emerchants

10 February 2014

ASX Market Announcements
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

HALF-YEAR FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Please find attached the Appendix 4D and half-year financial report for Emerchants Limited (emerchants) for the half-year ended 31 December 2013.

ABOUT EMERCHANTS

emerchants is a payments solutions provider of prepaid financial card products and services in Australia. By using their proprietary Secure Account Management (SAM) system, the Company provides its clients with innovative financial service payment solutions for reloadable and non-reloadable prepaid card programs. emerchants are able to adapt to meet the expense management and funds disbursement needs of any organisation. Their corporate expense, petty cash, per diem, social payments and staff rewards programs are easy to implement and reduce administration burden and costs. Emerchants is focused on the twin goal of delivered high quality payments systems to its customer and superior returns to its shareholders.

For more information please visit: www.emerchants.com.au

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For more information, please contact:

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Managing Director
Emerchants Limited
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Bruce Stewart
Chief Financial Officer
Emerchants Limited
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Rule 4.2A.3

Appendix 4D

Half year report
Half-Year ended 31 December 2013

Introduced 1/1/2003

Name of entity

Emerchants Limited

ABN or equivalent company reference

93 104 757 904

1.

Half year ended (current period)	Half year ended ('previous corresponding period')
31 December 2013	31 December 2012

2. Results for announcement to the market

				$A
2.1	Revenues & other income	up	2.4%	To 2,462,352
2.2	Loss from ordinary activities after tax attributable to members	down	40.4%	To 2,160,462
2.3	Net loss for the period attributable to members	down	40.4%	To 2,160,462

Dividends (distributions)		Amount per security	Franked amount per security
2.4	Final dividend *(Preliminary final report only)*	N/A	N/A
2.4	Interim dividend *(Half yearly report only)*	N/A	N/A

2.5	Record date for determining entitlements to the dividend	N/A

2.6 Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.

Refer to the review of operations report in the half year financial report.

3. NTA backing		As at 31 December 2013 $	As at 30 June 2013 $
	Net tangible assets per security [1]	0.06	0.02

[1] Under the listing rules NTA Backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (ie: all liabilities, preference shares, outside equity interest etc).

4. Control gained over entities having material effect

4.1	Name of entity (or group of entities)	N/A
4.2	Date of gain of control	N/A
4.3	Consolidated loss from ordinary activities after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	N/A
4.3	Loss from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

Loss of control of entities having material effect

4.1	Name of entity (or group of entities)	N/A
4.2	Date of loss of control	N/A
4.3	Consolidated profit (loss) from ordinary activities after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	N/A
4.3	Profit (loss) from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

5. Dividends / Distributions

Date the dividend (distribution) is payable	N/A
Amount per security of foreign source dividend	N/A

6. Total Dividends /Distributions

Ordinary securities	N/A
Preference securities	N/A

Dividend or distribution investment plans in operation: N/A	
The last date(s) for receipt of election notices for the dividend or distribution reinvestment plans	N/A

7. Details of aggregate share of profits (losses) of associates and joint venture entities

Name of associate/joint venture:	N/A	
Holding in entity	N/A	
Group's share of associates' and joint venture entities':	Current period $A'000	Previous corresponding period - $A'000
Profit (loss) from ordinary activities before tax	N/A	N/A
Income tax on ordinary activities	N/A	N/A
Profit (loss) from ordinary activities after tax	N/A	N/A
Extraordinary items net of tax	N/A	N/A
Net profit (loss)	N/A	N/A
Adjustments	N/A	N/A
Share of net profit (loss) of associates and joint venture entities		

8. Foreign Entities

Which set of accounting standards is used in compiling the report (e.g. International Accounting Standards)	International Accounting Standards

9. All Entities

A description of Accounts subject to audit dispute or qualification: N/A

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EMERCHANTS LIMITED

ABN 93 104 757 904

Half year report for the half-year ended

31 December 2013

Corporate Information

Emerchants Limited and Controlled Entities

ABN	93 104 757 904
Directors	Bob Browning (Non-executive Chairman) Thomas Cregan (Managing Director and Chief Executive Officer) Tony Adcock (Non-executive Director) David Liddy (Non-executive Director) Peter Martin (Non-executive Director) John Toms (Non-executive Director)
Interim Company Secretary	Bruce Stewart
Registered Office and Principal Place of Business	Level 2, 26 Commercial Road Newstead QLD 4006 Telephone: (07) 3607 0100 Facsimile: (07) 3607 0111
Auditors	Deloitte Touche Tohmatsu Level 25, Riverside Centre, 123 Eagle Street Brisbane QLD 4000 Telephone: (07) 3308 7000 Facsimile: (07) 3308 7004
Bankers	Bank of Western Australia Ltd (Bankwest) 25 Cantonment Street Fremantle WA 6160 Heritage Bank Limited (Heritage) 305 Queen Street Brisbane QLD 4000
Share Register	Link Market Services Limited Ground Floor, 178 St Georges Terrace Perth WA 6000 Telephone: (within Australia): 1300 554 474 Facsimile: (02) 9287 0303
Website	www.emerchants.com.au
Securities Exchange Listing	Emerchants Limited is listed on the Australian Securities Exchange (ASX: EML)

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Director's Report

The Directors of Emerchants Limited submit herewith the financial report of Emerchants Limited and its subsidiaries (**the Group** or **Company**) for the half-year ended 31 December 2013. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names of the Directors of the Company during or since the end of the half-year are:

Robert Browning
Tony Adcock
Thomas Cregan
David Liddy
Peter Martin
John Toms

The above named Directors held office during and since the end of the half-year.

Corporate actions

As per the Company's announcement made to the ASX on 13 January 2014, the Company announced that Bruce Stewart will perform the role of Company Secretary until a permanent replacement is made.

Review of operations

During the six months ended 31 December 2013, the Company made continued progress towards implementing our strategy of becoming a market leader in the re-loadable prepaid debit industry in Australia.

Aside from our continued focus on business development, we were successful in completing a net $7.1m capital raising in September to a range of institutions and sophisticated investors, with funds to be used for a range of growth oriented investments and to strengthen our balance sheet. Given the long lead cycles in sales and the long term nature of the contracts we are entering into, a strong balance sheet is important for building confidence in the Company and we ended the half-year with $6.4m in cash.

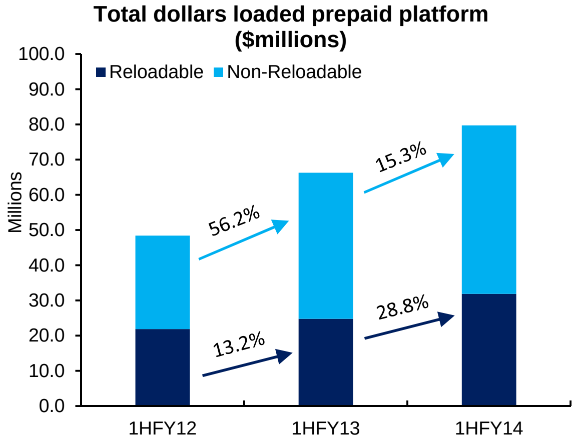
The largest Information Technology investment has been an expansion of our network capacity so that we can support several thousand customers simultaneously. From a transaction processing capability, we have excess capacity thanks to prior capital investments, but with the genesis of the Company as a gift card company, we did not have sufficient network capacity for customers to go online and access their balance, transaction history, reconcile transactions or pay bills. For example, should a natural disaster occur in Queensland that requires tens of thousands of cards issued, it is likely that those customers would be simultaneously online investigating their card balance and available funds.

As a result, we expect this demand will change considerably going forward and we expect to invest a total of approximately $1.2m in the network capacity project and we expect to complete this project in 2014. In addition to Information Technology, we have increased our business development team and continue to invest in marketing and public relations as a means of increasing our brand exposure and profile. As the profile of prepaid debit increases in Australia, we want to be top of mind for companies looking for prepaid payment solutions.

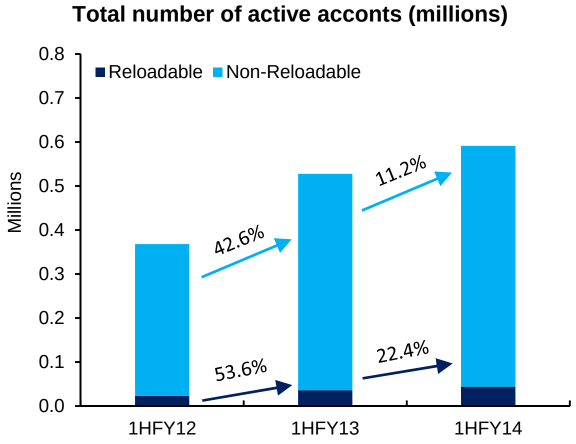
Another significant event in the first half of the year was that the Company received a Research and Development tax offset of $436,096, reflecting the level of customised technological solutions that we are developing and employing for our customers. We believe that if we continue to invest in our technology and in customized solutions, we will be working to receive similar grants in the future.

The Company continues to generate strong trends in our various key performance metrics:

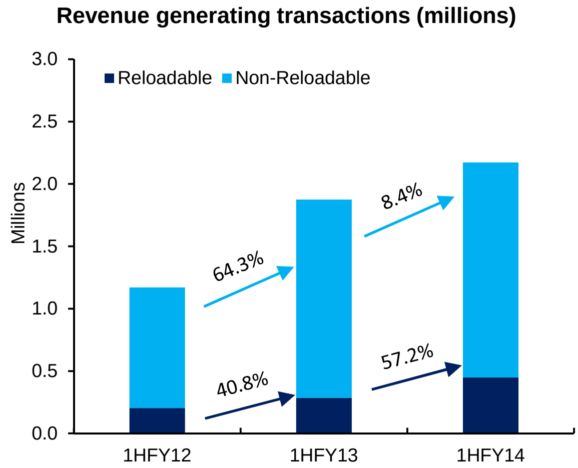
Total dollars loaded onto our prepaid platform:
$79.75m (+20% on prior comparative 6 month period)



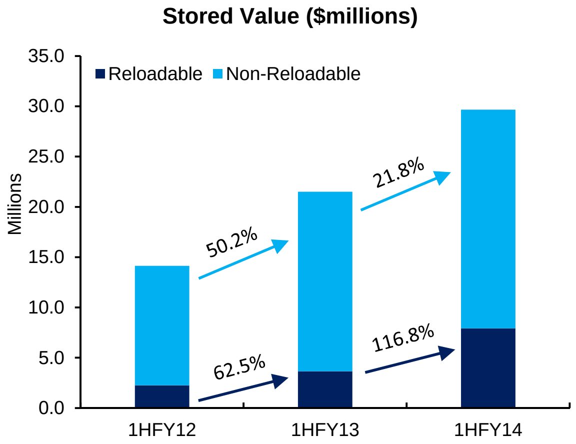
Total Number of Active Cards:
591K (+12% on prior comparative 6 month period)



Key Transactions:
2.17m (+16% prior comparative 6 month period)



Cardholder Funds Stored Value:
$29.66m (+38% prior comparative 6 month period)



We were very pleased with the growth in our re-loadable business metrics and expect that to improve further in the second half of the year and the longer term. Total dollars loaded were $31.9m, an increase of 29% and as we've indicated to the market previously, whereas a non-reloadable or gift card transacts only once or twice on average, re-loadable cards transact at a higher level, and we recorded a 57% increase in re-loadable transactions to 0.5m transactions. We ended the half-year with re-loadable Stored Value at $7.9m, an increase of 116% over the prior period. These results were achieved without significant contribution from a number of contracts signed and announced in the Not-For-Profit segment in the first half of the year, which are in market and building slowly, and PAID International (formerly First Stop Money Pty Ltd), whose program launch was delayed by the customer into the second half of the year.

As was evident in the business metrics released in our 4C for the quarter ended 31 December 2013, our non-reloadable or gift card metrics were not as positive, and given that gift cards remain a dis-proportionate contributor to the Company, any downturn in this part of the business will adversely impact overall results. As we act as a gift card processor for distributors and as we do not directly sell non-reloadable programs, we are reliant on distributors for driving our growth in non-reloadable revenues. Based on the first half-year results, Year on year growth rates for gift cards are neutral on the prior period, which would indicate that the market for "cash back rebate" cards has hit a saturation point.

This is one of the reasons that we previously embarked on the re-loadable strategy, because as opposed to an annuity income stream in re-loadable, our non-reloadable revenues are dependent on new programs being launched into market to compensate for programs that have exited the market or are winding down.

In terms of our non-reloadable metrics for the prior comparable period, total dollars loaded were $47.8m, an increase of 15%, Transactions were up 8% to 1.7m and we ended the period with $21.7m in non-reloadable Stored Value, up 22% on the prior period, but with the majority of that loaded in December to support seasonal gift card sales. January non-reloadable metrics were down on the same month a year ago, indicating that our non-reloadable business is unlikely to produce any significant growth for the full year.

The reduction in non-reloadable revenue growth certainly creates some headwind for us as we grow the re-loadable business and that neutrality in growth is likely to impact our future results until re-loadable programs represent the majority of our revenues.

With the lower growth on non-reloadable, on an aggregate basis, total dollars loaded onto cards increased to $79.7 million, an improvement of 20% on the prior period, we ended the half-year with base of activated of 0.6m cards, an increase of 12%, and we generated transactional growth of 16% to 2.2 million transactions. We also ended the period with total Stored Value of almost $29.7m, an increase of 38%, and we expect that will flow through in the second half of the year in terms of increased transactional revenues.

A summary of our financial performance for the half-year is tabled below:

($ Millions)	1H FY 2014	Growth on prior comparative 6 months	1H FY 2013	Growth on prior comparative 6 months
Revenue	2.41	0%	2.40	48%
Gross profit	**2.03**	**(6%)**	**2.16**	**45%**
Gross profit %	84%	(6%)	90%	(2%)
Other income	0.05	0%	-	0%
Research and Development tax offset	0.44	0%	-	0%
Overheads – employment related	2.37	16%	2.83	(26%)
Overheads – other	1.48	0%	1.48	37%
EBITDA*	**(1.34)**	**38%**	**(2.16)**	**31%**
Depreciation and amortisation expense	0.41	14%	0.48	50%
Share-based payments	0.44	57%	1.01	(33%)
other non-cash charges	(0.03)	(1%)	(0.03)	186%
Net loss for the half-year	**(2.16)**	**40%**	**(3.62)**	**25%**

* EBITDA is reconciled above and disclosed within the Directors' Report and is equivalent to the Net loss for the period excluding Share-based payments, Depreciation and amortisation expense, included within the Statement of Comprehensive income and has been subject to review by our auditors.

In financial terms, the lower performance from our non-reloadable business impacted Revenue and Gross Profit, with Revenue remaining static at $2.4m and gross profit declining by 6% to $2.0m. Gross profit was higher in the prior period due to establishment fees we received for one of our largest reloadable programmes, Nimble Australia Pty Ltd (Nimble.com.au), which was booked in the period, and lower interest income on group funds due to the combination of lower interest rates during the period and due to us holding less of our own cash to invest on average during the half-year compared with the prior comparative half-year period. In addition, the lower non-reloadable growth is also impacting expected future breakage, which is effectively 100% gross margin and represents 10-15% of non-reloadable revenues. The contributions from our non-reloadable and reloadable business segments can be seen in note 3 to the financial statements.

Despite the low revenue growth, we have remained vigilant on expenses and reduced cash overheads by $0.5m. This was assisted by the non-executive directors agreeing to forfeit director's fees for options over shares, and we will resume paying fees to Directors in July 2014. In addition we benefited from the receipt of a Research and Development tax offset.

Together this has allowed us to deliver a 38% improvement in EBITDA from -$2.2m to -$1.3m over the period, with our Net Loss for the period also improving by 40% from -$3.6m to -$2.2m. This improvement positions us to achieve our objective of being cash flow positive for the FY15 year, underpinned by some recent announcements and other opportunities in the sales pipeline.

A summary of these include:

- We announced our break through, multi-year relationship with the Queensland Government and our agreement with the Department of Communities to provide a reloadable card for Emergency assistance. This is a historic win for the Company and positions us as a very credible supplier to the State of Queensland and to other Governments in the coming years. As at the time of writing this report, there hasn't been a natural emergency requiring the issuance of any cards, but the program is in market and ready to respond to such an event. We look forward to commencing our engagement process with the other government departments and expect this agreement to underpin the success of the Company in the coming years as we identify and implement programs for other government departments.

- We recently announced our multi-year agreement with Ladbrokes Digital Australia Pty Ltd (Ladbrokes.com.au) under which re-loadable cards will be marketed to their online gaming customers. Due to the commercial sensitivity of the program, we expect to provide more information to shareholders in early March 2014.

- We announced a pilot program with Cash Converters Pty Ltd under which customers can have their loan proceeds loaded onto a card as opposed to given to them in cash, with the pilot commencing in November 2013 across six stores. The pilot has been successful and we look forward to working with Cash Converters to expand the program. We will update shareholders at the appropriate time when we have more information to communicate.

- Finally, we identified an opportunity in the salary packaging industry for the provision of salary packaging cards used for meals and entertainment and for general salary packaging purposes. Industry factors are indicating that an attractive market opportunity exists for the Company.

Aside from those material sales opportunities, we continued to sign agreements for re-loadable programs, with companies in a diverse range of sectors that will roll out in the second half of the financial year.

- We signed an agreement with Prospa Advance Pty Ltd, a commercial lender, which is an extension of our solution to the consumer lending market but with higher average loan amounts.

- We signed an agreement with Mitsubishi Motors Australia Limited where our cards will be used for the payment of sales incentives and commissions to their salespeople, and

- We also signed an agreement with CardNo (QLD) Pty Ltd for the provision of petty cash solutions.

In the second half of the year we are focused on signing material agreements for re-loadable programs across a number of key industry segments, and communicating our progress to shareholders.

Auditor Independence

The auditor's independence declaration is included on page 8 of the half-year report.

Thomas Cregan
Managing Director

10 February 2014

Auditor's Independence Declaration

Deloitte.

Deloitte Services Pty Ltd
ACN 087 279 678

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The Board of Directors
Emerchants Limited
26 Commercial Road
NEWSTEAD QLD 4006

10 February 2014

Dear Board Members

Emerchants Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Emerchants Limited.

As lead audit partner for the review of the financial statements of Emerchants Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Philip Hardy
Partner
Chartered Accountants

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Consolidated Half-year ended	
		31 December 2013	31 December 2012
		$	$
Revenue	2	2,412,352	2,404,026
Cost of sales		(385,342)	(247,857)
Gross profit		2,027,010	2,156,169
Other income		50,000	-
Expenses			
Employee benefits expense		2,366,541	2,829,547
Share-based payments			
- Directors		456,529	909,413
- Employees and executives		(18,415)	102,664
Depreciation and amortisation expense		411,006	480,459
Other expenses	2	1,457,907	1,458,108
Total expenses		4,673,568	5,780,191
Loss before income tax		(2,596,558)	(3,624,022)
Income tax benefit		436,096	-
Net loss for the period		(2,160,462)	(3,624,022)
Other comprehensive income, net of income tax		-	-
Total comprehensive loss for the period		(2,160,462)	(3,624,022)
Loss per share			
Basic (cents per share)		1.84	3.89
Diluted (cents per share)		1.83	3.89

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Financial Position

	Notes	Consolidated Half-year ended 31 December 2013 $	30 June 2013 $
Current Assets			
Cash and cash equivalents		6,427,058	1,359,398
Other receivables		278,091	232,895
Other assets		884,371	750,134
Total Current Assets		7,589,520	2,342,427
Non-Current Assets			
Other receivables		471,225	507,034
Plant and equipment	4	1,035,565	609,014
Intangibles	7	11,249,088	11,504,576
Total Non-Current Assets		12,755,878	12,620,624
Total Assets		20,345,398	14,963,051
Current Liabilities			
Trade and other payables		685,685	755,633
Employee benefits		262,020	274,212
Provisions		51,082	-
Other current liabilities		11,300	11,000
Total Current Liabilities		1,010,087	1,040,845
Non-Current Liabilities			
Lease incentive		243,000	268,714
Deferred income		56,727	-
Employee benefits		41,685	-
Total Non-Current Liabilities		341,412	268,714
Total Liabilities		1,351,499	1,309,559
Net Assets		18,993,899	13,653,492
Equity			
Issued capital	5	45,339,413	38,183,200
Reserves	6	2,626,895	2,282,239
Accumulated losses		(28,972,409)	(26,811,947)
Total Equity		18,993,899	13,653,492

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Cash Flows

	Notes	Consolidated Half-year ended 31 December 2013 $	31 December 2012 $
Cash Flows From Operating Activities			
Receipts from customers		1,855,233	1,968,236
Payments to suppliers and employees		(4,142,533)	(4,645,625)
R & D tax offset refunded		436,096	422,110
Payments for exploration and evaluation expenditure		33,769	-
Interest received		364,408	360,767
Net cash used in operating activities		(1,453,027)	(1,894,512)
Cash Flows From Investing Activities			
Payments for plant and equipment	4	(541,919)	(26,407)
Payments for intangibles	7	(40,150)	(59,108)
Proceeds from sale of mining tenements		40,000	135,000
Payments for exploration and evaluation expenditure		-	(42,021)
Net cash used in investing activities		(542,069)	7,464
Cash Flows From Financing Activities			
Repayment of borrowings		-	(50,000)
Proceeds from issue of shares	5	7,500,900	2,664,114
Capital raising costs	5	(438,144)	(158,467)
Net cash provided from financing activities		7,062,756	2,455,647
Net increase in cash held		5,067,660	568,599
Cash at beginning of period		1,359,398	2,289,472
Cash at end of period		6,427,058	2,858,071

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

	Notes	Issued Capital	Accumulated Losses	Reserve	Total
		$	$	$	$
Balance at 1 July 2012		34,810,591	(21,452,876)	1,604,787	14,962,502
Total comprehensive income					
- Loss for the period		-	(3,624,022)	-	(3,624,022)
Transactions recorded directly in equity					
- Share-based payments		678,651	-	333,426	1,012,077
- Issue of share capital	5	2,664,114	-	-	2,664,114
- Issue costs		(54,779)	-	-	(54,779)
Balance at 31 December 2012		38,098,577	(25,076,898)	1,938,213	14,959,892
Balance at 1 July 2013		38,183,200	(26,811,947)	2,282,239	13,653,492
Total comprehensive income					
- Loss for the period			(2,160,462)	-	(2,160,462)
Transactions recorded directly in equity					
- Share-based payments		93,457	-	344,656	438,113
- Issue of share capital	5	7,500,900	-		7,500,900
- Issue costs		(438,144)	-		(438,144)
Balance at 31 December 2013		45,339,413	(28,972,409)	2,626,895	18,993,899

The accompanying notes form part of these financial statements

Notes to Condensed Consolidated Financial Statements

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

(b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2013 annual financial report for the financial year ended 30 June 2013, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

The Company is a listed public company, incorporated in Australia and operating in Australia. The entity's principal activities are the provision of payment services.

(c) Adoption of new and revised standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies. The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2013. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no adjustments will be necessary as a result of applying these revised accounting standards.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2012 comparative period, the application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 10

The application of AASB 10 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 119

The application of AASB 119 has not had any material impact on the amounts recognised in the consolidated financial statements.

(d) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of goodwill and intangibles with indefinite useful lives

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Share-based payment transactions

Equity-settled transactions

The Group measures the cost of equity-settled transactions with employees and Directors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in reserves under equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit within profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised separately in share-based payments expense.

Any expense recognised for awards that do not ultimately vest are reversed through profit and loss upon vesting period conclusion, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Breakage income

Breakage income are recognised over the life of non-reloadable cardholder accounts based on agreed terms and the residual percentage of the initial load amount that is expected to be left on a card upon expiry.

The residual percentage is calculated using the historical data of residual funds remaining on non-reloadable accounts after their expiration over the funds initially loaded on these non-reloadable accounts each month. The calculated residual percentage is reviewed regularly in line with new commercial agreements and changes in cardholder behaviour.

Recovery of deferred tax assets

Deferred tax assets are currently not recognised in the financial statements but will be subject to ongoing review.

(e) Going Concern

Notwithstanding the fact that the Company incurred a Net Loss for the year of $2,160,462, the Directors are of the opinion that the Company is a going concern for the following reasons:

- The net loss for the period incorporates a significant amount of non-cash items such as share-based payments $438,114 and depreciation and amortisation expense $411,006.
- The Directors consider the Company is able to raise additional capital if considered necessary such as occurred during the period under review where the Company raised $7,500,900 of equity capital via an issue of ordinary shares at $0.33 per share.
- The Directors also anticipate that the Group will continue to grow its revenues in the next financial year and that the growth in revenues will significantly exceed the growth in costs. The Directors believe the Group will continue to operate as a going concern for the foreseeable future.

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NOTE 2 REVENUE AND EXPENSES

The following revenue and expense items are relevant in explaining the financial performance for the period

	Consolidated Half-year ended	
(a) Revenue includes	**31 December 2013 $**	**31 December 2012 $**
Establishment and breakage income	945,623	1,068,621
Transaction fees	1,038,863	955,584
Interest received – host based stored value	278,242	282,818
Interest received – other entities	84,310	77,948
Service fees	65,314	19,055
	2,412,352	2,404,026

(b) Other expenses include		
Consultancy and advisory services	166,159	212,659
Travel & entertainment	225,239	235,519
Advertising	87,826	55,987
Rent & Buildings	252,923	231,929
Recruitment	62,486	82,541
Software subscriptions and support	94,266	104,095
Other	569,008	535,378
	1,457,907	1,458,108

NOTE 3 SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Emerchants Limited.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is more specifically focused on the category of customer for the type of accounts. The Group's reportable segments under AASB 8 are therefore as follows:

- Reloadable
- Non-reloadable

The reportable segment Reloadable refers to accounts that can be loaded with funds as many times as desired within applicable limits. The reportable segment Non-Reloadable refers to accounts that can only be loaded once with funds within applicable limits.

The Group has not previously reported such information to the Group's chief operating decision maker and consequently only one segment was previously identified, being the provision of payment services in Australia. The change in information reported to the chief operating decision maker has resulted in these two new reportable operating segments.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies. The Group operates predominantly in one geographical segment (Australia). The following is an analysis of the Group's revenue and results by reportable operating segment for the half-years under review:

	Consolidated Half-year ended			
	Revenue		Gross profit	
Reportable segments	31 December 2013 $	31 December 2012 $	31 December 2013 $	31 December 2012 $
Reloadable	520,323	700,409	351,824	621,068
Non-reloadable	1,807,719	1,625,669	1,590,876	1,457,153
Interest received – Group funds	84,310	77,948	84,310	77,948
Consolidated Revenue and Gross Profit for the period	2,412,352	2,404,026	2,027,010	2,156,169

Segment gross profit represents the gross profit earned by each segment without allocation of central administration costs and Directors' salaries, investment revenue and finance costs, income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTE 4 PLANT AND EQUIPMENT

The useful life of the assets was estimated as follows for both 2012 and 2013:

Computer Equipment	4 years
Office Equipment	10 years
Leasehold Improvements	6 – 7 years
Low Value Pool	2 – 3 years

	Consolidated Half-year ended				
	Computer Equipment $	Office Equipment $	Leasehold Improvements $	Low Value Pool $	Total $
Balance at 31 December 2013					
At 1 July 2013, net of accumulated depreciation and impairment	251,043	58,908	299,063	-	609,014
Additions	537,143	3,357	989	430	541,919
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Depreciation charge for the period	(77,350)	(3,628)	(34,390)	-	(115,368)
At 31 December 2013, net of accumulated depreciation and impairment	710,836	58,637	265,662	430	1,035,565
At 31 December 2013					
Cost	1,078,983	82,755	418,914	23,471	1,604,123
Accumulated depreciation and impairment	(368,147)	(24,118)	(153,252)	(23,041)	(568,558)
Net carrying amount	710,836	58,637	265,662	430	1,035,565

At 30 June 2013					
Cost	541,840	79,398	417,924	23,041	1,062,203
Accumulated depreciation and impairment	(290,797)	(20,490)	(118,861)	(23,041)	(453,189)
Net carrying amount	251,043	58,908	299,063	-	609,014

NOTE 5 ISSUED CAPITAL

	Consolidated Half-year ended 31 December 2013 $	30 June 2013 $
124,668,047 fully paid ordinary shares (30 June 2013: 101,818,047)	45,339,413	38,183,200

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.
On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.
Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

	31 December 2013		30 June 2013	
Movement in issued shares for the period:	No.	$	No.	$
Balance at start of the period	101,818,047	38,183,200	62,772,334	34,810,591
Issued for cash (i)	22,730,000	7,500,900	29,601,270	2,664,114
Share-based payments to Directors & executives (ii)	120,000	93,457	9,444,443	763,273
Costs associated with the issue of shares	-	(438,144)	-	(54,778)
Balance at end of the period	124,668,047	45,339,413	101,818,047	38,183,200

(i) Relates to the issue of:

- 22,730,000 fully paid ordinary shares issued at a price of $0.33 on 26 August 2013 which comprised a placement of $7,500,900 to institutional and sophisticated investors.

(ii) Relates to the issue of:

- 120,000 fully paid ordinary shares to Mr Bruce Stewart as bonus for services as CFO. The shares were issued on 6 August 2013. The fair value of the award amounted to $36,000 and will be amortised over the financial years 2014, 2015 and 2016, of which $7,433 has been expensed during the period. Other Share-based payments expensed during the period amount to $86,024 relates to shares issued to Thomas Cregan in FY 2013 pursuant to his employment agreement.

Options over ordinary shares	Consolidated Half-year ended 31 December 2013 No.	30 June 2013 No.
Options on issue at beginning of period	21,666,668	39,761,399
Options issued during the period (i)	6,312,121	12,000,000
Options exercised during the period	-	-
Options cancelled during the period	(500,000)	-
Options expired during the period	-	(30,094,731)
Options on issue at end of period	27,478,789	21,666,668

(i)

<u>3,812,121 Performance-based options</u>

On 9 September 2013, 2,600,000 performance-based options were granted to selected employees with an exercise price of $0.40 per option. The share options are not listed, carry no rights to dividends and no voting rights. The contractual life of each of the 2,600,000 options granted commenced on 9 September 2013 and expires on 30 September 2016 and are exercisable subject to certain financial performance criteria being achieved in financial year ending 30 June 2016. Fair value at grant date was valued at $0.25 per option using the Black Scholes model.

On 13 November 2013 an award of 1,212,121 performance-based options to Mr Thomas Cregan as Managing Director was approved by shareholders at the General Meeting with an exercise price of nil. The share options are not listed, carry no rights to dividends and no voting rights. The contractual life of each of the 1,212,121 options granted commenced on 13 November 2013 and expires on 30 September 2016 and are exercisable subject to certain financial performance criteria being achieved in FY16. Fair value at grant date was valued at $0.57 per option using the Black Scholes model.

No expense was recognised in the profit or loss during the period in relation to the award of the 3,812,121 performance based options. Management have assessed that the vesting conditions would not be met and the options would not ultimately vest. This assessment will be reviewed at each reporting date.

<u>2,500,000 Non-performance-based options</u>

On 13 November 2013 an award of 2,500,000 non-performance-based options to the Non-executive Directors of the Company to forgo Director's fees from March 2013 to June 2014 was approved by shareholders at the General Meeting with an exercise of $0.10. The share options are not listed, carry no rights to dividends and no voting rights. The contractual life of each of the 2,500,000 options granted commenced on 13 November 2013 and expires on 31 March 2016. Fair value at grant date is valued at $0.39 per option using the Black Scholes model, and will be amortised over the financial year 2014.

The Options will be subject to a voluntary escrow for the Escrow Period, being the period from the issue date of 10 December 2013 until 29 February 2016 (inclusive), the Non-Executive Directors will not be able to transfer the Options during the Escrow Period without the Company's consent.

A total expense of $263,492 was recognised in the profit or loss during the period in relation to the award of the 2,500,000 non-performance-based options.

		Consolidated Half-year ended	
		31 December 2013 No.	30 June 2013 No.
Date of Expiry	**Exercise Price**		
1 June 2014	$1.30	666,668	666,668
18 July 2014	$1.45	6,000,000	6,000,000
5 January 2015	$0.50	2,000,000	2,000,000
4 February 2015	$0.50	1,000,000	1,000,000
30 September 2015	$0.15	11,500,000	12,000,000
31 March 2016	$0.10	2,500,000	-
30 September 2016	$0.40	2,600,000	-
30 September 2016	$0.00	1,212,121	-
		27,478,789	21,666,668

NOTE 6 OPTIONS RESERVE

	Consolidated Half-year ended 31 December 2013 $	30 June 2013 $
Balance at beginning of the period	2,282,239	1,604,787
Share-based payments	344,656	677,452
Balance at end of the period	2,626,895	2,282,239

The option reserve arises on the grant and/or issue of share options. Amounts are transferred out of the reserve to accumulated losses when the options lapse or expire. When options are exercised, amounts carried in the reserve related to those particular options are dealt with based on their origination. If cash-related those amounts may be transferred out of the reserve to issued capital. If not cash-related the amounts are transferred out of the reserve to accumulated losses.

NOTE 7 INTANGIBLES

	Consolidated Half-year ended					
	Software licenses $	Brand & customer lists $	Restraint of trade $	Customer contract $	Goodwill $	Total $
Balance at 1 July 2013						
At 1 July 2013, net of accumulated amortisation and impairment	682,203	45,000	-	-	10,777,373	11,504,576
Additions	40,150	-	-	-	-	40,150
Amortisation charge for the period	(295,638)	-	-	-	-	(295,638)
At 31 December 2013, net of accumulated amortisation and impairment	**426,715**	**45,000**	**-**	**-**	**10,777,373**	**11,249,088**
At 31 December 2013						
Cost or fair value	2,223,973	45,000	54,000	1,040,325	10,777,373	14,140,671
Accumulated amortisation and impairment	(1,797,258)	-	(54,000)	(1,040,325)	-	(2,891,583)
Net carrying amount	**426,715**	**45,000**	**-**	**-**	**10,777,373**	**11,249,088**

	Consolidated Half-year ended					
	Software licenses $	Brand & customer lists $	Restraint of trade $	Customer contract $	Goodwill $	Total $
Balance at 1 July 2012						
At 1 July 2012, net of accumulated amortisation and impairment	1,331,523	45,000	-	-	10,777,373	12,153,896
Additions	59,108	-	-	-	-	59,108
Amortisation charge for the period	(380,461)	-	-	-	-	(380,461)
At 31 December 2012, net of accumulated amortisation and impairment	**1,010,170**	**45,000**	**-**	**-**	**10,777,373**	**11,832,543**
At 30 December 2012						
Cost or fair value	2,131,507	45,000	54,000	1,040,325	10,777,373	14,048,205
Accumulated amortisation and impairment	(1,121,337)	-	(54,000)	(1,040,325)	-	(2,215,662)
Net carrying amount	**1,010,170**	**45,000**	**-**	**-**	**10,777,373**	**11,832,543**

No impairment loss was recognised for the period ended 31 December 2013.

Goodwill and intangible assets are assessed for impairment at least annually or more frequently if events and circumstances dictate.

Carrying amount of goodwill, allocated to the cash generating units

	Consolidated Half-year ended			
	% goodwill allocated to CGU		Carrying amount of goodwill allocated to CGU	
	31 December 2013 $	30 June 2013 $	31 December 2013 $	30 June 2013 $
Emerchants Payment Solutions Limited	100%	100%	10,777,373	10,777,373

NOTE 8 KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report. During the half-year, 120,000 of fully paid ordinary shares were issued to Mr Bruce Stewart as bonus for services as CFO. 1,212,121 performance-based options were issued to Mr Thomas Cregan as Managing Director under the Company's ESOP as approved by shareholders at the AGM on 13 November 2013.

In addition, 2,500,000 non-performance-based options were issued to the Non-executive Directors of the Company to forgo Director's fees from March 2013 to June 2014 as approved by shareholders at the AGM on 13 November 2013.

NOTE 9 RELATED PARTY DISCLOSURES

	Consolidated entity Half-year ended			
	Expenditure Related Parties		Amounts Owed to Related Parties	
Directors	31 December 2013 $	31 December 2012 $	31 December 2013 $	31 December 2012 $
John Toms (Oakton Pty Ltd for corporate governance services)	-	2,922	-	-

NOTE 10 CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest	
		31 December 2013 %	30 June 2013 %
Parent Entity			
Emerchants Limited	Australia		
Controlled Entities			
The Australian Land Company Pty Ltd (i)	Australia	100	100
Australasia Gold (SA) Pty Ltd (i)	Australia	100	100
Emerchants Payment Solutions Limited	Australia	100	100

(i) There was no activity for the two entities for the period ended 31 December 2013.

NOTE 11 CONTINGENT LIABILITIES

Estimates of the potential financial effect of contingent liabilities that may become payable:

Host-Based Store Value (HBSV) account with Cuscal Limited (Cuscal)

Cuscal provides an HBSV account to Emerchants Payment Solutions Limited for use as a licensee which facilitates clients of Emerchants Payment Solutions Limited to deposit funds relating to the provision of prepaid payment products. Cuscal has sole authority to transact on the licensee HBSV account. Due to the fact that the licensee does not have ownership or the right to direct operation of the HBSV account, the account is not recognised as an asset in the financial statements of the Company. The total Emerchants Payment Solutions Limited system cardholder account balances as at 31 December 2013 is $25,507,287 (2012: $20,664,816).

Under the agreement:

(i) In consideration of Cuscal performing any Authorised Act, the licensee will indemnify Cuscal and the Directors, employees, officers, agent and independent contractors of Cuscal on demand from time to time, and

(ii) The licensee is liable to Cuscal in respect of any debit balance of the HBSV account and in respect of any other moneys owing or contingently owing by the licensee to Cuscal under or in connection with the HBSV account.

Debit Card Value (DCV) account with Bank of Western Australia Limited (Bankwest)

Bankwest provides a DCV account to Emerchants Payment Solutions Limited for use as a licensee which facilitates clients of Emerchants Payment Solutions Limited to deposit funds relating to in the provision of prepaid payment products. Bankwest has sole authority to transact on the licensee DCV account. Due to the fact that the licensee does not have ownership or the right to direct operation of the DCV account the account is not recognised as an asset in the financial statements of the Company. The total Emerchants Payment Solutions Limited system cardholder account balances as at 31 December 2013 is $545,096 (2012: $1,121,008).

Under the agreement:

(i) Emerchants Payment Solutions Limited shall indemnify, defend and hold Bankwest harmless against any losses incurred by Bankwest arising from any and all claims and actions brought by and third party (including legal costs on a full indemnity basis), and

(ii) The licensee is liable to Bankwest in respect of any debit balance of the HBSV account and in respect of any other moneys owing or contingently owing by the licensee to Bankwest under or in connection with the HBSV account.

Prepaid Card Deposit (PCD) account with Heritage Bank Limited (Heritage)

Heritage provides a PCD account to Emerchants Payment Solutions Limited for use as a licensee which facilitates clients of Emerchants Payment Solutions Limited to deposit funds relating to the provision of prepaid payment products. Heritage has sole authority to transact on the licensee PCD account. Due to the fact that the licensee does not have ownership or the right to direct operation of the PCD account, the account is not recognised as an asset in the financial statements of the Company. The total Emerchants Payment Solutions Limited system cardholder account balances as at 31 December 2013 is $3,608,159 (2012: 102,981).

Under the agreement:

(i) Emerchants Payment Solutions Limited will indemnify Heritage and its representatives, against all losses, damages, liabilities, claims and expenses (including legal costs) incurred by Emerchants Payment Solutions Limited and Representatives, arising out of or in connection with any negligence, default, fraud or dishonesty of Emerchants Payment Solutions Limited or its officers, employees or agents in performing the duties and obligations imposed on Heritage under the agreement.

(ii) The licensee is liable to Heritage in respect of any debit balance of the PCD account and in respect of any other moneys owing or contingently owing by the licensee to Heritage under or in connection with the PCD account agreement.

NOTE 12 SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial periods.

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Directors Declaration

The Directors declare that:

(a) in the Directors’ opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the Directors’ opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Robert Browning
Chairman

10 February 2014

Independent Auditor's Report

Deloitte.

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Independent Auditor's Review Report to the members of Emerchants Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Emerchants Limited ("the company"), which comprises the condensed consolidated statement of financial position as at 31 December 2013, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 23.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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 the company, 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 Emerchants Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entities financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Philip Hardy
Partner
Chartered Accountants
Brisbane, Queensland
10 February 2014