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# Afterpay Holdings Limited

ASX: AFY

APPENDIX 4D  
HALF-YEAR REPORT

## COMPANY DETAILS

Name of entity:	Afterpay Holdings Limited
ACN:	606 589 520
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

### Statutory Results Summary

	CHANGES FROM PERIOD			
	31 DECEMBER 2016		31 DECEMBER 2015	
	%	\$m		\$m
Revenue from ordinary activities	Up 2629%	to 6.0	from	0.2
Loss before tax	Up 48%	to -1.9	from	-1.3
Net loss after tax attributable to the members of Afterpay Holdings Limited	Up 10%	to -1.4	from	-1.3

Revenue for the half year increased significantly compared to the previous corresponding period due to the Company's continued strong growth with merchant and end-customer take-up of Afterpay's "Buy Now, Receive Now, Pay Later" Pay By Instalment service, particularly by leading Australian online retailers who have integrated the Afterpay platform into their online retail offering.

The Company's statutory loss after tax increased predominantly as a result of costs associated with staff and amortisation of the Afterpay system.

## RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

### Net Tangible Asset per Security

	31 DECEMBER 2016	31 DECEMBER 2015
Total number of shares on issue	180,037,038	28,000,000
Net Tangible assets per share	\$0.34	\$0.97

### Loss per Share

	31 DECEMBER 2016	31 DECEMBER 2015
Loss per share (Basic, loss for the year attributable) to ordinary equity holders of the Parent	-\$0.01	-\$0.06

### Dividends

No dividends were declared or paid for the half-year ended 31 December 2016.

### Entities over which control has been gained or lost during the period

Afterpay Warehouse Trust

### Basis of Preparation

This report is based on the consolidated financial statements which have been reviewed by Ernst & Young. The review report is included within the Company's Financial Report which accompanies this Appendix 4D.

### Other information required by Listing Rule 4.2A.3

Other information requiring disclosure to comply with Listing Rule 4.2A.3 is contained in the 31 December 2016 half-year Report (which includes the Directors' Report).

### Accounting Standards

This Report has been compiled using Australian Accounting Standards and International Financial Reporting Standards.



Afterpay Holdings Limited  
HALF-YEAR REPORT

For the half-year ended 31 December 2016

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# Directors' Report

The Directors submit their report on the consolidated entity consisting of Afterpay Holdings Limited and the entities it controlled at the end of, or during the half-year ended, 31 December 2016.

## DIRECTORS

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.

<b>Anthony Eisen</b>	Executive Chairman
<b>Nicholas Molnar</b>	Managing Director
<b>Michael Jefferies</b>	Non-Executive Director
<b>David Hancock</b>	Independent Non-Executive Director
<b>Clifford Rosenberg</b>	Independent Non-Executive Director

All of the Directors have been in office for the entire period unless otherwise stated.

## PRINCIPAL ACTIVITIES

Afterpay is a technology driven payments company with a focus on applying its technology to provide a retail centric, omni channel retail service that facilitates commerce between retail merchants and their end-customers.

Afterpay delivers this by providing a platform that allows retail merchants to offer their end-customers the ability to buy products on a "buy now, receive now, pay later" basis without the end-customer having to:

- > Apply for or enter into a traditional loan;
- > Pay any additional amount (by way of interest or upfront fees to Afterpay) for the merchant's products; or
- > Provide extensive personal information that would likely cause delay or failure to complete a purchase.

For online transactions, Afterpay is typically positioned on the merchant's product page and offers a fast and frictionless process resulting in reduced abandoned online "shopping carts". For in-store transactions, Afterpay offers an easily generated mobile phone barcode for use at the merchant's Point of Sale terminal.

Instalment payment terms are presented to end customers for a maximum of 56 days. The purchase value is recouped by Afterpay from the end-customer usually in four equal, fortnightly instalments.

Retail merchants benefit from providing the Afterpay service to its end-customers because:

- > End-customers are more inclined to make a purchase and/or increase the value of their purchase because of the affordability and flexibility attributes of the Afterpay service; and
- > Afterpay pays the retail merchant upfront and assumes all end-customer payment collection responsibilities.

# Directors' Report

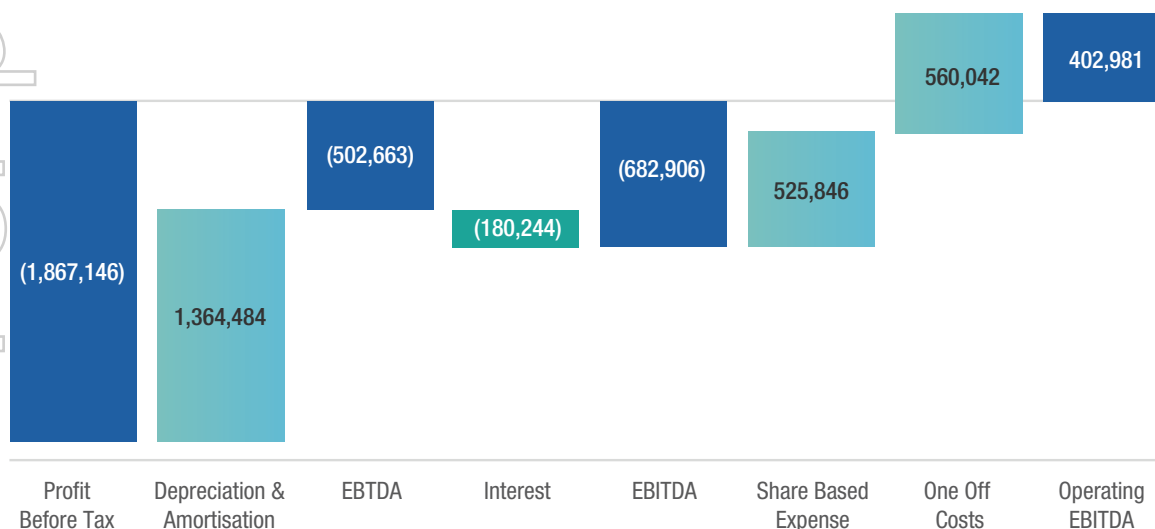
## REVIEW OF FINANCIAL PERFORMANCE AND OPERATIONS

Afterpay results are reported under Australian Accounting Standards ("AAS"). Compliance with AAS also results in compliance with International Financial Reporting Standards ("IFRS"). This report also includes certain non-IFRS financial information, including EBITDA, EBDTA, Net Transaction Loss and Net Transaction Margin.

These measures are used internally by Management to assess the performance of the business and make decisions on the allocation of resources, and are included in this report to provide greater understanding of the underlying financial performance of Afterpay's operations. When reviewing business performance, this non-IFRS information should be used in addition to, and not as a replacement of, measures prepared in accordance with IFRS. The non-IFRS information has not been subject to audit or review by Afterpay's external auditor.

The non-IFRS measures do not have any standard definition under IFRS and may be calculated differently by other companies. The chart below reconciles these non-IFRS measures to the most appropriate IFRS measure (Profit Before Tax):

### Reconciliation between Profit Before Tax and Operating EBITDA



## Financial Performance

The 6 months to 31 December 2016 has been a period of continued growth.

Integrated merchants have grown by 543% from 318 to 2,044, and end-customers have grown by 264% from 98,000 to 356,000. This strong growth has continued through January.

Underlying merchant sales for the 6 months to 31 December 2016 of \$145m (up from \$31m in the prior half year period) generated Afterpay merchant fee revenue of \$6m (up from \$1.2m in the prior half year period). Underlying merchant sales was driven by increased merchant integrations and customers, strong merchant growth and customer penetration, complemented by the positive seasonal impact associated with the Christmas trading period.

Afterpay's transaction integrity capabilities continue to become enhanced as the level of transaction data and repeat customer activity continues to rapidly increase. Afterpay has to date processed in excess of 1.4 million transactions. Afterpay's improved performance in relation to Net Transaction Losses (un-recouped late payments less late fees, net of collection related costs) achieved in 2H FY16 has been slightly improved in 1H FY17, while at the same

# Directors' Report

time processing much higher volumes of transactions, on-boarding partners in new retail categories and increasing the overall acceptance rate of transactions processed through the Afterpay system. Bad and doubtful debts expense was \$1.9m (prior to offsetting recoveries) in the 6-month period to 31 December 2016.

Overhead related operating costs increased during the period reflecting increased investment in people, processes and systems as the business scales. For the 6 months to 31 December 2016, operating costs were \$3.5m, up from \$1.7m in the 6 months to 30 June 2016. These costs exclude one-off expenditure items of (\$0.6m) principally relating to the establishment of the NAB banking facility in November 2016, and the cost (non-cash) of employee long term incentives of \$0.5m.

On average, Afterpay generates positive Net Transaction Margins (Afterpay merchant fees less variable transaction costs) per transaction. Afterpay's objective is to generate significantly increased underlying Afterpay sales to derive positive net transaction margins that are sufficient to cover its fixed overhead expenditure and thereafter deliver shareholder profits. In the 6-month period to 31 December 2016, Afterpay derived positive operating EBITDA (earnings before interest, tax, depreciation and amortisation) of approximately \$0.4m prior to one-off expenditure \$0.6m and share based payments expense (non-cash) of \$0.5m. EBITDA including one-off expense items and share based payments was (\$0.7m) for the reporting period. Depreciation and amortisation expenses of \$1.4m, principally relates to the amortisation of the Afterpay System. The net loss for the period was (\$1.4m).

The balance sheet remains strong. The company completed a share placement of \$36m (excluding fees) in October 2016. Net assets of \$72.1m are largely comprised of trade receivables of \$38.8m, and cash of \$31m, growing from \$7.2m and \$19.7m respectively as at 30 June 2016.

Net cash flows used in operating activities were \$31.4m. This reflects the strong sales uplift (and merchant settlements) in December 2016. Settlements with merchants represents a cash outflow and to which a corresponding customer payment receivable is created. Afterpay's receivables are short tenor. Afterpay's pay by instalment product characteristics means that the weighted average duration of its receivables book is less than 30 days, which in turn is influenced by the mix of new versus returning customers and the extent of early or late payments. Afterpay is therefore able to employ its capital that is utilised to support its receivables book multiple times (currently over 12 times) per annum.

## Enterprise Sales Update

Afterpay has continued to experience strong growth with retail merchant clients now approximately 2,600 (up from approximately 2,000 at 31 December 2016). This growth momentum includes significant progress in on-boarding more of Australia's best retailers and brands, including the The Iconic, Cotton On, Country Road and Super Retail Group (Super Cheap Auto, Rebel, BCF).

It has been a pleasing development to see the Afterpay product penetrate new retail verticals with consistently positive initial results for both customers and retailers. Emanating from a leading presence in online apparel, homewares and lifestyle product categories, Afterpay has more recently developed a material presence in broader retail categories. Integrations with leading retailers such as Super Retail Group, Ezibuy (part of the Woolworths group) and Best & Less reflect this market expansion.



# Directors' Report

## Small and Medium Business (SMB) Sales Update

This segment has grown strongly in the period, and adds significant value to Afterpay through the contribution of higher revenue margins. Demand from online SMB retailers to integrate Afterpay remains strong and reverse-enquiries have been consistently strong over the 6-month period to 31 December 2016 and into the 2017 calendar year. The dominant retail verticals are fashion, baby goods, children's apparel, and beauty/cosmetics. The diversity and spread of SMB retailers continues to expand. The Afterpay shop directory is driving significant end-customer traffic and sales to SMB retailers.

Afterpay's recently announced partnership with Tyro Payments will see a significant portion of Tyro's 17,000 installed in-store merchant base having the option to enable Afterpay's "buy now, receive now, pay later" service in 2017. This supports Afterpay's strategy of being the payment method of choice in online and in-store retail environments.

## In Store

Afterpay is receiving strong demand from its existing online retail partners to integrate Afterpay into their physical retail store network. During the course of the last calendar quarter of 2016, a number of important in-store integrations took place. Afterpay is now integrated in-store with several key Australian retailers, including Cue, Athlete's Foot and City Beach.

Afterpay maintains a full pipeline of pending in-store integrations and a number of additional in-store integrations are currently in-train.

## Customers

Unique end-customers are approximately 450,000 (up from approximately 356,000 at 31 December 2016), growing at over 2,000 per day.

## Product and Technology Development

The core Afterpay System has been developed and continues to be maintained by Touchcorp on behalf of Afterpay under the existing Software Development and License Agreement. Afterpay continues to invest in technology innovation and has commissioned Touchcorp to develop further applications outside of the core system in the areas of customer in-store engagement and scaled data analytics. The cost of the projects currently in train are approximately \$2 million, wherein \$1.25m has been recognised on Afterpay's balance sheet as at 31 December 2016. This cost will be amortised over a five year period in line with the amortisation rate associated with the core Afterpay System.

## Share Placement

In October 2016, the Company conducted a successful share placement, raising equity capital of \$36m (excluding fees). Afterpay was pleased with existing institutional shareholder support and has also welcomed a number of new institutional shareholders onto the register.

## Bank Funding Facility

In November 2016 Afterpay secured a \$20m receivables funding facility with the National Australia Bank. The facility provides Afterpay with a highly efficient and scalable funding model. The facility was successfully operationalised in December 2016.

# Directors' Report

## **GST Audit**

As previously advised, Afterpay has been under audit by the ATO with respect to certain Business Activity Statements (BAS) lodged. Afterpay has been advised by the ATO that the audit has been finalised. We have an immaterial adjustment to our GST treatment, and have adopted the agreed revised approach from 1 October 2016.

## **AUDITOR INDEPENDENCE**

A copy of the Auditors' Independence Declaration in relation to the review for the half-year is provided with this report.

Signed in accordance with a resolution of the Directors.



## **ANTHONY EISEN**

**Executive Chairman**

Melbourne

16 February 2017

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## Auditor's Independence Declaration to the Directors of Afterpay Holdings Limited

As lead auditor for the review of Afterpay Holdings Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

Ernst & Young

David McGregor  
Partner  
16 February 2017

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# Statement of Comprehensive Income

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	NOTE	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
Rendering of services		6,011,227	220,261
<b>Revenue</b>		<b>6,011,227</b>	<b>220,261</b>
Cost of sales		(1,178,732)	(30,459)
<b>Gross profit</b>		<b>4,832,496</b>	<b>189,802</b>
Other income		1,197,662	46,281
<b>Total other income</b>		<b>1,197,662</b>	<b>46,281</b>
Depreciation		(8,670)	(843)
Amortisation		(1,355,813)	(866,667)
Share based payments expense		(525,846)	-
Employee benefits expense	5	(1,888,055)	(231,941)
Bad and doubtful debts expense	6	(1,904,634)	(189,565)
Rental expenses		(44,287)	(22,548)
Consulting costs		(329,580)	(42,904)
Entertainment		(25,699)	(13,207)
Marketing expense		(366,112)	(13,424)
Legal expenses		(476,848)	(41,183)
Contractor expenses		(28,970)	(61,147)
Corporate & compliance expenses		(257,692)	-
Travel & accommodation expenses		(96,570)	(25,374)
Bank Fees		(251,007)	(346)
Other expenses		(517,765)	(41,733)
<b>Operating loss</b>		<b>(2,047,390)</b>	<b>(1,314,799)</b>
Interest expense		(30,186)	-
Interest revenue		210,430	57,387
<b>Loss before tax</b>		<b>(1,867,146)</b>	<b>(1,257,412)</b>
Income tax benefit		477,799	-
<b>Loss for the period</b>		<b>(1,389,347)</b>	<b>(1,257,412)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the period, net of tax</b>		<b>(1,389,347)</b>	<b>(1,257,412)</b>
<b>Loss per share</b>	10		
Basic, loss for the period attributable to ordinary equity holders of the Parent		-\$0.01	-\$0.06
Diluted, loss for the period attributable to ordinary equity holders of the Parent		-\$0.01	-\$0.06

THE ABOVE STATEMENT OF COMPREHENSIVE INCOME SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

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# Statement of Financial Position

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	NOTE	31 DECEMBER 2016 \$	30 JUNE 2016 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	27,740,034	19,723,472
Other financial asset	4	3,254,221	-
Trade receivables	6	38,798,289	7,229,936
Prepayments and other receivables		2,514,029	567,861
<b>Total Current Assets</b>		<b>72,306,573</b>	<b>27,521,269</b>
<b>Non-current Assets</b>			
Property, plant and equipment		71,360	28,193
Intangible assets		10,936,820	10,833,333
Deferred tax asset		1,555,695	609,400
<b>Total Non-current Assets</b>		<b>12,563,875</b>	<b>11,470,926</b>
<b>TOTAL ASSETS</b>		<b>84,870,448</b>	<b>38,992,195</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		4,545,446	870,986
Employee leave provisions		115,317	57,427
Interest-bearing borrowings	7	8,094,560	-
<b>Total Current Liabilities</b>		<b>12,755,322</b>	<b>928,413</b>
<b>Non-current Liabilities</b>			
Long service leave provision		10,945	2,945
<b>Total Non-current Liabilities</b>		<b>10,945</b>	<b>2,945</b>
<b>TOTAL LIABILITIES</b>		<b>12,766,267</b>	<b>931,358</b>
<b>NET ASSETS</b>		<b>72,104,181</b>	<b>38,060,837</b>
<b>EQUITY</b>			
Issued capital		76,513,415	41,506,567
Accumulated losses		(4,988,515)	(3,599,168)
Reserves		579,281	153,438
<b>TOTAL EQUITY</b>		<b>72,104,181</b>	<b>38,060,837</b>

THE ABOVE STATEMENT OF FINANCIAL POSITION SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

# Statement of Changes in Equity

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	ISSUED CAPITAL \$	ACCUMULATED LOSSES \$	RESERVES \$	TOTAL \$
<b>At 1 JULY 2016</b>	<b>41,506,567</b>	<b>(3,599,168)</b>	<b>153,438</b>	<b>38,060,837</b>
Loss for the period	-	(1,389,347)	-	(1,389,347)
Other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(1,389,347)</b>	<b>-</b>	<b>(1,389,347)</b>

## TRANSACTIONS

Issue of share capital	36,100,003	-	-	36,100,003
Share issue expenses (net of tax)	(1,093,155)	-	-	(1,093,155)
Share based payment expenses	-	-	425,843	425,843
<b>At 31 DECEMBER 2016</b>	<b>76,513,415</b>	<b>(4,988,515)</b>	<b>579,281</b>	<b>72,104,181</b>

	ISSUED CAPITAL \$	ACCUMULATED LOSSES \$	RESERVES \$	TOTAL \$
<b>At 1 JULY 2015</b>	<b>2</b>	<b>(46,840)</b>	<b>-</b>	<b>(46,838)</b>
Loss for the period	-	(1,257,412)	-	(1,257,412)
Other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(1,257,412)</b>	<b>-</b>	<b>(1,257,412)</b>

## TRANSACTIONS

Issue of share capital	18,000,000	-	-	18,000,000
Share issue expenses (net of tax)	(115,943)	-	-	(115,943)
<b>At 31 DECEMBER 2015</b>	<b>17,884,059</b>	<b>(1,304,252)</b>	<b>-</b>	<b>16,579,807</b>

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

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# Statement of Cashflows

## CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	NOTE	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		102,161,922	4,144,093
Payments to employees		(1,541,511)	(231,941)
Payments to merchants and suppliers (inclusive of GST)		(131,973,208)	(6,607,371)
<b>Net cash flows used in operating activities</b>		<b>(31,352,797)</b>	<b>(2,695,219)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		303,509	57,387
Purchase of intangibles		(161,000)	(3,000,000)
Purchase of plant and equipment		(51,838)	(16,754)
Increase in other financial asset	4	(3,254,221)	-
<b>Net cash flows (used in)/from investing activities</b>		<b>(3,163,550)</b>	<b>(2,959,367)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest-bearing borrowings		8,094,560	-
Proceeds from issue of shares		36,000,000	8,000,000
Capital raising expenses		(1,561,651)	(115,943)
<b>Net cash flows from financing activities</b>		<b>42,532,909</b>	<b>7,884,057</b>
Net increase in cash and cash equivalents		8,016,562	2,229,471
Cash and cash equivalents at beginning of the period		19,723,472	3,785
<b>Cash and cash equivalents at end of the period</b>	<b>3</b>	<b>27,740,034</b>	<b>2,233,256</b>

THE ABOVE STATEMENT OF CASH FLOWS SHOULD BE READ IN CONJUNCTION WITH THE ACCOMPANYING NOTES

# Notes to the Financial Statements

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# Note 1

## Basis of Preparation

This interim condensed financial report for the half-year ended 31 December 2016 has been prepared in accordance with AASB 134 Interim Financial Reporting.

The securities of Afterpay Holdings Limited (Afterpay) are listed on the Australian Securities Exchange. The interim condensed consolidated financial statements of the company as at, and for the half-year ended 31 December 2016 incorporate the financial statements of the company and its subsidiary.

The interim condensed consolidated financial report for the half-year was authorised for issue by the directors on 16 February 2017.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year report be read in conjunction with the Afterpay Holdings Limited annual report for the year ended 30 June 2016, and considered together with any public announcements made by Afterpay Holdings Limited during the half-year ended 31 December 2016.

The accounting policies and methods of computation are the same as those adopted in the most recent Afterpay Holdings Limited annual financial report.

### CHANGES IN ACCOUNTING POLICY

The company has adopted the applicable changes in accounting standards and are of the view that adoption of these standards did not have any effect on the financial position or the performance of the Group. In addition, the group has not elected to adopt any new standards or amendments that are issued but not yet effective.

# Note 2

## Segment Information

Afterpay is an Australian domiciled technology driven payments company; as such management views the overall business as one segment.

## Note 3

### Cash and Cash Equivalents

	31 DECEMBER 2016 \$	30 JUNE 2016 \$
Cash at bank and in hand	27,740,034	723,472
Short-term deposits	-	19,000,000
<b>Total Cash and cash equivalents</b>	<b>27,740,034</b>	<b>19,723,472</b>

## Note 4

### Other Financial Asset

	31 DECEMBER 2016 \$	30 JUNE 2016 \$
Other financial asset	3,254,221	-
<b>Total other financial asset</b>	<b>3,254,221</b>	<b>-</b>

Other financial asset is cash held in the Group's trust for the purposes of repayment of the Group's secured interest bearing borrowings (as disclosed in note 7) and payment of interest and bank fees associated to that borrowing.

## Note 5

### Expenses

	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
<b>EXPENSES</b>		
<b>Employee benefits expense</b>		
Wages and salaries	1,621,066	209,857
Other employee oncosts	266,990	22,084
<b>Total employee benefits expense</b>	<b>1,888,055</b>	<b>231,941</b>

## Note 6

### Trade Receivables

	31 DECEMBER 2016	30 JUNE 2016
	\$	\$
<b>TRADE RECEIVABLES</b>		
Trade receivables	40,300,508	7,549,915
Less allowance for doubtful debts		
Opening balance	(319,979)	(6,623)
Provided in the year	(1,904,634)	(567,481)
Debts written off/collected	722,394	254,125
Total allowance for doubtful debts	(1,502,219)	(319,979)
<b>Total trade receivables</b>	<b>38,798,289</b>	<b>7,229,936</b>

## Note 7

### Interest Bearing Borrowings

	31 DECEMBER 2016	30 JUNE 2016
	\$	\$
Secured interest bearing borrowings	8,094,560	-

This borrowing has been drawn under a 12 month revolving facility. The facility has been secured against trade receivables with a carrying value of \$36,750,315 as at 31 December 2016. As at 31 December 2016, the facility carries an interest rate of 4.66% per annum.

## Note 8

### Related party disclosures

The following table provides the total amount of transactions that have been entered into with related parties during the six months ended 31 December 2016 and 2015, as well as balances with related parties at 31 December 2016 and 30 June 2015:

RELATED PARTY	SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES	AMOUNTS DUE TO RELATED PARTIES
Minority Shareholder Touchcorp Limited				
2016	-	2,263,849	-	1,596,366
2015	-	10,030,459	-	64,906

## Note 9

### Share-based payments expenses

In August 2016, 1,740,000 share options were granted to employees under the existing Employee Share Option Plan (ESOP). The exercise price of these options ranges from \$2.23 to \$2.71. Under the ESOP, awards are made to employees who have an impact to the Group's performance. ESOP awards are delivered in the form of options over shares which vest over a three year service period. The fair value of options granted is estimated at the date of grant using a Binomial Model, taking into account the terms and conditions upon which the share options were granted, with a share-based payments expense being recognised in the income statement over the vesting period. The fair value of the options granted during the six months ended 31 December 2016 was estimated on the date of grant using the following assumptions:

Dividend yield (%):	0%
Expected volatility (%):	40%
Risk-free interest rate (%):	1.54%
Expected life of share options:	4
Weighted average share price:	\$2.54

# Note 10

## Earnings Per Share (EPS)

Basic EPS amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the loss attributable to ordinary equity holders of the Parent by the sum of the weighted average number of ordinary shares outstanding during the year and the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

	31 DECEMBER 2016 \$	31 DECEMBER 2015 \$
Loss attributable to ordinary equity holders of the Parent for basic earnings	(1,389,347)	(1,257,412)
	NUMBER	NUMBER
Weighted average number of ordinary shares for basic EPS	170,415,705	21,672,131
Effect of dilution from:		
Share options	3,108,333	-
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>173,524,038</b>	<b>21,672,131</b>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

# Directors' Declaration

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

In the opinion of the directors:

- a. The financial statements and notes of Afterpay Holdings Limited for the half year ended 31 December 2016 are in accordance with the Corporations Act 2001, including:
  - (i) Giving a true and fair view of its financial position as at 31 December 2016 and of the company's performance for the year ended on that date
  - (ii) Complying with Accounting standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- 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;
- c. The remuneration disclosures set out in the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and
- d. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in 2(a)

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

On behalf of the Board.



**Nicholas Molnar**  
**Managing Director**  
Melbourne  
16 February 2017



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## Independent auditor's report to the members of Afterpay Holdings Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Afterpay Holdings Limited, which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period end or from time to time during the period.

#### Directors' Responsibility for the half-year Financial Report

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

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of Afterpay Holdings Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

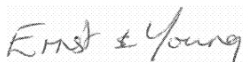
#### Independence

In conducting our audit we have complied with 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.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Afterpay Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of their performance for the half-year ended on that date; and
- ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



David McGregor  
Partner  
Melbourne  
16 February 2017



# Corporate Information

## AFTERPAY HOLDINGS LIMITED

ABN 36 606 589 520

### Board of Directors

Anthony Eisen (Executive Chairman)  
Nicholas Molnar (Managing Director)  
Michael Jefferies (Non-Executive Director)  
David Hancock (Non-Executive Director)  
Clifford Rosenberg (Non-Executive Director)

### Australian Registered Office

Level 16, 380 La Trobe Street  
Melbourne VIC 3000 Australia

### Company Secretary

Sophie Karzis  
Corporate Counsel  
Level 1, 61 Spring Street  
Melbourne VIC 3000  
Phone: +61 3 9286 7500

### Solicitors

Baker & McKenzie  
Level 19, CBW  
181 William Street  
Melbourne Vic 3000

### Auditor

Ernst & Young  
Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000

### Share Registry

Computershare Investor Services  
Yarra Falls  
452 Johnston Street  
Abbotsford Victoria 3067  
Phone: 1300 137 328  
[web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### Stock exchange listing

Afterpay Holdings Limited shares  
are listed on the Australian  
Securities Exchange  
(ASX: AFY)

### Company Website

[www.afterpay.com.au](http://www.afterpay.com.au)

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