for credit losses	(140,544)	(158,505)
	2,564,545	3,132,894
Resource management asset	63,543	473,182
Other receivables	231,107	243,785
	2,859,195	**3,849,861**
NON-CURRENT		
Other receivables	549,134	322,187
	549,134	**322,187**

(c) Trade and other payables

	30 September 2020 $	31 March 2019 $
CURRENT		
Trade payables	895,294	1,093,349
Advances of client's monies (note 10a)	5,504,097	7,073,847
Resource management liability	683,962	793,980
Accruals	760,762	1,333,296
GST/VAT/SST payable	812,448	929,307
Other payables	1,538,943	1,338,477
	10,195,506	**12,562,256**

(d) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. The group has borrowings of $97,716 at 30 September 2020 ($7,171 at 31 March 2020).

Note 11. Earnings per share and dividends

(a) Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company as the numerator, i.e., no adjustments to profits were necessary during the six months period to 30 September 2020. Reconciliation of earnings used and the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	Half year ended 30 September 2020 $	2019 $
Profit/(loss) after income tax (basic)	444,003	(1,445,283)
Profit/(loss) after income tax (diluted)	444,003	(1,445,283)
Weighted average number of shares used in basic earnings per share	70,408,114	51,671,466
Weighted average number of shares used in diluted earnings per share	70,697,995	51,671,466
Basic earnings / (loss) per share (cents per share)	0.63	(2.80)
Diluted earnings / (loss) per share (cents per share)	0.63	(2.80)

Notes to the consolidated financial statements
For the half year ended 30 September 2020

(b) Dividends

No dividends were paid during the half year ended 30 September 2020 and 30 September 2019.

Note 12. Contributed equity

	30 September 2020		31 March 2020	
	Shares	$	Shares	$
	76,755,358	41,055,994	68,894,010	36,213,927

	Date	**Shares**	**Issue price**	**$**
Balance at 1 April 2019		51,671,466		24,076,417
Shares issued pursuant to Astute acquisition	14 Nov 2019	12,764,706	$0.72	9,190,588
Shares issued – capital raise	27 Nov 2019	4,285,714	$0.70	3,000,000
Shares issued to settle supplier payment	27 Nov 2019	108,553	$0.76	82,500
Shares issued to settle supplier payment	7 Jan 2020	63,571	$0.70	44,500
Cost attributable to raising capital	–	–	–	(180,078)
Balance 31 March 2020		**68,894,010**		**36,213,927**
Balance at 1 April 2020		68,894,010		36,213,927
Shares issued pursuant to TalentOz acquisition	14-Jul-20	1,826,865	$0.84	1,534,567
Shares issued – capital raise	9-Sep-20	6,034,483	$0.58	3,500,000
Cost attributable to raising capital	9-Sep-20	–	–	(192,500)
Balance 30 September 2020		**76,755,358**		**41,055,994**

Note 13. Reserves

	30 September 2020 $	31 March 2020 $ (Restated)
Share based payment reserve	216,904	216,904
Retention shares receivable reserve[(1)]	–	–
Actuarial (losses)/gains on defined benefit plan	160,108	160,108
Foreign currency translation reserve	(667,310)	(586,205)
Reserves pursuant to share swap acquisition of PayAsia	(16,698,676)	(16,698,676)
	(16,988,974)	**(16,907,869)**

(1) Retention shares receivable represented shares receivable pursuant to the working capital adjustment under the terms of the Astute Share Purchase Agreement. The working capital adjustment represents the shortfall of the working capital acquired over the target working capital of $150,000. The retention receivable reserve has been adjusted in the final purchase consideration based on the estimated recoverability of the balance.

Note 14. Contingent liabilities

As part of the acquisition of AstuteOne Limited, the Company entered into a Performance Rights Agreement where if the Astute group of companies achieved a Profit Before Tax of A$1.5m for the Target Performance Period ended 31 October 2020, the Vendor would be entitled to PYG shares worth A$1.5m. The PBT calculation is to be furnished to the Vendor within 45 days of the end of the Target Performance Period.

As at the date of this interim report, PayGroup has performed preliminary calculations of the performance earn-out. Based on PayGroup's calculation, the earn-out has not been satisfied and therefore, no share based payments were recognized in the half-year report. The performance earn-out calculation is subject to the Vendor's review and independent assessment as at the date of this interim report.

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

Notes to the consolidated financial statements

For the half year ended 30 September 2020

Note 15. Related parties

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

PayGroup Limited acquired 100% of the shares in Pay Asia Pte Ltd on 29 May 2018 as part of a share swap arrangement. Pay Asia Pte Ltd became a 100% controlled entity at this date.

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

Pay Asia Pte Ltd incorporated a number of subsidiaries within countries where the Group has expanded its operations. As at 30 September 2020 the results of these companies were not material to the results of the Group.

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

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

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

(a) Key management personnel remuneration

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

(b) Rental

Pay Asia Australia Pty Ltd rents business premise via a third party agent. These premises are co-owned by Michele Samantha Samlal. On 13 May 2019, Mark Samlal acquired the 50% originally owned by the independent third party. Rent and the lease agreement are set and maintained by the third party agent and is set at terms representing normal commercial terms and conditions and at market rates, with nil net rent at per month (2019: $3,542). This lease ended in November 2019.

(c) PayMy Outsourcing Sdn Bhd

Prior to the acquisition of Pay Asia Pte Ltd by PayGroup, Pay Asia Pte Ltd controlled the operation and profits of the Malaysian subsidiary, PayMy Outsourcing Sdn Bhd. However due to regulatory constraints associated with transferring ownership of shares within Malaysia, the shareholders of PayMy Outsourcing Sdn Bhd are Mark Samlal and Michele Samantha Samlal. The acquisition agreement has been signed confirming that control is held by Pay Asia Pte Ltd and the share transfer is executed on completion of the relevant filings within Malaysia.

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

Note 16. Business Combinations

Current period

TalentOz

Summary of acquisition

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

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

	30 September 2020 $
Purchase consideration (refer note below):	
Cash paid	170,381
Ordinary shares issued	1,534,567
Total purchase consideration	**1,704,948**

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

The transaction was undertaken based on the fair value of TalentOz's assets and liabilities acquired as at 1 July 2020.

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

	30 September 2020 $
Property, plant and equipment	30,875
Intangible assets:	
Software	1,035,445
Employee benefit liability	(48,533)
Net identifiable assets acquired	**1,017,787**
Add: goodwill	687,161
Net assets acquired	**1,704,948**

The business combination has initially been accounted for on a provisional basis in accordance with AASB 3 Business Combinations. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at balance date. The acquisition accounting for this transaction is provisional and as allowed under Australian Accounting Standards any adjustments made to these provisional numbers will be reflected in future financial periods. Finalisation is expected no later than 31 March 2021.

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

(i) Acquisition related costs

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

(ii) Acquired receivables

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

(iii) Accounting policy choice

The group recognises interests at its acquired net identifiable assets.

	30 September 2020 $
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(170,381)
Less: Balances acquired	
Cash	–
Restricted client monies	–
Net inflow/ (outflow) of cash – investing activities	**(170,381)**

Previous period

Astute One Limited

Summary of acquisition

On the date of acquisition 1 November 2019, the Group acquired 100% of the issued share capital of Astute One Limited and its controlled entities ("AstuteOne"), an Australian company. The acquisition significantly increases the range of HCM software service modules and further strengthens its workforce management business, whilst allowing deeper penetration into the Australian market and provides opportunities for expansion to New Zealand.

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

The Group has finalised acquisition accounting on the Astute One Limited acquisition. The final purchase price allocation resulted in an adjustment to the initial purchase price allocation and a corresponding change in goodwill. The purchase consideration, assets and liabilities recognised as a result of the acquisition are as follows:

	Initial purchase price allocation $	Adjustments for final purchase price allocation $	Restated balance $
Purchase consideration (refer note below):			
Cash paid	150,000	–	150,000
Ordinary shares issued	9,190,588	–	9,190,588
Retention shares receivable	(601,427)	601,427	–
Total purchase consideration	**8,739,161**	**601,427**	**9,340,588**

The fair value of the 12,764,706 shares issued at $0.72 as part of the consideration paid for AstuteOne was based on the two week value weighted average share price from transaction date.

Retention shares receivable represented shares receivable pursuant to the working capital adjustment under the terms of the Astute Share Purchase Agreement. The working capital adjustment included in the initial purchase consideration represented the shortfall of the working capital acquired over the target working capital of $150,000. The retention receivable has been adjusted in the final purchase consideration based on the estimated recoverability of the balance.

Notes to the consolidated financial statements

For the half year ended 30 September 2020

The assets and liabilities recognised based on the final purchase price allocation as follows:

	Initial purchase price allocation	Adjustments for final purchase price allocation	Restated balance
	$	$	$
Cash and cash equivalents	686,705	–	686,705
Trade and other receivables	1,140,445	–	1,140,445
Contract assets	188,104	–	188,104
Right-of-use assets	1,102,156	–	1,102,156
Intangible assets:			
Software	6,300,000	–	6,300,000
Customer contracts and relationships	1,000,000	–	1,000,000
Trademarks	200,000	–	200,000
Trade and other payables	(2,360,791)	–	(2,360,791)
Lease liability	(1,084,045)	–	(1,084,045)
Contract liabilities	(121,924)	–	(121,924)
Net identifiable assets acquired	**7,050,650**	**–**	**7,050,650**
Add: goodwill	1,688,511	601,427	2,289,938
Net assets acquired	**8,739,161**	**601,427**	**9,340,588**

(i) Acquisition related costs

Acquisition-related costs of $359,872 that were not directly attributable to the issue of shares are included in consulting and professional fees in profit or loss and in investing cash flows in the statement of cash flows.

(ii) Acquired receivables

The fair value of acquired trade and other receivables is $ 1,140,445. The gross contractual amount for trade receivables due is $1,190,494 of which $50,049 is expected to be uncollectible.

(iii) Accounting policy choice

The group recognises interests at its acquired net identifiable assets.

	31 March 2020
	$
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(150,000)
Less: Balances acquired	
Cash	686,705
Restricted client monies	(275,171)
Net inflow of cash – investing activities	**261,534**

Notes to the consolidated financial statements
For the half year ended 30 September 2020

Note 17. Fair value measurement of financial instruments

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

Note 18. Events after the reporting period

Effective 2 November 2020, the Board of Directors' appointed Shane Gild as a Non-Executive Director. Shane brings to the Paygroup Board a highly complementary skillset with over 20 years of equity market experience, including corporate advisory, M&A strategy and investor relations experience.

On 3 November 2020, the Group executed a binding Share Purchase Agreement subject to shareholder approval to acquire 100% of the issued share capital of Payroll HQ Pty Ltd ("Payroll HQ"), a company based in Australia offering payroll solutions to Australian companies. Initial purchase consideration is expected to be circa $2.5 million payable through the issuing of 4,122,694 PYG shares. An additional provisional pay-out of $1.28 million is payable through issuing of the PYG shares on completion (held on trust), based on the target forecast performance for Payroll HQ year-end (30 June 2021) and will be adjusted with actual 30 June 2021 results. The acquisition will grow the group's payroll client base by 100 clients, contribute high value sales funnel pipeline and provide a very experienced executive leadership. The Group expects the acquisition to be completed in December 2020 subject to shareholder approval.

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

Impact of COVID-19 on the Group:

For the half-year, Covid-19 has had some but minor impact to the Group notwithstanding greater impact globally. All our employees remain working remotely from home in line with regulatory requirements of each country in which we are present, with little disruption to the Group's operational performance. Whilst Covid-19 has presented headwinds this half-year, there has been no material client loss to the Group as a result of Covid-19.

Demand for specialised payroll services and Cloud HCM remains strong due to increasing regulatory requirements. We expect with the easing of Covid-19 restrictions operational tailwinds for growth should return in the near term.

Directors' declaration
For the half year ended 30 September 2020

In the directors' opinion

- The attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 September 2020 and of its performance for the financial half-year ended on that date; and
- There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

Ian Basser
Chairman
24 November 2020
Melbourne

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Independent Auditor's Report

To the Members of PayGroup Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of PayGroup Limited the Company and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 September 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of PayGroup Limited does not give a true and fair view of the financial position of the Group as at 30 September 2020, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Basis for Conclusion

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

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2020 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of PayGroup Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Eric W Passaris

E W Passaris
Partner – Audit & Assurance

Melbourne, 24 November 2020