

**MoneySwitch Limited ABN 49 103 575 042**

(Trading as Tyro Payments)

**Annual report to shareholders**

**Year ended 30 June 2008**

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## **Building a specialised banking institution (SCCI) for merchants**

MoneySwitch Limited trading as Tyro Payments (or “Tyro”) is a new Australian banking institution specialised in facilitating the acceptance of electronic payments on behalf of merchants and recurrent billers. Tyro is the first new entrant into the payment industry in over 10 years.

Tyro holds an authority under the Banking Act to carry on banking business as a Specialist Credit Card Institution (SCCI) and operates under the supervision of the Australian Prudential Regulation Authority (APRA). Tyro does not take money on deposit. Tyro is a Principal Member of Visa and MasterCard and a Tier One Member of the Australian payment clearing streams BECS and CECS.

Tyro provides an in-house developed, end-to-end solution, authorising, clearing and settling electronic payments. Tyro accepts Visa, MasterCard, American Express/JCB, Diners, PIN based EFTPOS as well as Medicare Easyclaim, gift and loyalty card transactions. Under its banking authority, Tyro Payments is also able to provide additional services of BPAY and direct debit services. The Tyro Payments solution is IP based and all transactions are processed in real time.

As an acquirer only, Tyro does not take money on deposit and does not issue cards, thereby eliminating any potential conflict of interest between serving cardholders and the merchant.

At the end of June 2008, Tyro completed its first full fiscal year trading, since the commercial launch of its EFTPOS facility on 28 April 2007.

## **Our vision and guiding principles**

Our vision is to be the most efficient acquirer of electronic card transactions in Australia, providing innovative service, functionality and value. Our directors, managers and employees strive to demonstrate honesty, integrity and diligence, to act in accordance with the law and always to maintain a spirit of fairness, justice and equity.

## **Our governance**

The Board of Directors, constituted in line with the requirements of APRA Prudential Standard 510, sets policy and direction, supported by operational management. The Board also establishes advisory committees to assist it in carrying out its functions, as well as providing it with expert advice on acquiring and other matters.

The primary role of the board is to provide effective governance over company affairs (including its strategic direction, establishing goals for management and monitoring the achievement of those goals) to ensure the interests of stakeholders are protected and the confidence of the merchant acquiring market is maintained, whilst having regard for the interests of all stakeholders including customers, employees, suppliers and local communities.

The directors have set a standard of conduct at all levels that ensure compliance with the company code of conduct, the Corporations Act 2001, the Australian Prudential Regulation Authority Prudential Standards, the EFT Code of Conduct, National Privacy Principles 2001 and the Banking Act 1959.

## **Tyro Health: medical practices and pharmacies**

Tyro and Health Communication Network (HCN), the leading Australian provider of e-health and practice automation solutions, have launched an integrated EFTPOS solution for general practices (PracSoft) in February 2008 and small specialist medical practices (BlueChip) in June 2008. A version for larger specialist practices (BlueChip Terminal Services) is planned for launch in September 2008. By end of June 2008, there were 214 Tyro merchant facilities in medical practices.

Tyro launched an integrated EFTPOS solution for pharmacies with software provider POS Solutions and CDC Systems. By June 2008, there were 11 pharmacies in production including initial installations in CountryPharm, Harrisons and Cincotta Group.

## **Medicare Easyclaim**

Tyro implemented an integrated Easyclaim platform. Easyclaim is a real-time Medicare claiming and reimbursement service for patient-paid and bulk bill claims using an EFTPOS terminal and the EFTPOS network from the medical practice immediately after the consultation has occurred.

HCN has integrated the Easyclaim platform into its PracSoft practice management system. The highly automated end-to-end solution is planned for Medicare acceptance and accreditation in September 2008 and for market launch in October/November 2008.

Tyro and HCN have developed a seamless process of electronic payment, claiming, reimbursement and reconciliation. The claim and Medicare card data is automatically transferred from the practice management system (PMS), where it resides, through the Tyro EFTPOS terminal to Medicare and from Medicare back to the PMS for reconciliation.

This integrated approach is a requirement clearly stated by the industry. Compared with the stand-alone alternative (currently being offered by two major banks) of 4 card swipes and up to 20+ keystrokes, the Tyro solution requires 2 card swipes and 2 keystrokes. Processing time is reduced to seconds.

Tyro has signed a five-year exclusive development and marketing contract with HCN (Health Communication Network) to provide an integrated EFTPOS and Easyclaim solution to the primary health market. Upon commercial launch of the HCN Easyclaim solution, the agreement allows Tyro to make its Easyclaim platform available to other practice management software providers.

Medicare estimates that there are currently 7000 general practices and 8000 specialist practices with 85% having an existing EFTPOS device. Easyclaim is available to those practices and parts of the ancillary health space. Medicare pays Tyro, as an accredited Easyclaim provider, a fee of 23 cents (including GST) per claim.

## **Further Growth Opportunities**

The entire ancillary medical market could open up for integrated EFTPOS, Easyclaim and eClaiming with private health insurances. The pre-requisite is for Tyro to gain access to a sufficient number of leading private health funds in Australia, either through direct connections with each of them or through a gateway provider.

## **Tyro Retail: motor dealers, newsagents, fashion and book stores, fast food outlets and restaurants**

Tyro launched its first stand alone EFTPOS facility commercially on 28 April 2007. At the end of 2007, Tyro launched an Internet EFTPOS integration platform for the software industry in general. The payment terminal communicates with the POS through the payment switch over public broadband using TCP-IP over Ethernet or WiFi. Vendors can choose web service, .net or com as interface.

This new architecture supports thin client and ASP models, complies with new scheme rules regarding integrated EFTPOS over IP and allows zero-configuration, remote diagnostics and downloads.

HCN PracSoft and BlueChip, Retail Pro, SVI/QQQ Systems, Riva/Aloha, Intouch/Aloha, CDC Systems, POS Solutions, DeliverIT and Unilink Data/Booknet have implemented and certified the Tyro solution. Another forty software vendors are in the discussion, negotiation, and integration or certification process. In the Tyro business model for integrated EFTPOS the software or POS provider is the sales channel. This is achieved by revenue sharing with our business partners.

As well as medium and larger retail enterprises, Tyro is providing integrated EFTPOS to small retailers who do not need a complex business process – the “mum and pop” single store businesses such as grocers, hairdressers and cafes. By June 2008, there were 53 merchant facilities deployed with motor dealers and 244 with general retailers and others.

## **Toyota Financial Services**

A stand-alone Tyro EFTPOS facility is currently tailored to the Toyota Finance affiliated dealer network. Toyota is working to have Tyro integrate EFTPOS imbedded in future systems and product releases. An increasing penetration of the Toyota dealer network will provide a platform to facilitate ongoing product and program development complemented by Tyro's specialist capabilities.

## **Gift and Loyalty**

Through partnership with Opticard, Tyro offers merchants greater revenue build up and increased customer loyalty through personalised gift card programs. This year Tyro successfully rolled out the gift card program to high-end retailers Chanel and Mecca Cosmetics.

Leapfrog IT and Lightstorm have implemented on the Tyro terminal a community based loyalty and reward program, i.e. one that is not confined to one retailer but is limited within a specific geographic area for participating businesses. In August 2008, the application went live.

## **Tipping and pay-at-table**

The recent addition of tipping to the Tyro terminal fleet opens up the previously impenetrable food & drink and entertainment sectors. Low cost, wireless, pay-at-table transaction ability and easy online reconciliation is where Tyro can differentiate and Tyro will be pursuing this advantage within this industry.

## **Tyro Projects: special applications**

With completion of the Medicare development project, engineering resources have become available during the year for further custom tailored payment solutions. The projects benefited from the immediate availability of Tyro's efficient and low cost end-to-end acquiring infrastructure, Tyro's capability of integrating payment processing into existing software solutions quickly using web services and agile development and Tyro's readiness to share revenues with partners providing access to their customer franchise.

## **Coca-Cola Amatil – Micro Payments**

A credit card micro-payment solution for unattended Coca-Cola vending machines has been developed and went live in May 2008. The initial pilot program includes 130 sites, leading to potentially 20,000 machines being upgraded across Australia. CCA hope to reduce and ultimately eliminate the cost of collecting money from machines. With customers not limited to cash payment for the product there is significant potential for increased sales.

## **Pure Commerce - Dynamic Currency Conversion**

On September 10, 2008 Tyro signed a contract with payment solutions vendor Pure Commerce and agreed to jointly develop a Dynamic Currency Conversion (DCC) application for Tyro EFTPOS terminals.

DCC allows foreign cardholders to pay merchants with their credit card in their home currency denomination. With DCC, the sale amount is converted from Australian dollars to the customer's home currency with the exchange rate fixed at the time of the transaction. The currency conversion fee is split between the Tyro, Pure Commerce, and the merchant.

Increased customer satisfaction is one of the major benefits of DCC as customers know exactly how much they are paying and there are no surprises in their credit card statements.

As part of the contract, Pure Commerce will provide the treasury management as well as manage the sales and marketing of the Tyro DCC solution to the Australian tourism and hospitality industries. A first version is in quality assurance.

## **National Billing Group Pty Ltd**

This Melbourne based cab, limousine and payment services operator has contracted a mobile payment solution for secure real-time fare payment processing, reducing fraud associated with manual processing.

Tyro and National Billing Group conducted a successful trial with 200 terminals within the limousine arm of the business. National Billing Group plan to increase the deployment to several thousand. Based on the success of this venture, the program will expand to include their fleet of cabs.

Tyro has started approaching larger retailer groups to provide them with customised and comprehensive solutions reducing their overall infrastructure costs, reducing their interchange and scheme fee expense and increasing their efficiency with integration and automation of the various payment instruments and channels.

## **Begin, Learn, Challenge, Win**

As Tyro builds its reputation around successfully delivered projects, it is increasingly also approached by larger prospects who are traditionally reluctant to engage with early phase companies but have sophisticated requirements that need innovative solutions beyond the technological and organisational capabilities of incumbent competitors. That was certainly the experience when winning Coca Cola after competing with all the major banks.

## **Leveraging the Internet**

Our architecture allows larger retail organizations to cut their infrastructure cost by reducing communication expense through the use of the public internet and by eliminating an expensive software and hardware middleware layer used by incumbents for aggregation and integration purposes.

Tyro is the only EFTPOS provider with the capability of secure integrated credit and debit card processing in a "thin client" (web-based) infrastructure. Tyro removes constraints and enables businesses, no longer tied to legacy technology, to radically improve the efficiency of their processes.

## **Product Expansion**

As Tyro moves forward, it plans to benefit from expansion into higher value added segments of the payment market and from geographic expansion. One direction of growth is the extension of Tyro's innovative platform into the card-not-present channels, accepting payment transactions from websites, call centres and IVR systems.

## **Tyro Culture**

### **Environmental Sustainability**

Climate change is not simply an environmental issue – it is a key business and social issue impacting us all.

By the very nature of its innovative internet-based technology, Tyro is working towards a sustainable future. With paperless statements, online reporting and web-based documentation, Tyro subscribes to a predominantly paperless organisation. With the development of integrated receipt Tyro has expanded our own environmental awareness beyond corporate headquarters to a growing proportion of our customer base.

We have implemented a company-wide recycling program and continue to search for new and efficient ways to minimise our footprint on the environment.

### **Supporting our Employees**

Tyro's 33 employees are critical to the continued success of the company. Tyro endeavours to recruit, retain and suitably reward the best people in the industry. Tyro uses a comprehensive recruiting and performance management system.

As Tyro continues to grow, learning and development programs will be created with direct support to employees through external and internal training. All employees participate in the Tyro Employee Share Plan. Today 100% of Tyro's employees have equity options in the company.

### **Risk Management**

Promoting robust risk management makes good business sense. Tyro's philosophy is that risk management is essential to good management practice and must be fully integrated into operations and embedded into the culture of the organisation to provide maximum value.

Alongside Tyro philosophy, there are regulatory motivations towards a robust risk management program. The Board of Directors is ultimately responsible for and has ownership of consistent and effective risk management of the business.

The risk management objective is to support achievement of Tyro's financial and business goals, minimising losses and maximizing opportunities for Tyro. The Risk Management Framework adopted by Tyro describes a logical and systematic approach towards identification, analysis, assessment, management, measurement, monitoring and communication of risks associated with the Tyro business. The Framework is in line with the Australian Standard for Risk Management (AS4360:2004).

### **Security**

Tyro is the first bank in Australia to become PCI DSS (Payment Card Industry Data Security Standards) certified by Visa.

Our highly sophisticated fraud engine pro-actively monitors and manages transactions in real time with military grade encryption between our EFTPOS terminals and our core systems. The company continues to review and improve our security failability and scalability to meet the growing volume of transactions, technological development and partner requirements.

With card schemes are mounting pressure on acquiring banks and the merchant community, fraud prevention is an increasingly important consideration.

June 2008 saw the introduction of Pen or PIN, offering customers the choice of signing or using a PIN for credit card transactions. The introduction of EMV or chip card acceptance is expected to follow. While the banks upgrade their terminal infrastructure to higher security standards, Tyro terminals, being of European design where these security standards are already mandatory, are ready.

The new security standards increasingly shift the vulnerability to the retailer. Tyro is working with merchants to gauge data fraud risk and take appropriate action to protect their business and customers.

## Directors Report

The Board of Directors of MoneySwitch Limited has pleasure in submitting its report for the financial year ended 30 June 2008.

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. All directors were in office for the entire year unless otherwise stated.

### Names, qualifications, experience and special responsibilities:

#### Rob Ferguson (Chairman)

Non-executive Director since 14/11/05

Rob began his career as a research analyst for a Sydney stockbroker. He joined Bankers Trust Australia in 1972 and became managing director in 1985. Through his ongoing delivery of higher investment performance, he and his team built BT Funds Management into the leader in the retail mutual funds business. By mid 1990s, BT had \$50 billion under management. Rob became chairman of BT Funds Management in 1999 until he resigned the position in 2002. Rob is Chairman of the Remuneration Committee and a member of the Audit Committee and the Risk Committee.

Directorships held during the past 3 years:

- IMF (Australia) Pty Ltd
- IMG Investment Management Limited
- Lowy Institute for International Policy
- MoneySwitch Limited
- Pamlex Pty Ltd
- Shurf Pty Ltd
- The Sydney Institute
- The Sydney Writers Festival Limited

#### Brad Banducci

Non-executive Director since 14/12/06

Brad spent 15 years working in Australia, USA and New Zealand for the Boston Consulting Group, a leading global management consulting firm specialising in working with the global 2000 companies to grow and transform their business. Brad spent the last 8 years as a global vice president and director. He was the leader of the Sydney Office from 2001-2003 and head of its Asia-Pacific Corporate Strategy and Finance Practice from 2003-2005. Brad was CFO of MoneySwitch from August 2005 until October 2006. He is now CEO of Cellarmasters Group. Brad is Chairman of the Risk Committee and a member of the Audit and Remuneration Committees.

Directorships held during the past 3 years:

- MoneySwitch Limited
- Boston Consulting Group Pty Limited (ceased 1 April 2005)
- Kennedy Corporation (t/a Cellarmasters Group)

## **Bill Bartlett**

Non-executive Director 21/02/04 to 31/12/07

Bill is a Fellow of the Institute of Chartered Accountants, with over 35 years experience in accounting and was a partner at Ernst & Young Australia for 23 years until retiring in 2003. His expertise is actuarial, insurance and financial services.

Directorships held during the past 3 years:

- Suncorp-Metway Limited
- Reinsurance Group of America Inc (NYSE)
- Peptech Limited
- Abacus Property Group
- GWA International Limited
- Retail Cube Limited (2004-2006)
- Bradman Foundation
- MoneySwitch Limited (ceased 31 December 2007)

## **Dr Thomas Girgensohn**

Non-executive Director since 9/03/06

Thomas brings to Tyro Payments extensive Australian and international experience in the consulting sector. He was previously managing partner (Australia and NZ) of the Boston Consulting Group and was former chairman of Netcomm Ltd and TDG Logistics. He has a PhD in Business Administration from the University of Munich, a Masters of Business Administration from the University of Saarbrücken and a Bachelor of Economics from the University of Bochum, all in Germany. Dr Girgensohn is a current Fellow of the Australian Institute of Company Directors. Thomas is Chairman of the Audit Committee and a member of the Remuneration and Risk Committees.

Directorships held during the past 3 years:

- Australian Co-operative Foods Limited
- Beviron Pty Limited (ceased)
- Compass Resources Ltd (ceased)
- MoneySwitch Limited
- Stemcor Australia Pty Ltd

## **Kerry Roxburgh**

Non-executive Director since 18/04/08

Kerry was one of the founders, CEO then Chairman of E\*Trade Australia until ANZ Banking Group acquired the business in 2007. Kerry spent 10 years as an Executive Director of the Hong Kong Bank of Australia Group including 5 years as managing director of the corporate finance subsidiary. He is non-executive chairman of Charter Hall Limited, Babcock & Brown Capital Limited and Asian Express Airlines Pty Limited. He is non-executive director of Ramsay Health Care, Everest Babcock & Brown Limited, BTIG Australia, The Medical Indemnity Protection Society Group, Law Cover Insurance Pty Limited, Professional Insurance Australia Pty Limited and of two private investment companies.

Directorships held during the past 3 years:

- Ramsay Health Care
- Charter Hall Limited
- Babcock & Brown Capital Limited
- Everest Babcock & Brown Limited
- E\*trade Australia Limited (ceased June 2007)
- Everest Capital Investment Management Limited (ceased December 2006)
- MoneySwitch Limited

## **Jost Stollmann**

Director and Chief Executive Officer since 5/04/05

Jost founded and grew the German system and network integrator CompuNet Computer AG into a US\$1B company, sold it to GE Capital and led the integration and expansion of GE Capital IT Solutions across the continent as president of Europe. As Federal Shadow Minister of Economy and Technology, he ran and managed his own election campaign contributing significantly to the landslide victory of the first German government of Chancellor Gerhard Schröder.

Jost has not held any other directorships during the past 3 years.

## **Justin Mitchell**

Company Secretary since 12/04/07

Justin is the Audit and Compliance Manager at Tyro Payments. Justin has twelve years experience in the financial services and banking industry, having spent 5 years with Westpac in operational and project roles and most recently as Risk and Audit Manager with EDS. During this time Justin has established internal audit functions, risk frameworks and internal compliance controls and has developed and delivered enterprise-wide risk training.

Justin has not held any directorships during the past 3 years.

## **Interests in the shares and options of the company and related bodies corporate**

As at the date of this report, the interests of the directors in the shares and options of Tyro Payments were:

<b>Director</b>	<b>Shares</b>	<b>Options</b>
Rob Ferguson	5,258,413	285,153
Brad Banducci	1,505,849	570,005
Bill Bartlett <sup>#</sup>	1,107,555	482,477
Thomas Girgensohn <sup>^</sup>	3,485,513	161,411
Jost Stollmann	20,845,105	2,779,091
Kerry Roxburgh <sup>*</sup>	133,334	-

<sup>#</sup> Shares jointly held with Delwyn Bartlett.

<sup>^</sup> Includes Ordinary Shares and options held by Dacroft Pty Ltd being an associate of Thomas J Girgensohn.

<sup>\*</sup> Share jointly held with Alex Roxburgh as trustees for the Kerry & Alex Roxburgh Superannuation Fund

## **DIVIDENDS**

No dividends have been declared or paid since the date of incorporation.

## **CORPORATE INFORMATION**

### **Corporate Structure**

MoneySwitch Limited trading as Tyro Payments ("Tyro") is an unlisted public company. It is incorporated and domiciled in Australia. The registered office of Tyro is Level 2, 125 York Street, Sydney, New South Wales, 2000.

### **Nature of operations and principal activities**

Tyro Payments principal activities are:

- Providing electronic transaction acquiring services to Australian businesses (merchants). This includes the authorisation, clearing and settlement of credit card, pin based debit card, EFTPOS, Easyclaim and giftcard transactions.
- Developing the transaction switching and payment software and infrastructure required to support the provision of credit and debit acquiring services.

There have been no significant changes in the nature of those activities during the year.

### **Employees**

The company employed 33 employees as at 30 June 2008 (compared to 34 employees at 30 June 2007).

## **OPERATING AND FINANCIAL REVIEW**

### **Overview**

Tyro Payments was founded on 3 February 2003 by Paul Wood, Peter Haig and Andrew Rothwell. Two founders have maintained their active association with Tyro Payments, Peter Haig is Vice President of Engineering and Andrew Rothwell is active in sales.

#### **Credit and Debit Acquiring Services**

Tyro Payments is a specialist financial institution focussed on providing credit and debit acquiring services. As such, the Company has implemented the necessary frameworks, policies, procedures and systems to comply with the stringent prudential and regulatory requirements to perform electronic transaction processing, clearing and settlement activities within the Australian banking sector.

#### **Software development**

Tyro Payments's focus is on using proven modern technology to provide extremely reliable, secure, low cost and flexible acquiring services to merchants and value-added resellers. As such, Tyro Payments owns its own switching and payment software and has continued to develop this for further competitive advantage over the course of the year.

#### **General Release**

Tyro Payments completed a pilot program of its acquiring services over the later part of 2006 and into the beginning of 2007. MoneySwitch Limited relaunched the business as Tyro Payments in April 2007 reflecting the company's focus on commercialisation of its strong technology base as the company becomes an emerging operational business.

### **Performance Indicators**

The Board and Management monitor Tyro Payments's overall performance - from risk management and overall business positioning through to the performance of the Company - against software engineering development plans, business performance operating plans and financial budgets.

The Board, together with Management, has identified key milestones and deadlines that are used to monitor Tyro Payments's development. Directors receive reporting for review prior to each Board and Committee meeting.

### Operating Results for the Year

The Company reported an operating loss after providing for income tax of \$5,854,710 (2007: \$7,124,028 loss). This result was in line with expectations given that the Company is still an emerging operational business.

	2008		2007	
	Revenues	Operating Loss	Revenues	Operating Loss
Tyro Payments	\$1,510,476	\$5,854,710	\$502,221	\$7,124,028

Refer to Note 21 Prior Year Adjustment

### Investments for Future Performance

The Company is investing significant human resources to develop its switching and payments system architecture. It has also invested in the purchase of computer servers and networking and security monitoring equipment to ensure sufficient scalability and performance of the production IT infrastructure to meet the expected demand for acquiring services.

In parallel, the Company has been building the non-engineering capability of the business to support the sales and operations functions after the general release of acquiring services.

### Review of Financial Condition

#### Capital Structure

During the period, the Company issued 10,854,170 ordinary shares and raised \$3,216.251 of additional capital. The capital was raised to ensure that Tyro Payments was fully compliant with the prudential capital requirements imposed on it by the Australian Prudential Regulation Authority (APRA) and to fund on-going operations.

The first capital raising was completed on 16 November 2007; 7,000,000 ordinary shares were issued at \$0.30 per share totalling \$2,100,000. The second capital raising was completed on 18 December 2007; 3,720,836 ordinary shares were issued at \$0.30 per share totalling \$1,116,251. A further 133,334 ordinary shares were issued at \$0.30 per share as remuneration for service.

As at 30 June 2008 the Company had accounts payable of \$421,378.

#### Cash from Operations

Tyro Payments continued to operate at a loss for the 2007/8 financial year, in line with the fact that the Company is still an emerging operational business. The Company had interest income of \$465,898 for the period.

#### Funding

The Company had cash in bank of \$2,636,559 at the end of the period plus Government Bonds of \$1,791,218.

Under Tyro Payments's banking authority as a Specialist Credit Card Institution (SCCI), the Company is required by APRA to hold Tier 1 capital in the greater of the following two amounts:

- (a) \$5 million; or
- (b) 20% of the value of the risk weighted on and off balance sheet credit exposures of the company (at the time of calculation).

The total Tier 1 capital held by Tyro Payments as at 30 June 2008 was \$6,910,088, the company has always held sufficient capital to meet APRA's Tier 1 capital requirements.

## **Risk Management**

Tyro Payments is prudentially supervised by the Australian Prudential Regulation Authority (APRA) and is required to comply with prudential standards and provide quarterly capital adequacy and liquidity reporting. The Company has undertaken substantive improvements to the risk management frameworks, policies, procedures and systems required to ensure on-going compliance with regulatory requirements and to satisfy both business needs and external stakeholders of its acquiring business.

## **Statement of Compliance**

This report is based on the guidelines in The Group of 100 Incorporated Publication *Guide to the Review of Operations and Financial Condition*.

## **Liquidity**

Although the Company has made operating losses in the prior 4 years, this is inline with expectations given that Tyro Payments was in the start-up and development phase of its business. Tyro Payments has sufficient cash and any additional cash requirements will need to be met by fundraising activities for the 2008/9 financial year to pay its debts as and when they become due and payable. It is also able to manage and control its expenses. For these reasons the directors believe the Company is a viable going concern as the next phase of the business plan, which is one of an operational business, approaches.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There were no significant changes in the state of affairs.

## **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature which, in the opinion of the directors of the company, will significantly affect the operation of the company, the results of these operations or the state of affairs of the company in future financial years.

## **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The directors predict that in the 2008/9 financial year Tyro Payments will continue to grow the acquiring business and continue to expand the functionality of electronic transaction acquiring services. After one year of operations, the financial modelling and assumptions behind the business model have been validated.

## **SHARE OPTIONS**

### **Unissued shares**

As at the date of this report, there were 22,311,675 un-issued ordinary shares under options. Option holders do not have any right, by virtue of the option, to participate in any share issue of the company.

### **Shares issued as a result of the exercise of options**

During the financial year, no options have been exercised. Since the end of the financial year, no further options have been exercised.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has not in respect of any person who is, or has been, an officer or auditor of the company or of a related body corporate:

- (a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings with the exception of the general indemnity provisions contained in the Company's Constitution.

During or since the financial year, the company has paid premiums in relation to a contract insuring all the directors and officers of Tyro Payments against legal costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or  
(b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

## DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director is as follows:

	Board Meetings	Audit Committee	Risk Committee	Remuneration Committee
<b>Number of meetings held during the year</b>	11	4	7	1
<b>Director</b>				
Rob Ferguson	11	4	7	1
Brad Banducci	10	3	6	1
Bill Bartlett*	6	1	1	1
Thomas Girgensohn	10	4	6	1
Kerry Roxburgh^	2	1	2	-
Jost Stollmann	11	4	7	1

Directors meetings have been held monthly except in the months of September 2007, January 2008 and May 2008.

### Notes:

^ Kerry Roxburgh has attended all meetings since his appointment on 18 April 2008.

\* Bill Bartlett missed one Audit Committee and directors meeting and two Risk Committee meetings before his retirement on 31 December 2007.

## Committee Membership

As at the date of this report, the Company had an Audit Committee, a Risk Committee and a Remuneration Committee of the Board of Directors. Members acting on the Committees of the Board during the year were:

	Risk Committee	Remuneration Committee
<b>Audit Committee</b>		
T Girgensohn (Chairman)	B Banducci (Chairman)	R Ferguson (Chairman)
R Ferguson	R Ferguson	B Banducci
B Banducci	T Girgensohn	T Girgensohn
<b>During the year</b>	<b>During the year</b>	
B Bartlett*	B Bartlett*	

**Notes** \* B Bartlett was on the Audit Committee and Chairman of the Risk Committee until he resigned on 31 December 2007.

## Auditor's Independence Declaration to the Directors of MoneySwitch Limited

In relation to our audit of the financial report of MoneySwitch Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

  
Ernst & Young



Andrew Price  
Partner  
11 September 2008

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Accounting Advice and Regulatory Advice	\$3,605
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Signed in accordance with a resolution of the directors.



Rob Ferguson  
Chairman



Jost Stollmann  
Director and CEO

Sydney, 11 September 2008

**MONEYSWITCH LIMITED**  
**(TRADING AS TYRO PAYMENTS)**  
**ABN 49 103 575 042**

**INCOME STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>Revenue</b>			
Fees and commission income	2	1,044,578	47,485
Fees and commissions expense	2	(831,628)	(299,979)
<b>Net fees and commissions income</b>		<u>212,950</u>	<u>(252,494)</u>
<b>Interest Income</b>	2	465,898	454,736
<b>Other Income</b>		4,809	-
<b>Net gain on financial instruments</b>	2	<u>186,918</u>	<u>-</u>
<b>Total Operating income</b>		870,575	202,242
<u>Less:</u> Expenses			
Engineering expenses		1,950,676	2,346,107
Operations expenses		1,993,576	1,210,986
Sales and marketing expenses		484,566	449,516
Administrative expenses		2,296,467	3,319,661
<b>Total operating expenses</b>	2	<u>6,725,285</u>	<u>7,326,270</u>
<b>Operating loss before tax expense</b>		(5,854,710)	(7,124,028)
Income tax expense	3	-	-
<b>Net loss for the year</b>		<u><u>(5,854,710)</u></u>	<u><u>(7,124,028)</u></u>

The above Income Statement should be read in conjunction with the accompanying notes.

**MONEYSWITCH LIMITED**  
**(TRADING AS TYRO PAYMENTS)**  
**ABN 49 103 575 042**

**BALANCE SHEET**

**AS AT 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	3,759,808	5,914,213
Trade and other receivables	5	107,580	99,691
Prepayments	6	95,719	-
Held-to-maturity investment	7	1,791,218	1,806,048
Inventories	8	445,724	119,824
<b>Total Current Assets</b>		<u>6,200,049</u>	<u>7,939,776</u>
<b>Non-current Assets</b>			
Available-for-sale investment	9	129,618	-
Property, plant and equipment	10	1,304,390	1,159,754
<b>Total Non-current Assets</b>		<u>1,434,008</u>	<u>1,159,754</u>
<b>TOTAL ASSETS</b>		<u>7,634,057</u>	<u>9,099,530</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	421,378	339,842
Provisions	13	131,859	134,666
<b>Total Current Liabilities</b>		<u>553,237</u>	<u>474,508</u>
<b>TOTAL LIABILITIES</b>		553,237	474,508
<b>NET ASSETS</b>		<u>7,080,820</u>	<u>8,625,022</u>
<b>EQUITY</b>			
Contributed equity	14	21,536,912	18,280,661
Reserves	14	4,473,963	3,374,791
Retained earnings	14	(18,930,055)	(13,030,429)
<b>TOTAL EQUITY</b>		<u>7,080,820</u>	<u>8,625,023</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

**MONEYSWITCH LIMITED**  
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**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2008**

	Note	2008 \$	2007 \$
<b><u>STATEMENT OF CASH FLOWS</u></b>			
<b>Cash flows from operating activities</b>			
Receipt for research and development tax concession		-	352,227
Payments to suppliers and employees		(6,502,875)	(5,302,855)
Interest and fee income received		1,524,955	472,973
<b>Net cash used in operating activities</b>	4	<u>(4,977,920)</u>	<u>(4,477,655)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(546,245)	(1,025,823)
Proceeds from disposal of property, plant and equipment	10	-	1,500
Proceeds from disposal of available-for-sale investments		98,680	
Proceeds from maturity of treasury bonds		1,806,048	1,553,677
Payments for purchase of treasury bonds		(1,791,218)	(1,820,679)
<b>Net cash flows used in investing activities</b>		<u>(432,735)</u>	<u>(1,291,325)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	14	3,256,251	3,780,660
<b>Net cash flows from financing activities</b>		<u>3,256,251</u>	<u>3,780,660</u>
Net decrease in cash and cash equivalents		(2,154,405)	(1,988,320)
Cash and cash equivalents at beginning of year		5,914,213	7,902,533
<b>Cash and cash equivalents at end of year</b>	4	<u><u>3,759,808</u></u>	<u><u>5,914,213</u></u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

**MONEYSWITCH LIMITED**  
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**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2008**

Attributable to equity holders of MoneySwitch Limited				
	Contributed Equity	Retained Earnings	Reserves	Total
Note	\$	\$	\$	\$
<b>At 1 July 2006</b>	14,500,001	(5,895,459)	1,602,520	10,207,062
Loss for the year	-	(7,124,028)	-	(7,124,028)
<b>Total income and expense for the year</b>	-	(7,124,028)	-	(7,124,028)
Issue of share capital	3,500,000	-	-	3,500,000
Exercise of options	280,660	-	-	280,660
Share-based payments	-	-	1,761,329	1,761,329
Transfer to general reserve for credit losses	-	(10,942)	10,942	-
<b>At 30 June 2007</b>	<u>18,280,661</u>	<u>(13,030,429)</u>	<u>3,374,791</u>	<u>8,625,023</u>
Loss for the year	-	(5,854,710)	-	(5,854,710)
<b>Total income and expense for the year</b>	-	(5,854,710)	-	(5,854,710)
Issue of share capital	3,256,251	-	-	3,256,251
Exercise of options	-	-	-	-
Share-based payments	-	-	1,006,502	1,006,502
Available-for-sale reserve	-	-	47,754	47,754
Transfer to general reserve for credit losses	-	(44,916)	44,916	-
<b>At 30 June 2008</b>	<u>21,536,912</u>	<u>(18,930,055)</u>	<u>4,473,963</u>	<u>7,080,819</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**MONEYSWITCH LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES**

The significant policies which have been adopted in the preparation of this financial report are set out below:

The financial report of MoneySwitch Limited (the Company) was authorised for issue in accordance with a resolution of the directors on 11 September 2008.

MoneySwitch Limited is an unlisted public company, incorporated and domiciled in Australia.

**(a) Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards.

Unless otherwise indicated, all amounts are expressed in Australian Dollars (\$).

The financial report has been prepared on the basis of historical cost and except for some assets, as disclosed in this report, have been measured at fair values.

**(b) Going concern**

The directors consider the going concern assumption to be appropriate. The Company is in its second year of operation. It commenced operation in April 2007 with the launch of stand-alone EFTPOS facilities to the general public. The Company is currently focusing on expanding its customer base and developing its IT infrastructure that will accommodate new products and services.

The Company has a history of raising sufficient capital to meet the Company's expenditure and prudential capital needs. MoneySwitch Limited is able to control its expenses. Should current cash levels not be sufficient to meet the Company's prudential capital requirements, the Company will seek to raise additional funding through capital raising in the 2008/2009 financial year internally from existing shareholders and/or externally from additional strategic investors as and when required.

**(c) Statement of compliance**

The financial report complies with Australian Accounting standards issued by the Australian Accounting Standards Board and complies with International Financial Reporting Standards issued by the International Financial Reporting Standards Board.

New Australian Accounting Standards which have recently been issued or amended but are not yet effective have not been adopted for the financial year ended 30 June 2008. At the date of this report, the directors have not assessed the impact of these new Australian Accounting Standards.

**(d) Significant accounting judgements, estimates and assumptions**

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

Share-based payments transactions - The Company recognises the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined using the Black-Scholes model, with the assumptions detailed in Note 11.

**MONEYSWITCH LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(d) Significant accounting judgements, estimates and assumptions (cont'd)**

Classification of and valuation of investments - The Company classifies its investments in listed securities as 'available -for-sale' investments and movements in fair values are recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Estimation of useful lives of assets - The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against their remaining useful lives. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in Note 10.

**(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

*(i) Fees income*

The Company derives fees income from the following sources:

- Merchant service fee income is generated from merchant customers for credit and debit card acquiring services. Fees are charged to merchants depending on the type of transaction being performed based on a percentage of transaction value or on a fixed amount per transaction. Fees related to the payment transactions are recognised at the time transactions are processed. Interchange fee is recognised as an expense instead of netting-off against merchant service fee income in the income statement.

- Revenue from gift-card transaction fees generated from merchants is based on a fixed fee per transaction and is recognised when transactions are processed.

*(ii) Interest income*

- Interest income is recognised in the income statement on an accruals basis, using the effective Interest method. This method measures the amortised cost of A financial asset and allocates the Interest income over the relevant period using the effective Interest which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*(iii) Service income*

- Unearned income is recognised upon receipt of payment for contractual agreements with customers. Revenue is brought to account over time on a percentage completion basis.

**(f) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Leases in which the Company retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as lease rental income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**MONEYSWITCH LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and settlement account balances.

Settlement account balances result from timing differences in the Company's settlement processes with the schemes and the merchants. These timing differences are primarily due to the timing between the funds received from the card issuers and settlement payments made to the merchants.

Settlement funds due from/due to other financial institutions are generally convertible into cash within two (2) business days. Merchant payables are settled on the next business day following the transaction processing date.

For the purposes of the Cash Flow Statement, cash and cash equivalents are reported net of outstanding bank overdrafts.

**(h) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

**(i) Available-for-sale and held-to-maturity investments**

Available-for-sale and held-to-maturity investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the investment. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the income statement.

Investments that are intended to be held-to-maturity, after initial recognition at fair value, are subsequently measured at amortised cost less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are amortised, derecognised or impaired.

The Company currently does not have any investments categorised as held-for-trading.

Purchases and sale of investments are recognised on settlement date - the date on which the Company receives or delivers the asset.

**(j) Inventories**

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Impairment is assessed on an annual basis (refer to Note 1(n)). Inventories are derecognised upon transfer to property, plant and equipment when leased out to merchant or rights to benefits are transferred to a third party.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(k) Income Taxes**

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to recognise the deferred tax asset or liability. An exemption is made for temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets relating to tax losses, unused tax credits and deductible temporary differences are not carried forward as an asset unless it is probable that the future taxable amounts will be available to utilise those temporary differences, losses and tax credits.

**(l) Other Taxes**

*Goods and Services Tax (GST)*

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

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

The net amount of GST recoverable from or payable to the taxation authority is included as part of other receivables or other payables in the balance sheet.

Cash flows used in or from operating activities are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority are classified as part of the Company's operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST.

**(m) Acquisition of assets**

All assets acquired including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus any incidental costs directly attributable to the acquisition.

Expenditure is only recognised as an asset only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. All other expenditure is expensed as incurred.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(n) Recoverable amount of inventory and property, plant and equipment**

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amounts at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

The write-down is expensed in the reporting period in which it occurs.

Recoverable amount of an asset is the greater of its fair-value-less-costs-to-sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where a group of assets working together supports the generation of cash inflows, their recoverable amounts are determined as part of the cash-generating unit to which the group of asset belongs, unless the value-in-use of this group of assets can be estimated to be close to its fair value.

**(o) Property, plant and equipment**

*(i) Cost and Valuation*

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment in value. The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing parts when the cost is incurred and the recognition criteria are met. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant or equipment, as a replacement, provided that the recognition criteria are satisfied.

*(ii) Depreciation*

Depreciation is provided on a straight-line basis over the estimated useful life of each specific item of property, plant and equipment.

Estimated useful lives are as follows:	<b>2008</b>	<b>2007</b>
Plant and equipment:		
- EFTPOS machines	3 years	3 years
- Furniture and office equipment	5 years	5 years
- Computer equipment	4 years	4 years

The assets' residual values, remaining useful lives and depreciation methods are reassessed and adjusted, if appropriate at each balance sheet date.

*(iii) Impairment*

The impairment testing for property, plant and equipment is conducted in accordance with the Accounting Policy in Note 2(n).

*(iv) Derecognition and disposal*

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from continued use of the asset. Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the income statement in the year the asset is derecognised.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(p) Research and development costs**

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

Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

**(q) Trade and other payables**

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**(r) Provisions and contingencies**

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

If the impact of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are not recognised in the balance sheet, but are disclosed in the relevant notes to the financial statements. They may arise from uncertainty as to the existence of a liability or represent an existing liability in respect of which settlement is not probable or the amount cannot be reliably measured. Only when settlement becomes probable will a liability be recognised.

**(s) Provision for losses on merchant accounts**

The Company is contingently liable for processed credit card sales transactions in the event of a dispute between the cardholder and a merchant. If a dispute is resolved in the cardholder's favour, the Company will credit or refund the amount to the cardholder and charge back the transaction to the merchant. If the Company is unable to collect the amount from the merchant, the Company will bear the loss for the amount credited or refunded to the cardholder.

Management evaluates the risk of such transactions and estimates its potential loss for chargebacks based primarily on historical experience and other relevant factors. If there is objective evidence that a loss on merchant accounts has been incurred, a provision is maintained for merchant losses necessary to absorb chargebacks and other losses for merchant transactions that have been previously processed and on which revenues have been recorded.

The methodology and assumptions used for estimating chargeback provisions are reviewed regularly to reduce any possibilities that uncollectible chargebacks may not have been specifically identified. The provision for losses on merchant accounts is decreased by any merchant losses incurred (arising from chargebacks) and is increased by any collective provisions for merchant losses, net of any recoveries.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(t) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leaves and long service leaves.

Entitlements arising in respect of salaries and wages, annual leaves and other employee benefits that are expected be settled within one year have been measured at their nominal amounts.

Entitlements that arise in respect of long service leave which are expected to be settled more than 12 months after the reporting date have been measured at their present values of expected future payments.

No provision has been made for sick leaves as all sick leaves are non-vesting and the average sick leave to be taken in the future by all employees at reporting date is estimated to be less than the annual entitlement for sick leaves.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and
- other types of employee benefits

are recognised in the income statement on a net basis in their respective categories.

**(u) Share-based payment transactions**

Share-based compensation benefits are provided to employees (including Key Management Personnel) via the MoneySwitch Stock Option Plans, whereby employees render services in exchange for rights over the Company's shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined internally using the Black-Scholes Option Valuation Model.

The cost of equity-settled transactions is recognised, together with any corresponding increase in equity, over the period in which the employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest. There were no modifications to the terms of the outstanding options during the financial year. Details of the types of share-based payments and their respective terms and vesting conditions are disclosed in Note 11.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**1. STATEMENT OF ACCOUNTING POLICIES (cont'd)**

**(v) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are accounted in contributed equity as a deduction, net of tax, from the proceeds of issue.

**(w) Foreign currency translation**

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the balance sheet date.

Non-monetary assets and liabilities are translated at their historic rates of exchange at their respective transaction dates.

**(x) Derecognition of assets and liabilities**

Assets and liabilities are derecognised from the balance sheet upon sale, maturity or settlement. Gains and losses arising from the derecognition of these assets and liabilities are accounted in the income statement.

**(y) Accounting errors and reclassifications**

Due to an error identified by an actuarial review with respect to the calculation of share option valuation and associated expensing of amounts to the income statement, share based expenses, share based payment reserve and retained earnings have been adjusted as detailed in Note 21: Prior Year Adjustment.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>2. REVENUE AND EXPENSES</b>		
The Operating loss before tax expense has been arrived at after accounting for the following items:		
<b>Fees and commission income</b>		
Merchant service fee	784,092	33,669
Debit card interchange fee	18,176	1,200
Terminal rental income	118,044	414
Development fee	94,000	-
Other fee income	6,804	12,202
Terminal and accessories sale	23,462	-
	<u>1,044,578</u>	<u>47,485</u>
<b>Fees and commission expense</b>		
Interchange fees	460,730	23,139
Switching and settlement fees	12,564	1,979
Gift card processing expenses	2,520	29,872
Scheme fees	262,132	243,117
Commissions expense	59,260	-
Other expenses	34,422	1,872
	<u>831,628</u>	<u>299,979</u>
<b>Interest income</b>		
Interest on cash and cash equivalents	355,499	415,157
Interest on held-to-maturity investment	110,399	39,578
	<u>465,898</u>	<u>454,736</u>
<b>Net gain on available-for-sale investments</b>		
Miscellaneous share income	<u>186,918</u>	<u>-</u>
<b>Engineering expenses</b>		
Employee benefits expense	1,867,523	2,172,415
Recruitment	37,194	108,945
Training	6,806	23,948
Depreciation	37,849	36,081
Other expenses	1,304	4,718
	<u>1,950,676</u>	<u>2,346,107</u>
<b>Operations expenses</b>		
Communication and hosting	357,544	319,803
Employee benefits expense	989,259	499,707
Depreciation	436,540	267,821
Software and hardware maintenance	41,458	91,123
Other expenses	168,774	32,532
	<u>1,993,576</u>	<u>1,210,986</u>

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>2. REVENUE AND EXPENSES (cont'd)</b>		
<b>Sales and marketing expenses</b>		
Marketing and branding	36,571	236,766
Employee benefits expense	411,986	188,552
Other expenses	36,009	24,198
	<u>484,566</u>	<u>449,516</u>
<b>Administrative expenses</b>		
Employee benefits expense	448,392	395,867
Professional fees	196,967	228,739
Interconnect and membership	99,628	350,083
Legal	72,188	103,785
Telephone and internet	47,743	29,390
Depreciation	42,557	27,082
Travel	39,287	49,643
Office supplies	37,793	58,302
Actual Chargeback (gains)/losses	(5,787)	71
Insurance	24,041	27,008
Provision for employee leave (adjustment)/entitlement	(2,807)	54,130
Recruitment	16,983	44,339
Utilities	11,132	10,414
Occupancy expenses	215,365	135,574
Equity-settled share options (Note 11)	1,013,245	1,761,329
Miscellaneous share expense	6,375	-
Other expenses	33,365	43,905
	<u>2,296,467</u>	<u>3,319,661</u>
<i>Extracted from the above are the following:</i>		
<b>Employee benefits expense</b>		
Wages, salaries and commissions	3,196,380	2,849,113
Superannuation	296,180	232,050
Other payments	<u>3,492,560</u>	<u>3,081,163</u>
<b>Depreciation of non-current assets</b>		
Property, plant and equipment	<u>516,946</u>	<u>330,984</u>

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>3. INCOME TAX</b>		
Operating loss for the year	(5,854,710)	(7,124,028)
Prima facie income tax benefit on the operating loss for the year at 30% income tax rate (2007:30%)	(1,756,413)	(2,137,209)
Benefit of tax losses not brought to account	1,756,413	2,137,209
Tax effect of temporary differences and current year tax losses not brought to account	-	-
This future income tax benefit will only be obtained if:		
(a) future taxable income is derived of a nature and amount sufficient to enable the benefit to be realised;	-	-
(b) the conditions for deductibility imposed by taxation legislation continue to be complied with;	-	-
(c) no changes in taxation legislation adversely affect the Company in realising the benefit.	-	-
Income tax expense/(benefit) attributable to operating loss	<u>-</u>	<u>-</u>
The estimated potential future income tax benefit at year end calculated at 30% in respect of tax losses not brought to account	<u>4,484,952</u>	<u>2,728,539</u>

No deferred tax asset/liability on any of the Company's tax losses and/or temporary differences have been brought to account as the probability of any future taxable profits arising to recoup these losses and/or the reversal of temporary differences are considered to be remote at reporting date.

**4. CASH AND CASH EQUIVALENTS**

Call deposits	2,635,559	5,568,051
Exchange settlement balance	1,651,265	422,456
Due from other financial institutions	1,908,024	253,053
Due to other financial institutions	(895,728)	(115,392)
Due to merchants	(1,539,812)	(213,955)
Cash in hand	500	-
	<u>3,759,808</u>	<u>5,914,213</u>

Call deposits earn interest at floating rates based on daily bank deposit rates. The Reserve Bank of Australia (RBA) pays interest on balances held in exchange settlement accounts at a rate of 25 basis points below the cash rate.

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>4. CASH AND CASH EQUIVALENTS (cont'd)</b>		
<b>Reconciliation of operating loss after tax to net cash flows used in operations</b>		
Operating loss for the year	(5,854,710)	(7,124,028)
<i>Adjustments for:</i>		
Depreciation of non-current assets	516,946	330,984
(Adjustment) / Provision for employee entitlements	(2,807)	54,130
Share-based payments expense	1,013,245	1,761,329
Other non-cash income	(191,727)	-
Other non-cash expense	7,249	-
<i>Changes in assets and liabilities</i>		
(Increase) / Decrease in trade and other receivables	(7,889)	302,325
Increase in prepayments	(95,719)	-
Increase in inventory	(441,237)	(4,487)
Increase in trade and other payables	78,729	202,093
Net cash used in operating activities	<u>(4,977,920)</u>	<u>(4,477,655)</u>

**5. TRADE AND OTHER RECEIVABLES**

Trade debtors	14,001	1,196
Interest receivable	72,548	54,831
GST recoverable	21,032	43,664
	<u>107,580</u>	<u>99,691</u>

The Company's ageing of trade and other receivables is as follows:

	Current	1-30 days*	31-60 days*	61-90 days*	>90 days*
	\$	\$	\$	\$	\$
2008 (Total \$107,580)	95,756	398	426	-	11,000
2007 (Total \$99,691)	99,691	-	-	-	-

\* These balances are past due but not impaired at balance sheet date.

The Company provides for any chargeback losses arising from merchant settlements through a general reserve for credit losses account.

Factors which the Company considers in accounting for any impairment relates to the probability of settlement of any chargeback disputes with merchants.

Movements in the general reserve for credit losses account are detailed in Note 14 and the Company's accounting policy is outlined in Note 1(s).

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>6. PREPAYMENTS</b>		
Prepayments	62,461	-
Prepaid remuneration expense	33,258	-
	<u>95,719</u>	<u>-</u>
<b>7. HELD-TO-MATURITY INVESTMENTS</b>		
Treasury bonds	<u>1,791,218</u>	<u>1,806,048</u>
<b>8. INVENTORIES</b>		
Terminals and accessories	439,976	115,337
EFTPOS paper rolls	5,748	4,487
	<u>445,724</u>	<u>119,824</u>
<b>9. AVAILABLE-FOR-SALE INVESTMENTS</b>		
Investment in VISA shares	<u>129,618</u>	<u>-</u>

These investments were acquired following the demutualisation of VISA International, as a result of which listed VISA shares were issued to members of the VISA network. All VISA shares were listed on the New York Stock Exchange (NYSE) on 26th March 2008 with VISA's certificate of incorporation providing for the mandatory buy back of up to 80% of the common stock allocated to VISA members out of IPO proceeds as soon as possible after listing.

Out of 3,893 VISA shares received, MoneySwitch Ltd redeemed 2,188 shares for net proceeds of USD \$93,617.29. At reporting date MoneySwitch Limited holds 1,705 Class C (Series 1) Common stock categorised as Available-for-sale assets.

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**10. PROPERTY, PLANT AND EQUIPMENT**

*Reconciliation of net carrying amounts at the beginning and end of the year:*

	<i>Eftpos Machines \$</i>	<i>Furniture and Office Equipment \$</i>	<i>Computer Equipment \$</i>	<i>Total \$</i>
<b>Year ended 30 June 2008</b>				
At 1 July 2007				
net of accumulated depreciation and impairment	380,601	90,574	688,579	1,159,754
Additions	387,865	14,296	259,421	661,582
Disposals/transfers			-	-
Depreciation charge for the year	(218,611)	(28,127)	(270,208)	(516,946)
At 30 June 2008				
net of accumulated depreciation and impairment	549,855	76,743	677,792	1,304,390
<b>At 1 July 2007</b>				
Cost or fair value	479,788	146,912	1,014,463	1,641,163
Accumulated depreciation and impairment	(99,187)	(56,338)	(325,884)	(481,409)
Net carrying amount	380,601	90,574	688,579	1,159,754
<b>At 30 June 2008</b>				
Cost or fair value	867,653	121,186	1,273,884	2,262,724
Accumulated depreciation and impairment	(317,798)	(44,443)	(596,092)	(958,334)
Net carrying amount	549,855	76,743	677,792	1,304,390

*Reconciliation of net carrying amounts at the beginning and end of the year:*

	<i>Eftpos Machines \$</i>	<i>Furniture and Office Equipment \$</i>	<i>Computer Equipment \$</i>	<i>Total \$</i>
<b>Year ended 30 June 2007</b>				
At 1 July 2006				
net of accumulated depreciation and impairment	-	50,695	531,058	581,752
Additions/transfers	479,788	65,242	365,455	1,025,823
	-	(1,500)	-	(1,500)
Depreciation charge for the year	(99,187)	(23,863)	(207,934)	(330,985)
At 30 June 2007				
net of accumulated depreciation and impairment	380,601	90,574	688,579	1,159,754
<b>At 1 July 2006</b>				
Cost or fair value	-	83,169	649,008	732,177
Accumulated depreciation and impairment	-	(32,475)	(117,950)	(150,425)
Net carrying amount	-	50,694	531,058	581,752
<b>At 30 June 2007</b>				
Cost or fair value	479,788	146,912	1,014,463	1,641,163
Accumulated depreciation and impairment	(99,187)	(56,338)	(325,884)	(481,409)
Net carrying amount	380,601	90,574	688,579	1,159,754

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**11.SHARE-BASED PAYMENTS**

The Company will provide benefits to employees and directors from time to time including share-based payments as remuneration for service.

*(a) MoneySwitch Stock Option Plan*

The MoneySwitch Stock Option Plan was established to grant options over ordinary shares in the Company to employees or directors of the company or to external consultants who provide services to the Company. The rules of the MoneySwitch Stock Option Plan provides that the Board has the authority, in its discretion, and subject to such terms and conditions as it deems appropriate, to grant options to directors, employees and consultants of the Company.

Options granted pursuant to the MoneySwitch Stock Option Plan may be exercised, in whole or part, subject to vesting terms and conditions as indicated below:

<b>Type of Option</b>	<b>Vesting Terms and Conditions</b>
Linear vesting schedule	Options granted will vest in proportion to the time that passes linearly during the vesting schedule, subject to maintaining continuous status as an employee or consultant with the Company during the vesting schedule.
Service vesting schedule	The options with service vesting schedule may be exercised as to a set number of shares per agreed day of consulting service, as defined in the specific option grant.
Fully vested at time of grant	Options may be exercised as to all shares from the vesting commencement date.

Other relevant terms and conditions applicable to options granted under the MoneySwitch Stock Option Plan include:

- all stock options granted under those plans had an exercise price equal to the fair value of the underlying ordinary shares on the date of the grant.
- the term of each option grant shall be 10 years from the date of grant or such shorter term as provided in the Stock Option Grant agreement. However, in the case of options granted to Optionholders who, at the time the options is granted, owns ordinary shares representing more than 10% of the voting power of all classes of ordinary shares of the Company, the term of the Option Grant shall be 5 years from the grant date or such shorter term as may be provided in the Stock Option Grant agreement.
- each option entitles the holder to one ordinary share.
- all awards granted under the MoneySwitch Stock Option Plan are equity-settled.

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**11.SHARE BASED PAYMENTS (cont'd)**

*(b) Fair value of options*

The weighted average fair value of the share options granted during the financial year is 28 cents (2007: 24 cents).

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes Option Valuation Model. The following table lists the assumptions used in determining the fair value of the options granted in the years ended 30 June 2008 and 30 June 2007:

	<b>2008</b>	<b>2007</b>
Dividend yield (%)	0%	0%
Expected volatility (%)	74%	74%
Risk-free interest rate (%)	6.20%	5.86%

A zero dividend policy assumption is used for valuing all option grants. This is in line with the Company's capital management policy and growth strategy.

Expected volatility used is the historical volatility of the peer group. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The average expected life for 10 year options is assumed to be 8 years from the grant date. For all other options with a contractual life of 5 years or less, the expected life is assumed to be the total contractual life (years) from grant date to expiry date.

There were no options exercised during the year ended 30 June 2008 (2007: \$280,660).

The average share price for the options exercised in the year ended 30 June 2007 was 55 cents.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 was 4.66 years (2007: 3.47 years).

The following table summarises further details of the stock options outstanding at 30 June 2008:

<b>Range of Exercise Prices</b>	<b>Contractual life</b>	<b>Vesting conditions</b>	<b>No of Outstanding Options</b>
10 cents to 55 cents	10 years or less	5 year linear vesting	7,129,844
10 cents to 45 cents	5 years and 10 years	12 months service	4,173,334
10 cents to 55 cents	3, 5 and 10 years	12 months linear vesting	4,430,372
10 cents to 55 cents	10 years or less	Fully vested at time of grant	6,578,125
<b>Total</b>			<b>22,311,675</b>

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**11.SHARE BASED PAYMENTS (cont'd)**

The following table illustrates the number and weighted average exercise prices (WAEP) in Cents and movements of share options during the year:

	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<i>No</i>	<i>WAEP (Cents)</i>	<i>No</i>	<i>WAEP (Cents)</i>
<u>Linear vesting schedule</u>				
Outstanding at the beginning of the year	8,371,880	35	6,511,651	26
Granted during the year	5,545,647	30	2,698,177	55
Exercised during the year	-	-	(230,128)	13
Forfeited/expired during the year	(2,357,311)	31	(607,820)	49
<b>Outstanding at the end of the year</b>	<b>11,560,216</b>	<b>32</b>	<b>8,371,880</b>	<b>35</b>
<b>Exercisable at the end of the year</b>	<b>7,785,700</b>	<b>32</b>	<b>5,225,316</b>	<b>35</b>
<u>Fully vested at time of grant</u>				
Outstanding at the beginning of the year	7,944,943	39	4,453,455	26
Granted during the year	1,410,960	43	4,317,379	55
Exercised during the year	-	-	(825,891)	30
Forfeited/expired during the year	(2,777,778)	37	-	11
<b>Outstanding at the end of the year</b>	<b>6,578,125</b>	<b>39</b>	<b>7,944,943</b>	<b>39</b>
<b>Exercisable at the end of the year</b>	<b>4,755,499</b>	<b>39</b>	<b>3,344,539</b>	<b>39</b>
<u>Service vesting schedule</u>				
Outstanding at the beginning of the year	4,842,223	13	4,842,223	13
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited/expired during the year	(668,889)	-	-	-
<b>Outstanding at the end of the year</b>	<b>4,173,334</b>	<b>13</b>	<b>4,842,223</b>	<b>13</b>
<b>Exercisable at the end of the year</b>	<b>4,173,334</b>	<b>13</b>	<b>4,837,778</b>	<b>13</b>
<b>Total outstanding at the end of the year</b>	<b>22,311,675</b>		<b>21,159,046</b>	
<b>Total exercisable at the end of the year</b>	<b>16,714,533</b>		<b>13,407,633</b>	

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 2.

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>12. TRADE AND OTHER PAYABLES</b>		
Accounts payable	37,181	144,733
Unearned income	45,000	-
Rent payable	99,000	32,135
Accruals	146,530	-
Other liabilities	93,667	162,974
	<u>421,378</u>	<u>339,842</u>

**13. PROVISIONS**

**Annual leave provision**

Balance at the beginning of the year	134,666	80,536
Additional (adjustment) / provision recognised during the year	(2,807)	54,130
Balance at the end of the year	<u>131,859</u>	<u>134,666</u>
<i>Current</i>	131,859	134,666
<i>Non-current</i>	-	-
	<u>131,859</u>	<u>134,666</u>

No chargeback losses have been provided at reporting date.  
No liability for long service leave existed at reporting date.

**14. CONTRIBUTED EQUITY AND RESERVES**

*(i) Ordinary Shares*

Issued and fully paid

- 3,540,688 Ordinary shares paid at 10 cents each	354,069	354,069
- 10,475,433 Ordinary shares paid at 15 cents each	1,571,315	1,571,315
- 32,387,503 (2006/07:21,666,667) Ordinary shares paid at 30 cents each	9,716,251	6,500,000
- 8,111,112 Ordinary shares paid at 45 cents each	3,650,001	3,650,001
- 11,282,322 Ordinary shares paid at 55 cents each	6,205,276	6,205,276
- 133,334 Ordinary shares paid at 30 cents each	40,000	-
	<u>21,536,912</u>	<u>18,280,661</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**14. CONTRIBUTED EQUITY AND RESERVES (cont'd)**

**Terms and conditions of contributed equity**

Ordinary shares have the right to receive dividends when declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on ordinary shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	<b>No: Shares</b>	<b>\$</b>
<i>Movement in ordinary shares on issue</i>		
<b>At 1 July 2006</b>	42,353,535	14,500,001
<u>Shares issued during the year:</u>		
- 14 Sep 2006 for cash on exercise of share options at 10 cents each	216,410	21,641
- 15 Nov 2006 for cash on exercise of share options at 15 cents each	142,100	21,315
- 15 Nov 2006 for cash on exercise of share options at 55 cents each	7,379	4,058
- 14 Dec 2006 for cash on exercise of share options at 10 cents each	30,000	3,000
- 24 Apr 2007 for cash on exercise of share options at 10 cents each	294,278	29,428
- 25 Sep 2006 for cash on exercise of share options at 55 cents each	2,215	1,218
- 18 May 2007 for cash on exercise of share options at 55 cents each	363,638	200,000
- 26 June 2007 equity raising at 30 cents each	11,666,667	3,500,000
<b>At 1 July 2007</b>	55,076,222	18,280,661
<u>Shares issued during the year:</u>		
- 16 Nov 2007 equity raising at 30c each	7,000,000	2,100,000
- 7 Jan 2008 equity raising at 30c each	3,720,836	1,116,251
- 18 Apr 2008 shares issued as remuneration for service at 30c each	133,334	40,000
<b>At 30 June 2008</b>	65,930,392	21,536,912
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<i>(ii) Share-based payments reserve</i>		
Balance at the beginning of the year	3,363,849	1,602,520
Share-based payments expensed during the year		
- Share options issued during the year	1,006,502	1,761,329
Balance at the end of the year	4,370,351	3,363,849

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**14. CONTRIBUTED EQUITY AND RESERVES (cont'd)**

**Nature and purpose of reserve**

The share-based payments reserve is used to record the value of share-based payments / benefits provided to any directors, employees and consultants as part of their remuneration or compensation.

Refer to Note 11 for further details of these plans.

*(iii) General reserve for credit losses*

Balance at the beginning of the year	10,942	-
Transfer from retained earnings	44,916	10,942
Balance at the end of the year	<u>55,858</u>	<u>10,942</u>

**Nature and purpose of reserve**

The general reserve for credit losses has been created to satisfy The Australian Prudential and Regulation Authority (APRA) prudential standards for Authorised Deposit-Taking Institutions (ADI) to maintain a general reserve for credit losses. The Company applies an internal methodology to estimate the credit risk of its merchant customers and the maximum expected losses based upon a number of assumptions concerning the performance of merchants in relation to the Company's credit risk grading system.

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<i>(iv) Available-for-sale investment revaluation reserve</i>		
Balance at the beginning of the year	-	-
Total revaluations for the year	47,754	-
Balance at the end of the year	<u>47,754</u>	<u>-</u>
<b>Total reserves at the end of the year</b>	<u>4,473,963</u>	<u>3,374,791</u>

*(v) Retained losses*

Movements in retained losses were as follows:

Retained losses at the beginning of the financial year	(13,030,429)	(5,895,459)
Net loss attributable to shareholders of the Company	(5,854,710)	(7,124,028)
Transfer to general reserve for credit losses	(44,916)	(10,942)
Retained losses at the end of the financial year	<u>(18,930,055)</u>	<u>(13,030,429)</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES**

The Company's principal financial instruments include cash and cash equivalents, trade and other receivables, held-to-maturity investments, available-for-sale financial assets and trade and other payables.

**(i) Risk management**

The Board is responsible for approving and reviewing the risk management strategy and framework and all risk management policies. The Board also ensures senior management has identified all risks and that those risks are managed and controlled appropriately. Senior management is responsible for implementing the Board's approved risk management strategy and for developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

**(ii) Risk controls**

Risk is controlled through a system that identifies key risks, establishes controls to manage those risks (with an emphasis on preventive control rather than detective control), and maintains a regular review process to monitor the effectiveness of the controls. Business risks are controlled within tolerance levels set by the Chief Executive Officer and approved by the Board. A set of control and compliance principles provide prudent standards for risk management.

**(iii) Internal audit**

The Company has an effective program of internal control to ensure that at all times the risks to which the company are exposed to in the normal course of its business are minimised. This program of internal control and audit is reviewed and approved on a regular basis by the Audit Committee.

**(iv) Credit risk**

Credit risk represents the loss that would impact the Company if counterparties failed to perform as contracted. Credit risk arises from trade receivables, cash and cash equivalent balances, exposures to merchants and held to maturity investments. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets at reporting date. The Company's credit risk management principles define the framework and core values which govern its credit risk taking activities and reflect the priorities established by the Board.

From these principles flow the development of the target market strategies, underwriting standards and credit procedures which define the operating processes. Portfolio-level counterparty limits are established by the use of a credit risk grading system, which segments the Company's client portfolio into performing and non-performing sales. Credit risk grades are monitored on a regular basis. The operation of a credit risk grading system coupled with ongoing monitoring, reporting and review controls allows the Company to identify changes in the credit quality at client and portfolio levels, and take necessary corrective actions in a timely manner.

In addition, the Company is subject to the risk of credit card chargebacks in the event of a merchant failure. The maximum period of credit risk the Company is potentially liable for such chargebacks is estimated to be 120 days after the date of the transaction. The Company prudently manages the credit risk associated with its merchant portfolio both at an individual and a portfolio level, by monitoring the concentration of risk by industry and type of counterparty.

It is the Company's policy that all merchants are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored. The Company has an existing portfolio of low-risk merchant categories and therefore minimal exposure to credit risk in terms of liabilities. For the current or prior years, no impairment trigger was identified in relation to these exposures and accordingly no collective or individual provision for impairment losses were recorded in the income statement.

As part of equity, a general provision reserve for credit losses is raised to cover losses due to uncollectible chargebacks that have not been specifically identified. The reserve is calculated based on estimation of potential credit risk in the merchant portfolio based on the concentration of merchant transactions by industry type and the merchant counterparty's credit risk grading as per the Company's credit risk policy.

**MONEYSWITCH LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**

**(iv) Credit risk (cont'd)**

The Company does not hold any credit derivatives of collaterals to offset its credit exposure. The Company trades only with recognised, creditworthy third parties and as such no collaterals are requested nor is it the Company's policy to securitise any of its financial assets. Credit exposures are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant at reporting date.

**30 June 2008**

Standard & Poors Credit Rating*	Cash and balances with financial institutions	Due from other financial institutions	Trade receivables	Held-to-maturity financial assets
AAA	1,651,264			1,791,218
AA	1,185,936	1,908,024		
AA-	1,449,623			
unrated			107,580	

**30 June 2007**

Standard & Poors Credit Rating*	Cash and balances with financial institutions	Due from other financial institutions	Trade receivables	Held-to-maturity financial assets
AAA	422,416			1,806,048
AA	4,216,037	253,753		
AA-	1,352,014			
unrated			99,691	

\*Long-term credit rating

**(v) Market risk**

Market risk is the risk the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices or conditions, and comprises of interest rate risk, foreign currency risk and other price risk. The Company does not engage in financial market trading activities nor assume any foreign exchange, interest rate or other derivative positions and does not have a trading book. The Company does not undertake any hedging around the values of its financial instruments as any risk of loss is considered insignificant to the operations of the Company.

The Company complies with the Capital and Reporting requirements of APRA Prudential Standard APS 113. Any government securities, bank bills or other marketable instruments that the Company holds are for investment or liquidity purposes and held in the normal course of business in line with investment and liquidity guidelines. Each component of market risk is detailed below as follows:

**(a) Interest rate risk**

The Company's financial assets and liabilities are subject to interest rate risk as their fair values will fluctuate in accordance with movements in the market interest rates. The Company has exposure to interest rate risk on its variable interest-bearing cash and cash equivalent balances. Held-to-maturity investments in treasury bonds are at fixed interest rate rates and as such are not exposed to any interest rate risk fluctuations. All other financial assets and financial liabilities at reporting date are non-interest bearing.

The following net exposure to interest rate risk is to be reported at balance sheet date:

	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	<u>3,759,307</u>	<u>5,914,213</u>

Sensitivity analysis:

An increase of 100 basis points in the general cash rate (assuming every other factors being constant) will reduce the Company's loss after tax and increase equity by \$ 26,315 (2007:\$41,399). A decrease of 100 basis points in the general cash rate will have an equal and opposite effect.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**

**(v) Market risk (cont'd)**

**(b) Foreign Currency risk**

The Company's settlement of fees with card schemes and the purchases of inventory from foreign suppliers are transacted in foreign currencies and any balances at reporting date are translated at the exchange rate prevailing the balance sheet date. At reporting date the Company has some US Dollar exposure and minimal currency risk exposure to the Euro.

The following USD net exposure is to be reported at balance sheet date:

		<b>2008</b>	<b>2007</b>
Available-for-sale investments-VISA shares	USD	129,618	-
Trade payables	USD	-	7,224
Net exposure		<u>129,618</u>	<u>(7,224)</u>

**Sensitivity analysis:**

An appreciation of 2% of the US Dollar compared to the Australian Dollar (assuming every other factors being constant) will reduce the Company's loss after tax and increase equity by \$1,815 (2007: \$101). A depreciation of 2% of the US Dollar compared to the Australian Dollar will have an equal and opposite effect.

**(c ) Other Price Risk**

The Company's investment in available-for-sale financial assets are valued by way of reference to an underlying listed equity on the New York Stock Exchange (NYSE) and as such its fair value will fluctuate in direct proportion with the quoted market price indicated. However, this investment is not linked to any NYSE Market Index and any form of Price risk as a result of movements caused by any specific index is considered minimal. No sensitivity analysis has been performed.

**(vi) Liquidity risk**

Liquidity risk is the risk that the Company will have insufficient liquidity to meet its obligations as they fall due. This risk is managed by maintaining adequate cash resources for future expenditure and other financial commitments. The Company's liquidity risk management policy aims to ensure that enough high quality liquid assets are always available for the Company's cash flow and liquidity requirements.

At balance sheet date, the board of directors determined that there was sufficient cash resources available to meet its anticipated expenditure and other financial liabilities.

The Company does not have any contractual financial liabilities at reporting date.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**

**(vii) Fair values**

At reporting date the carrying amounts of all financial assets and financial liabilities approximate their fair values.

**(viii) Capital Management**

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Australian Prudential Regulatory Authority (APRA). The Company has aligned its objectives and processes in respect of risk management around the Prudential Regulations requirements.

The Company has an internal policy target ratio above the prudential limit requirement and includes elements for risk exposures such as market, operations and credit risk.

During the past year, the Company had complied in full with all its externally imposed capital requirements. The Company will maintain Tier 1 Capital in the greater of 20% of risk weighted assets or \$5 million (2007:\$5.5 million). In all planning, the Company maintains a minimum of 22% capital adequacy or \$5.5 million to ensure there is a sufficient buffer to levels required under the Company's Specialist Credit Card Institution (SCCI) licence.

Tier 1 Capital consisting of ordinary shares, general reserves, retained earnings, non-cumulative irredeemable preference shares (approved by the Board and APRA) and other APRA approved Tier 1 capital instruments.

Upper Tier 2 Capital consisting of general provision for Doubtful Debts and other APRA approved Upper Tier 2 Capital instruments. Lower Tier 2 Capital (not to exceed 50% of net Tier 1 Capital) consisting of APRA approved Term Subordinated Debt.

**Regulatory capital**

	<b>Actual 2008</b>	<b>Required 2008</b>	<b>Actual 2007</b>	<b>Required 2007</b>
Tier 1 capital	6,910,088	5,000,000	8,614,081	5,500,000
Tier 2 capital	-	-	10,942	-
<b>Total capital</b>	<b>6,910,088</b>		<b>8,625,023</b>	
<b>Risk weighted assets</b>	<b>4,159,789</b>			
Tier 1 capital ratio	166%		157%	
Total capital ratio	166%		157%	

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>16. COMMITMENTS AND CONTINGENCIES</b>		
<b>(a) Operating lease commitments - Company as lessee</b>		
Future minimum rentals payable under the non-cancellable operating leases as at 30 June 2008 are as follows:		
- Within one year	297,000	196,020
- After one year but not more than five years	470,250	835,500
	<u>767,250</u>	<u>1,031,520</u>
The operating lease commitments relates to the lease of the Company's registered office located at 125 York Street, Sydney NSW. It is a non-cancellable lease with a term of 4 years ending 28 February 2011. The lease agreement provides the Company with a right of renewal on expiry at which time all terms will be renegotiated. Lease payments are subject to annual increases of 4%.		
<b>(b) Contingent liabilities -secured</b>		
<i>(i) Irrecoverable standby letters of credit in favour of:</i>		
- MasterCard International	1,400,000	1,400,000
- Visa International	140,000	140,000
<i>(ii) Bank Guarantee in favour of:</i>		
- Dukeville Pty Ltd, the lessor of 125 York Street, Sydney	245,025	245,025
	<u>1,785,025</u>	<u>1,785,025</u>
<b>(c) Assets pledged as security</b>		
The carrying amount of assets used to collateralise the Company's exposure to contingent liabilities is as follows:		
- Held to maturity investments	<u>1,791,218</u>	<u>1,806,048</u>

The Company has provided irrevocable standby letters of credit of \$1,540,000 to MasterCard International and Visa International. These are one-year arrangements that are subject to automatic renewal on a yearly basis. MasterCard International and Visa International, at their discretion, may increase the required amounts of the standby letters of credit upon written request to the Company. The required amounts of the standby letters of credit are dependent on MasterCard International's and Visa International's view of their risk exposure to the Company.

The standby letters of credit are issued by the Commonwealth Bank of Australia to MasterCard International and Visa International on behalf of the Company and are fully secured by a fixed charge over certain assets of the Company as detailed in Note 16(c) above.

A bank guarantee is held with the Commonwealth Bank of Australia in relation to the lease arrangement for the office premises. The amount represents 9 months rent and is refundable on expiry of the lease agreement, subject to satisfactory vacation of the leased premises.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**17. SUBSEQUENT EVENTS**

There has not arisen in the interval between the end of this financial year and the date of approval of this report any item, transaction or event of a material or unusual nature, which in the opinion of the directors of the Company, has or will affect significantly the operations of the Company, the results of these operations or the state of affairs of the Company in future financial years.

**18. SEGMENT REPORTING**

The Company operates predominantly in one geographical segment being Australia and within one business segment being the provision of credit and debit card acquiring services to merchants.

**19. AUDITOR'S REMUNERATION**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Amounts received or due and receivable by Ernst & Young:		
- an audit of the financial report of the Company	103,469	68,378
- other services in relation to the Company	3,605	15,225
	<u>107,074</u>	<u>83,603</u>

**20. RELATED PARTY DISCLOSURES**

The total cash remuneration paid to the Directors and Executives of the Company amounted to \$787,953 (2007: \$695,349). Details of compensation paid to key management personnel including all monetary and non-monetary components are shown in the various tables in this note.

**Details of Key Management Personnel**

		<b>Appointed</b>	<b>Resigned</b>
<b>Directors</b>			
Robert Ferguson	Non-executive Chairman	14-Nov-05	
Jost Stollmann	Chief Executive Officer	05-Apr-05	
William J Bartlett	Non-executive	14-Apr-04	31-Dec-07
Thomas Girgensohn	Non-executive	09-Mar-07	
Bradford L Banducci	Non-executive	14-Dec-06	
Kerry Roxburgh	Non-executive	18-Apr-08	
<b>Executives</b>			
	<b>Title</b>		
Peter J Haig	VP Engineering	3-Feb-03	
John Hallis	VP Operations	14-Feb-06	
Mark Wood	VP Business Development	1-Apr-04	31-Aug-07
Garry Duursma	VP Sales and Marketing	1-Jan-07	
Justin Mitchell	Company Secretary	19-Mar-07	

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**20. RELATED PARTY DISCLOSURES (Cont'd)**

			2008	2007
			\$	\$
Compensation of Key Management Personnel				
Short-term Benefits			652,545	411,966
Post Employment benefits (superannuation)			135,408	414,183
Other long-term benefits			-	-
Termination Benefits			-	-
Share-based Payments			647,922	738,202
Total			1,435,876	1,564,351
	Short-term Benefits	Post Employment	Share-based Payments	Total
	Salary & fees (\$)	Super-annuation (\$)	Options (\$)	(\$)
Directors				
Jost Stollmann	30,404	2,736	231,850	264,990
William J Bartlett	-	-	24,198	24,198
Rob Ferguson	-	-	48,397	48,397
Thomas Girgensohn	-	-	24,198	24,198
Bradford L Banducci	-	-	24,198	24,198
Kerry Roxburgh			40,000	40,000
Executives				
Peter J Haig	30,880	77,301	151,078	259,259
John Hallis	241,385	21,725	38,724	301,834
Mark Wood	33,691	2,700	21,268	57,659
Garry Duursma	214,601	21,804	19,362	255,767
Justin Mitchell	101,584	9,142	24,649	135,375
	652,545	135,408	647,922	1,435,875

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**20. RELATED PARTY DISCLOSURES (cont'd)**

	<b>Short-term Benefits Salary &amp; fees (\$)</b>	<b>Post Employment Super- annuation (\$)</b>	<b>Share-based Payments Options (\$)</b>	<b>Total (\$)</b>
<b>For the year-ended 30 June 2007</b>				
<b>Directors</b>				
Richard Freemantle	-	-	15,586	15,586
Jost Stollmann	15,101	1,359	155,867	172,327
Paul A Wood	-	240,000	155,867	395,867
William J Bartlett	-	-	18,434	18,434
Denis A Calvert	-	-	18,434	18,434
Rob Ferguson	-	-	18,434	18,434
Thomas Girgensohn	-	-	18,434	18,434
Bradford L Banducci	-	-	61,447	61,447
<b>Executives</b>				
Peter J Haig	24,819	104,912	92,170	221,901
John Hallis	172,707	15,544	113,996	302,247
Mark Wood	110,924	9,983	6,330	127,237
Garry Duursma	88,415	42,385	63,203	194,003
	<u>411,966</u>	<u>414,183</u>	<u>738,202</u>	<u>1,564,351</u>

**Shareholdings of Key Management Personnel and their Related Entities Transactions**

	<b>Outstanding at start of year</b>	<b>Shares Issued during the year</b>	<b>On exercise of options</b>	<b>Outstanding at end of year</b>
<b>30 June 2008</b>				
<b>Directors</b>				
Jost Stollmann	18,137,332	3,335,067	-	21,472,399
William and Delwyn Bartlett	1,107,555	-	-	1,107,555
Robert Alexander Ferguson	5,143,836	-	-	5,143,836
Thomas Girgensohn (Dacroft Pty Ltd)	3,170,856	-	-	3,170,856
Bradford Leon Banducci	1,505,849	-	-	1,505,849
Kerry Roxburgh		133,334		133,334
<b>Executives</b>				
Peter and Nola Haig	2,072,222	-	-	2,072,222
Garry John Duursma	317,091	166,667	-	483,758
John Hallis (Mackbron Pty Ltd)	380,304	54,329	-	434,633
Mark Wood	666,667	-	-	666,667
Stephen Mitchinson	58,136	-	-	58,136
Total	<u>32,559,848</u>	<u>3,689,397</u>	<u>-</u>	<u>36,249,245</u>

**MONEYSWITCH LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**20. RELATED PARTY DISCLOSURES (cont'd)**

	<b>Outstanding at start of year</b>	<b>Shares Issued during the year</b>	<b>On exercise of options</b>	<b>Outstanding at end of year</b>
<b>30 June 2007</b>				
<b>Directors</b>				
Richard Freemantle (Cazalla Developments Pty. Lim	5,000,000	-	-	5,000,000
Richard Freemantle	1,111,112	-	-	1,111,112
Jost Stollmann	11,680,999	6,456,333	-	18,137,332
Paul Wood	4,499,084	169,479	-	4,668,563
Pamela Wood	4,499,085	-	-	4,499,085
Mark Wood	666,667	-	-	666,667
Denis Calvert (Tamoda Pty Ltd)	2,831,313	-	-	2,831,313
William and Delwyn Bartlett	924,222	183,333	-	1,107,555
Robert Alexander Ferguson	2,949,495	2,194,341	-	5,143,836
Thomas Girgensohn (Dacroft Pty Ltd)	1,818,182	1,352,674	-	3,170,856
Bradford Leon Banducci	1,186,868	318,981	-	1,505,849
<b>Executives</b>				
Peter and Nola Haig	1,472,222	600,000	-	2,072,222
Garry John Duursma	-	317,091	-	317,091
John Hallis (Mackbron Pty Ltd)	181,818	198,486	-	380,304
Stephen Mitchinson	-	58,136	-	58,136
Total	38,821,067	11,848,854	-	50,669,921

**Option Holdings of Key Management Personnel**

	<b>Outstanding at start of period 1-Jul-07</b>	<b>Granted as Remuneration</b>	<b>Options exercised/ expired during the year</b>	<b>Outstanding at end of period 2008</b>	<b>Exercisable at end of period 2008</b>
<b>30 June 2008</b>					

*Linear/Service vesting schedule*

<b>Directors</b>					
Jost Stollmann	1,456,364	1,050,000	-	2,506,364	2,506,364
William J Bartlett	430,303	104,348	52,174	482,477	534,651
Rob Ferguson	76,457	208,696	-	285,153	285,153
Thomas Girgensohn	57,063	104,348	-	161,411	161,411
Bradford L Banducci	356,566	104,348	-	460,914	460,914
<b>Executives</b>					
Peter J Haig	1,478,182	521,739	660,000	1,339,921	1,220,250
John Hallis	211,655	-	-	211,655	211,655
Garry Duursma	-	-	-	-	-
Justin Mitchell	89,091	123,952	-	213,043	47,802
	4,155,681	2,217,431	712,174	5,447,895	5,380,398

*Fully vested at time of grant*

<b>Directors</b>					
Jost Stollmann	109,091	163,636	-	272,727	272,727
Bradford L Banducci	2,886,869	-	2,777,778	109,091	109,091
<b>Executives</b>					
Peter J Haig	1,109,091	218,182	-	1,327,273	1,327,273
Mark Wood	75,819	109,091	-	184,910	184,910
John Hallis	1,727,273	218,182	727,273	1,218,182	309,091
Garry Duursma	1,636,364	109,091	727,273	1,018,182	109,091
Justin Mitchell	-	25,820	-	25,820	25,820
	7,544,507	818,182	4,232,324	4,130,365	2,312,183
Total	11,700,188	3,035,613	4,944,498	9,578,260	7,692,581

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**20. RELATED PARTY DISCLOSURES (cont'd)**

**Option Holdings of Key Management Personnel (cont'd)**

	Outstanding at start of period 1-Jul-06	Granted as Remuneration	Options exercised during the year	Outstanding at end of period 30-Jun-07	Exercisable at end of period 30-Jun-07
<b>30 June 2007</b>					
<i>Linear/Service vesting schedule</i>					
<b>Directors</b>					
Richard Freemantle	486,667	43,636	-	530,303	530,303
Jost Stollmann	1,020,000	436,364	-	1,456,364	1,456,364
Paul A Wood	2,133,333	436,364	-	2,569,697	2,569,697
William J Bartlett	386,667	43,636	-	430,303	430,303
Denis A Calvert	386,667	43,636	-	430,303	430,303
Rob Ferguson	32,821	43,636	-	76,457	76,457
Thomas Girgensohn	13,427	43,636	-	57,063	57,063
Bradford L Banducci	211,111	145,455	-	356,566	356,566
<b>Executives</b>					
Peter J Haig	900,000	218,182	-	1,478,182	1,238,182
Mark Wood	250,000	18,304	-	268,304	166,127
John Hallis	102,564	109,091	-	211,655	211,655
	<u>5,923,257</u>	<u>1,581,940</u>	<u>-</u>	<u>7,865,197</u>	<u>7,523,020</u>
<i>Fully vested at time of grant</i>					
<b>Directors</b>					
Richard Freemantle	240,000	-	-	240,000	240,000
Jost Stollmann	-	109,091	-	109,091	109,091
Paul A Wood	750,000	109,091	-	859,091	859,091
Bradford L Banducci	2,777,778	109,091	-	2,886,869	2,886,869
<b>Executives</b>					
Peter J Haig	1,000,000	109,091	-	1,109,091	1,109,091
Mark Wood	86,667	9,152	20,000	75,819	75,819
John Hallis	-	1,909,092	181,819	1,727,273	90,909
Garry Duursma	-	1,818,183	181,819	1,636,364	-
	<u>4,854,445</u>	<u>4,172,791</u>	<u>383,638</u>	<u>8,643,598</u>	<u>5,370,870</u>
<b>Total</b>	<b><u>10,777,702</u></b>	<b><u>5,754,731</u></b>	<b><u>383,638</u></b>	<b><u>16,508,795</u></b>	<b><u>12,893,890</u></b>

**MONEYSWITCH LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

**20. RELATED PARTY DISCLOSURES (cont'd)**

**Option Terms and Conditions**

Stock option grants may be exercised, in whole or in part, subject to vesting terms and conditions indicated below:

<u>Type</u>	<u>Terms and Conditions</u>
<b>Type of Option</b>	<b>Vesting Terms and Conditions</b>
Linear vesting schedule	Options granted will vest in proportion to the time that passes linearly during the vesting schedule, subject to maintaining continuous status as an employee or consultant with the Company during the vesting schedule.
Service vesting schedule	The options with service vesting schedule may be exercised as to a set number of shares per agreed day of consulting service, as defined in the specific option grant.
Fully vested at time of grant	Options may be exercised as to all shares from the vesting commencement date.

**Other transactions with key management personnel and their related parties**

There were no other transactions with key management personnel and/or their related parties.

**21. PRIOR YEAR ADJUSTMENT**

The following prior year adjustments have been accounted during the previous financial year as a result of which the 2007 comparative figures have been restated as follows:

	<b>\$</b>	
<b>Reserves</b>		
Balance as at 30 June 2007	2,673,044	
Adjustment to share-based payment expense 2006/07 understated as per actuarial valuation	701,747	
Restated as at 1 July 2007	<u>3,374,791</u>	
<b>Retained losses</b>		
Balance as at 30 June 2007	(12,328,682)	
Adjustment to share-based payment expense 2006/07 understated as per actuarial valuation	(701,747)	
Restated as at 1 July 2007	<u>(13,030,429)</u>	
	<b>Reported 2007</b>	<b>Restated 2007</b>
Extract as per Income Statement for the year ended 30 June 2007 and effect of retrospective restatement:		
Share-based payment expense	<u>936,674</u>	<u>1,761,329</u>
Net loss after tax for the year	<u>(6,299,373)</u>	<u>(7,124,028)</u>
Extract as per Statement of Changes in Equity for the year ended 30 June 2007 and effect of retrospective restatement:		
Share-based payment reserve	<u>2,539,194</u>	<u>3,363,849</u>

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of MoneySwitch Limited, I state that:

(1) In the opinion of the directors:

- a. the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - ii. complying with Accounting Standards and Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

On behalf of the Board



Rob Ferguson  
Chairman



Jost Stollmann  
Director and CEO

Sydney, 11 September 2008

## Independent auditor's report to the members of MoneySwitch Limited

### Report on the Financial Report

We have audited the accompanying financial report of MoneySwitch Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

**Auditor's Opinion**

In our opinion:

1. the financial report of MoneySwitch Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of MoneySwitch Limited at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.



Ernst & Young



Andrew Price  
Partner  
Sydney  
11 September 2008

## **corporate information**

### **directors**

Rob Ferguson (Chairman)

Brad Banducci

Thomas Girgensohn

Kerry Roxburgh

Jost Stollmann

### **company secretary**

Justin Mitchell

### **registered office**

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### **solicitors**

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### **auditors**

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