FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 2016

Building a better working world

Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Serko Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the group financial statements of Serko Limited and its subsidiaries ("the Group") on pages 3 to 32, which comprise the statement of financial position of the Group as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

We provide taxation advice and other assurance services to the Group. We have no other relationship with, or interest in, the Group.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

OPINION

In our opinion, the financial statements on pages 3 to 32 present fairly, in all material respects, the financial position of the Group as at 31 March 2016 and the financial performance and cash flows of the Group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Ernst + Young

25 May 2016

Auckland

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	NOTES	GROUP	
		2016	2015
		$	$
Revenue	4	13,121,566	10,361,202
Other Income	4	1,296,264	1,413,182
Total revenue & other income		**14,417,830**	**11,774,384**
Expenses from ordinary activities	5		
Selling and marketing expenses		(1,267,001)	(988,848)
Remuneration & benefits		(13,940,662)	(12,020,829)
Administration expenses		(4,405,230)	(4,690,503)
Other expenses		(1,122,431)	(368,672)
		(20,735,324)	**(18,068,852)**
Finance income	5	430,140	209,382
Finance costs	5	(55,832)	(348,218)
Loss before income tax		**(5,943,186)**	(6,433,304)
Income tax expense	6	(290,930)	(114,031)
Net loss for the period		**(6,234,116)**	(6,547,335)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)			
Movement in foreign currency reserve		(41,721)	144,247
Total comprehensive loss for the year		**(6,275,837)**	**(6,403,088)**
Loss for the year attributable to: Equity holders of the parent		**(6,234,116)**	(6,547,335)
Total comprehensive loss for the year attributable to: Equity holders of the parent		**(6,275,837)**	(6,403,088)
Earnings per share			
↗ Basic profit (loss) for the year attributable to ordinary equity holders of the parent	21	$(0.10)	$(0.10)
↗ Diluted profit (loss) for the year attributable to ordinary equity holders of the parent	21	$(0.10)	$(0.10)

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	CONTRIBUTED EQUITY	SHARE-BASED PAYMENT RESERVE	FOREIGN CURRENCY RESERVE	ACCUMULATED LOSSES	TOTAL
		$	$	$	$	$
GROUP						
Balance as at 1 April 2015		**17,603,575**	**370,875**	**148,606**	**(10,212,663)**	**7,910,393**
Net loss for the period		–	–	–	(6,234,116)	(6,234,116)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)		–	–	(41,721)	–	(41,721)
Total comprehensive loss for the year		**–**	**–**	**(41,721)**	**(6,234,116)**	**(6,275,837)**
Transactions with owners						
Issue of share capital	15	8,096,000	–	–	–	8,096,000
Cancellation of shares in Salary Sacrifice Scheme	15	(9,900)	–	–	–	(9,900)
Cost of equity issued	15	(504,866)	–	–	–	(504,866)
Share-based payments	15	–	516,873	–	–	516,873
Interest on convertible notes		–	–	–	–	–
Balance as at 31 March 2016		**25,184,809**	**887,748**	**106,885**	**(16,446,779)**	**9,732,663**
Balance as at 1 April 2014		**239,835**	**–**	**4,359**	**(3,661,972)**	**(3,417,778)**
Net loss for the period		–	–	–	(6,547,335)	(6,547,335)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax)		–	–	144,247	–	144,247
Total comprehensive loss for the year		**–**	**–**	**144,247**	**(6,547,335)**	**(6,403,088)**
Transactions with owners						
Convertible notes issued accounted in equity	15	156,644	–	–	–	156,644
Transfer of notes to share capital	15	(396,479)	–	–	–	(396,479)
Issue of share capital	15	19,244,848	–	–	–	19,244,848
Cost of equity issued	15	(1,641,274)	–	–	–	(1,641,274)
Share-based payments	15	–	370,875	–	–	370,875
Interest on convertible notes		–	–	–	(3,356)	(3,356)
Balance as at 31 March 2015		**17,603,575**	**370,875**	**148,606**	**(10,212,663)**	**7,910,393**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	NOTES	GROUP	
		2016	2015
		$	$
Current assets			
Cash at bank and on hand	11	7,117,622	4,486,952
Receivables	7	3,968,520	3,417,736
Derivative financial instruments	8	5,405	116,828
		11,091,546	**8,021,516**
Non-current assets			
Property, plant and equipment	9	612,679	997,278
Intangible assets	10	1,439,224	1,287,342
		2,051,903	**2,284,620**
Total assets		**13,143,449**	**10,306,136**
Current liabilities			
Trade and other payables	12	2,556,927	1,662,352
Income tax payable		314,884	180,736
Interest-bearing loans and borrowings	14	344,133	314,038
		3,215,944	**2,157,126**
Non-current liabilities			
Deferred tax liability	6	57,860	60,311
Trade and other payables	12	136,982	174,202
Interest-bearing loans and borrowings	14	–	4,104
		194,842	**238,617**
Total liabilities		**3,410,786**	**2,395,743**
Equity			
Contributed equity	15	25,184,809	17,603,575
Share-based payment reserve	15	887,748	370,875
Foreign currency reserve		106,885	148,606
Retained earnings – accumulated (deficit)		(16,446,779)	(10,212,663)
Total equity		**9,732,663**	**7,910,393**
Total equity and liabilities		**13,143,449**	**10,306,136**

For and on behalf of the Board who authorised these financial statements for issue on 25 May 2016.

Simon Botherway
Chairman

Darrin Grafton
Chief Executive Officer

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

	NOTE	GROUP	
		2016	2015
		$	$
Cash flows from operating activities			
Receipts from customers		12,464,132	9,435,812
Interest received		78,178	180,576
Receipts from grants		1,381,800	1,529,836
Taxation (paid)/refund received		(213,877)	(59,436)
Payments to suppliers and employees		(18,161,444)	(17,282,736)
Interest payments		(34,754)	(392,550)
Net GST refunded (paid)		34,008	(49,300)
Net cash flows used in operating activities		**(4,451,957)**	**(6,637,798)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(64,760)	(655,634)
Purchase of intangibles		(677,676)	(782,695)
Net cash flows used in investing activities		**(742,436)**	**(1,438,329)**
Cash flows from financing activities			
Share issue		8,096,000	17,514,738
Cost of new share issue		(470,128)	(1,361,911)
Repayment of shareholder loans		–	(1,819,270)
Repayment of loans		–	(780,000)
Net cash flows from financing activities		**7,625,872**	**13,553,557**
Net increase (decrease) in total cash		2,431,479	5,477,430
Net foreign exchange difference		199,191	(48,965)
Cash and cash equivalents at beginning of period		4,486,952	(941,513)
Cash and cash equivalents at end of period		**7,117,622**	**4,486,952**
Cash and cash equivalents comprises the following:			
Cash at bank and on hand	11	7,117,622	4,486,952
		7,117,622	**4,486,952**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

1 CORPORATE INFORMATION

The financial statements of Serko Limited ('the company') and subsidiaries ('the group') were authorised for issue in accordance with a resolution of directors.

The company is a limited liability company domiciled and incorporated in New Zealand under the Companies Act 1993. Its registered office is at Unit 14d, 125 The Strand, Parnell, Auckland.

The group is involved in the provision of computer software solutions for corporate travel. The group is headquartered in Auckland, New Zealand.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and within this notes section. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993. The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain assets and liabilities as identified in specific accounting policies.

The group is required to report in accordance with Tier 1 for-profit accounting standards. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless stated otherwise.

b) Going Concern

The directors have carefully considered the ability of the group to continue to operate as a going concern for at least the next 12 months from the date the financial statements are authorised for issue. It is the conclusion of the directors that the group will continue to operate as a going concern and the financial statements have been prepared on that basis. In reaching their conclusion, the directors have considered the following factors:

- The $8.1m capital raise completed between December 2015 and February 2016 provides a sufficient level of headroom to help support the business for at least the next twelve months
- The FY17 budget has been prepared to achieve monthly break-even and positive net cash flow by the end of the financial year
- The directors have made due enquiry into the appropriateness of the assumptions underlying the budgetary forecasts
- In approving the FY17 budget, the directors have considered detailed contingency plans presented by the management that can be implemented in the event that adverse variances in performance versus budget exceed certain thresholds.

A number of significant judgements have been made in preparing the budget for FY17, the most significant relate to the timing and level of uptake of demand for new products and services that are expected to launch or grow significantly during the year. However, in view of the contingencies and risk mitigations that have been identified, the directors consider there is a reasonable expectation that the group can continue to operate as a going concern for the foreseeable future.

c) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as appropriate for profit-oriented entities.

d) New accounting standards and interpretations

NZ IFRS standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group are:

NZ IFRS 9 Financial Instruments, effective for accounting periods beginning on or after 1 January 2017 is replacing NZ IAS39 Financial Instruments: Recognition and Measurement.

NZ IFRS 15 Revenue Recognition, effective for accounting periods beginning on or after 1 January 2018.

NZ IFRS 16 Leases, effective for accounting periods beginning on or after 1 January 2019.

The group is still assessing the impact of the above standards issued and not yet effective and the current impact is not known.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Serko Limited and subsidiaries as at and for the year ended 31 March each year.

Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights.

The group reassesses whether or not it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. Acquisition-related costs are expensed as incurred and recognised in profit or loss.

The difference between the above items and the fair value of the consideration is recorded as either goodwill or gain on bargain purchase. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested annually for impairment, or immediately if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Any gain on bargain purchase is recognised immediately on acquisition to profit and loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Non-controlling interests are allocated their share of comprehensive income after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

f) Foreign currency translation

I) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in these financial statements are measured using the currency of the primary economic environment in which the group operates ('the functional currency'). These financial statements are presented in New Zealand dollars, which is the group's presentation and functional currency.

II) TRANSACTIONS AND BALANCES

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance date. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

g) Financial instruments

Financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are classified as either loans and receivables or available-for-sale financial assets. When financial assets are recognised initially they are measured at fair value plus directly attributable transaction costs. The group determines the classification of its financial assets on initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

I) LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of selling the receivable. Such assets are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The group's loans and receivables comprise trade receivables, loans and GST receivable.

The group has no financial assets classified as available for sale.

II) FINANCIAL LIABILITIES

Financial liabilities are classified as 'other financial liabilities'. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest method.

The effective interest method calculates the amortised cost of a financial liability and allocates the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period to the net carrying amount of the liability.

Financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

III) IMPAIRMENT OF FINANCIAL ASSETS

The group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

IV) FINANCIAL ASSETS CARRIED AT AMORTISED COST

For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate (EIR).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the income statement. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. Other borrowing costs are expensed when incurred.

i) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. All receivables and payables are stated GST inclusive.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures.

Judgements

In the process of applying the group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

SHARE-BASED PAYMENTS

The group measured the fair value of the first tranche of shares granted under the restricted share plan in June 2014 to employees using the listing price (Initial Public Offering on 24 June 2014) of the shares when granted. Management considered this a reasonable basis of fair value, given that the grant date and listing date were concurrent. The fair value applied to subsequent shares granted under the restricted share plan is the volume weighted average price (VWAP) of shares traded in the previous 20 trading days preceding the date of grant. Vesting of the shares is reviewed periodically to determine that the assumptions around vesting dates and employees who have left or joined the group are still valid.

DEVELOPMENT COSTS

Development costs of a project are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates applied and the expected period of benefits. At 31 March 2016, the carrying amount of capitalised development costs was $407,019 (2015: $85,526).

This amount includes significant investment in the development of an innovative mobile application for Serko's corporate travel platform and a small to medium enterprise (SME) application.

FUNCTIONAL CURRENCY

The group periodically reviews the functional currency for reporting purposes. Based on the assessment of the NZ IAS21 criteria, management believes that there is sufficient justification for the continued use of NZD as the functional currency. The key factors behind this conclusion are:

a) Serko is NZX listed and has raised capital in NZD
b) Research and development grant funding is in NZD
c) NZD is the main currency for labour, operating cost and capital expenditure.

IMPAIRMENT OF INTANGIBLE OR NON-FINANCIAL ASSETS

Management reviews the carrying value of intangible and non-financial assets on an annual basis and in accordance with NZ IAS 36. Consideration is placed on a number of factors, depending on the specific asset in question, which may include discounted cash flow forecasts, the ability to continue to generate discrete cash flow and returns, any changes or anticipated changes in the business or product circumstances and the nature of the events that originally gave rise to the recognition of any non-financial assets. Further details are disclosed in note 10 of the financial statements in respect of the specific adjustments and entries reflected in the 2016 financial year.

4 REVENUE & OTHER INCOME

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is disclosed net of credit notes, rebates and discounts.

I) REVENUE FROM TRANSACTION AND USAGE FEES

Revenue from transaction and usage fees is recorded at the time travel or expense transactions are processed through Serko's platforms.

II) REVENUE FROM INSTALLATION SERVICES

Revenue from a contract to provide installation services is recognised by reference to the stage of completion of the contract at balance date. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of expenses recognised that are recoverable.

III) INTEREST REVENUE

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

IV) GOVERNMENT GRANTS

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs it is intended to compensate. When the grant relates to an asset, the fair value is credited to deferred income and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

	NOTE	GROUP	
		2016	2015
Revenue – transaction and usage fees		11,829,990	8,145,613
Revenue – installation services		965,034	2,065,894
Other		326,542	149,695
Total operating revenue		**13,121,566**	**10,361,202**
Other income			
Government grants	13	1,296,264	1,413,182
		1,296,264	**1,413,182**

5 EXPENSES

	NOTES	GROUP 2016	GROUP 2015
Operating loss before taxation includes the following expenses:			
Auditor remuneration and advisory fees		99,197	471,813
Bad and doubtful debts written off	7	–	14,867
Amortisation of intangibles	10	486,369	273,166
Impairment of intangibles	10	219,521	–
Depreciation	9	245,819	185,045
Rental and operating lease expenses		658,413	427,747
Employee & contractor remuneration		12,714,653	11,270,807
Contributions to defined contribution plans		496,076	342,905
Share-based payment expenses	15	516,873	370,875
IPO-related costs		–	482,728
Other operating expenses		5,298,403	4,228,900
Expenses from ordinary activities		**20,735,324**	**18,068,852**
Research expenses (excluding capitalised development costs)		5,513,973	5,148,637

Research expenditure includes all reasonable expenditure associated with R&D activities that does not give rise to an intangible asset. R&D expenses include employee & contractor remuneration related to these activities.

Research expenditure includes expenditure that meets the definition of research expenditure as defined in NZ IAS 38.

Finance income and expenses includes:

		2016	2015
Finance income			
– Interest received		117,260	208,712
– Dividends received		1,035	670
– Foreign exchange (gains)/losses – net		311,845	–
Total finance income		**430,140**	**209,382**
Finance expenses			
Foreign exchange losses – net		–	(196,046)
Interest expense		(55,088)	(121,320)
Other finance expenses		(744)	(30,852)
Total finance expenses		**(55,832)**	**(348,218)**
Total finance income and expenses		**374,308**	**(138,836)**

5 EXPENSES – CONTINUED

AUDITOR REMUNERATION

The directors of Serko Limited appointed Ernst & Young as the auditor of the group for the year ended 31 March 2016.

Amounts received or due and receivable by:

	GROUP	
	2016	2015
Ernst & Young		
– Audit of financial statements	58,450	53,350
– Other assurance-related services (a)	11,298	106,000
Total audit fees	**69,748**	159,350
– Tax services (b)	29,449	82,213
– Advisory services (c)	–	230,250
Total non-audit fees	**29,449**	**312,463**

(a) Other assurance-related services include services for research and development assurance procedures and half year agreed upon procedures (2015: IPO statutory audit fees and research and development assurance procedures).

(b) Tax services relate to compliance and other advisory services.

(c) Advisory services include transaction advisory services related to the IPO in 2015.

6 INCOME TAX

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except for a deferred income tax liability arising from the initial recognition of goodwill;
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carry-forward of unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) relevant to the appropriate tax jurisdiction that have been enacted or substantively enacted at the balance date.

	GROUP	
	2016	2015
Statement of comprehensive income		
Current income tax		
Current income tax charge/(credit)	272,483	198,842
Adjustments in respect of previous years	87,215	–
	359,698	**198,842**
Deferred income tax		
Origination and reversal of temporary differences	(2,451)	(84,811)
Adjustments in respect of previous years	(66,318)	–
	(68,769)	**(84,811)**
Income tax expense reported in the statement of comprehensive income	**290,930**	**114,031**
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Accounting profit (loss) before income tax	**(5,943,186)**	**(6,433,304)**
At the statutory income tax rate of 28% (2015: 28%)	(1,664,092)	(1,801,325)
– Non-deductible items	82,711	17,250
– Adjustments in respect of current income tax of previous years	20,898	
– Chinese branch tax	62,369	22,739
– Foreign tax credits not utilised	12,949	11,155
– Future income tax benefit, not recognised	1,768,250	1,859,076
– Effect of tax on overseas subsidiaries at different rate	7,846	5,136
	290,930	**114,031**
At effective income tax rate of:	-4.90%	-1.77%

6 INCOME TAX – CONTINUED

Deferred income tax

Deferred income tax at 31 March relates to the following:

	2016		2015	
	STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPREHENSIVE INCOME	STATEMENT OF FINANCIAL POSITION	STATEMENT OF COMPREHENSIVE INCOME
GROUP				
Deferred income tax liabilities recognised				
Intangibles	(71,161)	29,316	(100,477)	63,833
Unrealised foreign exchange	(65,780)	(65,780)	–	–
Deferred income tax asset recognised				
Employee entitlements	79,081	38,915	40,166	20,978
Net deferred tax asset/(liability) recognised	**(57,860)**	**2,451**	**(60,311)**	**84,811**
Deferred income tax asset not recognised				
Employee entitlements	103,249	(19,996)	123,245	47,603
Long term incentive fair value adjustment	340,986	226,993	113,993	113,993
Accruals	28,000	(11,204)	39,204	4
Allowance for impairment	2,080	(15,765)	17,845	(16,536)
Deferred revenue	13,416	(2,051)	15,467	23,673
	487,731	**177,977**	**309,754**	**168,737**
Tax losses available to be carried forward and offset against future income	3,778,906		2,591,362	
Total deferred tax asset not recognised	**4,266,637**		**2,901,116**	

The ability to carry losses forward is subject to confirmation by taxation authorities.

7 RECEIVABLES

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectibility of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. A provision for impairment of receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivable, changes in credit quality and past default experience.

The impairment, and any subsequent movement including recovery, is recognised in the statement of comprehensive income.

	NOTE	GROUP	
		2016	2015
Trade receivables		3,338,565	2,774,993
Allowance for impairment		(7,429)	(63,733)
Trade receivables (net)		3,331,136	2,711,260
GST receivable		53,753	19,745
Prepayments		248,587	352,605
nuTravel Loan receivable	17	335,044	292,416
Other loans		–	41,710
Total receivables		**3,968,520**	**3,417,736**

FOREIGN CURRENCY RISK

The carrying amounts of the group's receivables are denominated in the following currencies:

New Zealand dollars	1,759,658	1,549,407
Australian dollars	1,744,784	1,493,119
Singapore dollars	–	382
US dollars	458,837	374,828
Indian rupees	5,241	–
	3,968,520	**3,417,736**

ALLOWANCE FOR IMPAIRMENT LOSS

Trade receivables are non-interest bearing and are generally on 30–60-day terms. A provision for impairment loss is recognised where there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised (2015: $14,867) by the group in the current year. No individual amount within the impairment allowance is material.

At 31 March, the ageing analysis of trade receivables is as follows:

	TOTAL	0 – 30 DAYS	31 – 60 DAYS	61 – 90 DAYS	91+ DAYS
2016 group	**3,338,565**	**2,697,473**	**247,045**	**83,145**	**310,901**
2015 group	2,774,993	2,236,358	228,182	204,744	105,708

Group receivables over 60 days of $394,046 (2015: $310,452) include a provision for impairment of $7,429. The balance of $386,617 is not considered impaired as amounts outstanding are in accordance with agreed payment plans and payment record of the customers concerned.

NUTRAVEL LOAN RECEIVABLE

On 9 April 2014 an interest-bearing loan to nuTravel Technology Solutions LLC of US$200,000 was assigned by Financial Equities Limited to Serko Limited in return for an interest-bearing loan repayable on receipt of the loan receivable. The loan expires on 30 June 2016. Financial Equities Limited is a company associated with directors Robert Shaw and Darrin Grafton.

8 FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivatives in the form of forward exchange contracts (FECs) to reduce the risk that movements in the exchange rate will affect the group's New Zealand dollar cash flows. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

FAIR VALUE HEDGES

The change in fair value of a hedging derivative is recognised in the statement of comprehensive income as finance costs. The change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of comprehensive income as finance costs.

The following table presents the group's foreign currency forward exchange contracts measured at fair value:

	GROUP	
	2016	2015
Current:		
Foreign currency forward exchange contracts	5,405	116,828
Contractual amounts of forward exchange contracts outstanding were as follows:		
Purchase commitments forward exchange contracts	4,163,003	1,745,638

Derivative Financial Instruments have been determined to be within level 2 of the fair value hierarchy. Foreign currency forward exchange contracts have been fair valued using published market foreign exchange rates.

9 PROPERTY, PLANT AND EQUIPMENT

All items of property, plant and equipment are recorded at cost less accumulated depreciation and impairment. Initial cost includes purchase consideration and those costs attributable to bringing the asset to the location and condition necessary for its intended use. Where an item is self-constructed, its construction cost includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and if that expenditure would have been included in the initial cost of the item had it been incurred at that time. The carrying amount of any replaced part is derecognised.

All other repairs and maintenance expenditure is recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The residual value of assets is reviewed and adjusted if appropriate at each balance date. The following estimates have been used:

- Leasehold improvements 7%
- Furniture and fittings 8.5 – 80.4%
- Computer equipment 17.5 – 67%

I) IMPAIRMENT

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

9 PROPERTY, PLANT AND EQUIPMENT – CONTINUED

II) DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

	LEASEHOLD IMPROVEMENT	FURNITURE & FITTINGS	COMPUTER EQUIPMENT	TOTAL
GROUP 2016				
Cost or valuation				
Balance at 1 April 2015	529,469	377,010	480,132	1,386,611
Additions	14,617	6,833	34,877	56,327
Disposals	(250,618)	(42,364)	(130,976)	(423,957)
Currency translation	2,865	1,891	3,676	8,432
Balance at 31 March 2016	**296,333**	**343,370**	**387,710**	**1,027,413**
Depreciation				
Balance at 1 April 2015	69,844	99,968	219,521	389,333
Depreciation expense	35,122	44,204	166,493	245,819
Disposals	(56,473)	(38,584)	(129,593)	(224,649)
Currency translation	239	574	3,418	4,231
Balance at 31 March 2016	**48,732**	**106,162**	**259,839**	**414,734**
Net carrying amount	**247,601**	**237,208**	**127,870**	**612,679**
GROUP 2015				
Cost or valuation				
Balance at 1 April 2014	228,348	170,694	177,570	576,612
Additions	302,636	207,140	302,562	812,338
Disposals	–	–	–	–
Currency translation	(1,515)	(824)		(2,339)
Balance at 31 March 2015	**529,469**	**377,010**	**480,132**	**1,386,611**
Depreciation				
Balance at 1 April 2014	42,128	52,128	110,322	204,578
Depreciation expense	27,767	48,079	109,199	185,045
Disposals	–	–	–	–
Currency translation	(51)	(239)	–	(290)
Balance at 31 March 2015	**69,844**	**99,968**	**219,521**	**389,333**
Net carrying amount	**459,625**	**277,042**	**260,611**	**997,278**

The net book value of assets held under finance leases is $2,719 (2015: $10,877).

	GROUP	
	2016	2015
	CENTS	CENTS
Tangible assets per security	0.95	1.59

Tangible assets per security are expressed in cents; prior year was previously reported in dollars.

10 INTANGIBLES

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Costs related to internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. An intangible asset with an indefinite useful life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

A summary of the policies applied to the group's intangible assets is as follows:

Computer Software	– finite, amortised on a straight-line basis 40 – 60%
Capitalised software development costs	– finite, amortised on 5 years straight-line
Incharge software	– finite, amortised on 3 years straight-line
Customer contracts	– finite, amortised on 3 years straight-line
Key employee retention	– finite, amortised on 3 years straight-line

RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset. Also, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and impairment losses. Any expenditure capitalised is amortised over the period of expected benefit from the related project.

Intangible assets under development at balance date are recorded as capital work in progress and are not subject to amortisation.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

	GOODWILL	KEY EMPLOYEE RETENTION	CUSTOMER CONTRACTS	DEVELOPMENT – WORK IN PROGRESS	COMPUTER SOFTWARE	TOTAL
GROUP 2016						
Cost						
Balance at 1 April 2015	171,025	71,261	305,402	85,526	1,013,183	1,646,397
Additions	33,261	–	110,869	558,154	110,416	812,700
Transfer of cost	–	–	–	(236,661)	236,661	–
Currency translation	15,235	6,348	27,206	–	17,230	66,019
Balance at 31 March 2016	**219,521**	**77,609**	**443,477**	**407,019**	**1,377,491**	**2,525,116**
Amortisation and impairment						
Balance at 1 April 2015	–	29,395	125,978	–	203,681	359,055
Amortisation	–	25,611	143,298	–	317,460	486,369
Impairment	219,521	–	–	–	–	219,521
Currency translation	–	2,619	11,222	–	7,107	20,948
Balance at 31 March 2016	**219,521**	**57,625**	**280,498**	**–**	**528,248**	**1,085,893**
Net carrying amount	**–**	**19,984**	**162,979**	**407,019**	**849,242**	**1,439,224**
GROUP 2015						
Cost						
Balance at 1 April 2014	182,529	76,054	325,945	82,650	290,557	957,735
Additions	–	–	–	530,979	207,534	738,513
Transfer of cost	–	–	–	(528,103)	528,103	–
Currency translation	(11,504)	(4,793)	(20,543)	–	(13,011)	(49,851)
Balance at 31 March 2015	**171,025**	**71,261**	**305,402**	**85,526**	**1,013,183**	**1,646,397**
Amortisation and impairment						
Balance at 1 April 2014	–	6,275	26,890	–	55,888	89,053
Amortisation	–	23,516	100,783	–	148,867	273,166
Impairment	–	–	–	–	–	–
Currency translation	–	(396)	(1,695)	–	(1,074)	(3,164)
Balance at 31 March 2015	**–**	**29,395**	**125,978**	**–**	**203,681**	**359,055**
Net carrying amount	**171,025**	**41,865**	**179,424**	**85,526**	**809,502**	**1,287,342**

During the year the goodwill arising from the acquisition of Incharge and Arnold was impaired. The goodwill was related to the deferred tax liability recognised on acquisition, and does not accurately reflect the true value of the businesses acquired.

11 CASH AT BANK AND ON HAND

Cash and short-term deposits in the statement of financial position comprise cash at bank, and in hand, short-term highly liquid investments with an original maturity of three months or less.

	GROUP	
	2016	2015
Cash at bank – New Zealand dollar balances	5,812,458	2,925,176
Cash at bank – foreign currency balances	1,305,164	1,561,776
	7,117,622	**4,486,952**

FOREIGN CURRENCY RISK

The carrying amounts of the group's cash at bank and on hand are denominated in the following currencies

New Zealand dollars	5,810,278	2,925,176
Australian dollars	1,265,606	1,561,679
US dollars	39,558	97
Indian rupees	2,180	–
	7,117,622	**4,486,952**

12 TRADE AND OTHER PAYABLES

EMPLOYEE BENEFITS

Liabilities for wages and salaries, including non-monetary benefits, long service leave and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for wages and salaries that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to the reporting date.

POST-EMPLOYMENT BENEFITS

Contributions made on behalf of eligible employees to defined contribution funds are recognised in the period they are incurred. The defined contribution funds receive fixed contributions from the group whose legal or constructive obligation is limited to these contributions only.

TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

	GROUP	
	2016	2015
Trade payables	847,779	565,076
Accrued expenses	1,039,578	565,244
Lease incentive	174,202	266,076
Holiday pay accrual	632,350	440,159
Total trade and other payables	**2,693,909**	**1,836,555**
Disclosed as:		
Current	2,556,927	1,662,353
Non-current	136,982	174,202
	2,693,909	**1,836,555**

13 GOVERNMENT GRANTS

Government grants are received for direct reimbursement of expenses to assist with research and development of software solutions to improve service delivery and develop new enhancements to existing platforms.

There are no unfulfilled conditions or contingencies attached to these grants.

14 INTEREST-BEARING LOANS AND BORROWINGS

	NOTE	GROUP	
		2016	2015
Current			
Financial equities loan payable	17	335,044	292,416
Obligations under finance leases		9,089	6,451
Leasehold fitout loan		–	15,171
		344,133	**314,038**
Non-current			
Obligations under finance leases		–	–
Leasehold fitout loan		–	4,104
		–	**4,104**

During the current and prior years, there were no defaults or breaches on any of the loans.

In the prior year the bank loan of $780,000 to finance the acquisition of assets of Incharge Pty Limited was fully repaid.

Related party loans from shareholders were repaid in the prior year. Shareholders issued a demand for interest in the prior year of $40,841. The loans were unsecured.

The leasehold fitout loan was repaid during the year.

Finance leases are secured over the assets specified in the leases.

15 EQUITY

Ordinary share capital is recognised at the fair value of the consideration received. Transaction costs relating to the listing of new ordinary shares and the simultaneous sale and listing of existing shares are allocated to those transactions on a proportional basis.

Transaction costs relating to the sale and listing of existing shares are not considered costs of an equity instrument as no equity instrument is issued and consequently, costs are recognised as an expense in the statement of comprehensive income when incurred. Transaction costs relating to the issue of new share capital are recognised directly in equity as a reduction of the share proceeds received.

	GROUP		GROUP	
	2016	2015	2016	2015
	$	$	NUMBER OF SHARES	NUMBER OF SHARES
Ordinary shares and Share-Based Payments				
Share capital at beginning of year	17,974,450	–	62,699,382	16,660
Shares issued for the benefit of convertible note holders	–	156,644	–	217
Shares issued to management paid up prior to IPO	–	1,000	–	–
Subdivision of shares prior to IPO	–	241,505	–	43,492,498
Issue of shares pursuant to IPO	–	17,000,000	–	15,454,545
Issue of shares pursuant to institutional capital placement	8,000,000	–	9,523,809	–
Issue of shares pursuant to Share Purchase Plan (SPP) placement	96,000	–	114,277	–
Issue of new shares in lieu of advisory fees	–	363,400	–	330,364
Issue of share options to non-exec directors	–	80,758	–	590,909
Convertible notes converted to shares at IPO	–	1,325,000	–	1,490,625
Issue of new shares to staff via Salary Sacrifice Scheme	–	157,300	–	143,000
Issue of new shares to employees via Restricted Share Scheme	516,873	290,117	565,874	1,180,564
Cancellation of shares under Salary Sacrifice Scheme	(9,900)	–	(9,000)	–
Transaction costs for issue of new shares	(504,866)	(1,641,274)	–	–
Share capital at end of year	**26,072,557**	**17,974,450**	**72,894,342**	**62,699,382**
Convertible notes				
Convertible notes at beginning of year	–	239,835	–	5,902
Convertible notes issued during the year	–	156,644	–	217
Convertible notes converted to shares	–	(396,479)	–	(6,119)
Convertible notes at end of year	**–**	**–**	**–**	**–**
Total equity at end of year	**26,072,557**	**17,974,450**	**72,894,342**	**62,699,382**

In the current year an institutional capital placement was completed in December 2015, which raised an additional $8m of issued capital. In addition, a SPP placement was completed in February 2016, which raised an additional $96,000 of issued capital.

In the current year the group issued 271,352 shares under the Restricted Share Scheme (RSS). In respect of the RSS, as at 31 March, 41,662 restricted shares had been allocated to key management personnel and 229,690 allocated to other Serko employees. At 31 March 2016, 466,936 restricted shares remain unallocated.

In the prior year the group raised $17 million of issued capital via an Initial Public Offering and concurrent listing on the NZX Main Board on 24 June 2014.

In the prior year the group issued 143,000 shares under a Salary Sacrifice Scheme (SSS) and 1,180,564 under a Restricted Share Scheme (RSS). In respect of the RSS, 775,000 restricted shares had been allocated to key management personnel and 246,650 allocated to other Serko employees. In the prior year 158,914 shares remained unallocated.

16 COMMITMENTS

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

I) FINANCE LEASES

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

II) OPERATING LEASES

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

	GROUP	
	2016	2015
a) Operating lease commitments		
No later than one year	432,148	426,825
Later than one year and not later than five years	1,104,908	1,529,367
Later than five years	–	–
	1,537,056	**1,956,192**
b) Finance lease commitments		
No later than one year	8,198	9,837
Later than one year and not later than five years	–	8,198
Later than five years	–	–
Total minimum lease payments	**8,198**	**18,035**
Less amounts representing finance charges	**(274)**	**(1,226)**
Present value of minimum lease payments	**7,924**	**16,809**

The group entered into a new operating lease agreement related to the head office in Auckland, NZ after balance date.

17 RELATED PARTIES

a) Subsidiaries

The consolidated financial statements include the financial statements of Serko Limited and subsidiaries as listed in the following table:

		% EQUITY INTEREST		INVESTMENT (PARENT) $	
NAME	BALANCE DATE	2016	2015	2016	2015
Serko Australia Pty Limited	31 March	100%	100%	1,247	1,247
Travelog World for Windows Pty Limited	31 March	0%	0%	–	–
Serko Trustee Limited	31 March	100%	100%	100	100
Serko India Private Limited	31 March	99%	99%	2,118	2,118
Serko Investments Limited	31 March	100%	100%	100	100
				3,565	**3,565**

Serko Australia Pty Limited's principal business is the marketing and support of travel booking software solutions supplied by Serko Limited. This entity has been consolidated based on audited management accounts for the year ended 31 March each year. In the prior year the company sold its shares in Travelog World for Windows Pty Limited (dormant company) for consideration of $10 to Empeiria Limited. Empeiria Limited is a company associated with directors Robert Shaw and Darrin Grafton.

Serko Trustee Limited was incorporated in the prior year to hold the shares issued to key management and staff in the Restricted Share Scheme and Salary Sacrifice Scheme in trust until vesting.

Serko India Private Limited was incorporated on 18 February 2015 as a subsidiary for the Indian-based operations.

Serko Investments was incorporated on 5 November 2014 as a holding company. It holds 1% of the shares in Serko India Private Limited.

b) Transactions with related parties

The following table provides the total amount of transactions that have been entered into with related parties, excluding key management and director remuneration.

	NOTE		PURCHASES FROM RELATED PARTIES	INTEREST TO RELATED PARTIES	AMOUNTS OWED TO RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES
			$	$	$	$
Other related parties						
Financial Equities Limited	14	2016	–	20,334	335,044	–
		2015	–	24,780	292,416	–
Simon Botherway – Chairman		2016	70,000	–	–	–
		2015	64,167	–	–	–
Clyde McConaghy – Non-executive Director		2016	60,406	–	–	–
		2015	54,252	–	–	–
Claudia Batten– Non-executive Director		2016	60,406	–	–	–
		2015	54,252	–	–	–
Total		**2016**	**190,812**	**20,334**	**335,044**	**–**
		2015	**172,671**	**24,780**	**292,416**	**–**

Non-executive directors provide services to Serko in their capacity as non-executive directors and have a service agreement with a specified amount of fees payable per annum.

On 9 April 2014 an interest-bearing loan to nuTravel Technology Solutions LLC of US$200,000 was assigned by Financial Equities Limited to Serko Limited in return for an interest-bearing loan repayable on receipt of the loan receivable. The loan expires on 30 June 2016. Financial Equities Limited is a company associated with directors Robert Shaw and Darrin Grafton.

17 RELATED PARTIES – CONTINUED

c) Key management remuneration

	GROUP	
	2016	2015
Short-term benefits employees (*)	2,125,202	1,706,825
Post-employment benefits	87,213	54,594
Total compensation	**2,212,415**	1,761,419

(*) Key management personnel includes the executive management team, sales management team and the executive directors in their capacity as Chief Executive Officer and Chief Strategy Officer.

d) Terms and conditions of transactions with related parties

Outstanding balances at year end are unsecured and settlement occurs in cash.

For the year ended 31 March 2016, the group has not made any allowance for impairment loss relating to amounts owed by related parties (2015: $nil). An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the group recognises an allowance for the impairment loss.

18 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	GROUP	
	2016	2015
Net loss after tax	(6,234,116)	(6,547,335)
Add non-cash items		
Amortisation	486,369	273,166
Impairment	219,521	–
Depreciation	245,819	185,045
Loss on property, plant and equipment disposal	199,308	–
Interest on shareholder loans	–	–
Increase/(decrease) in deferred tax	(2,451)	(84,812)
Loss/(gain) on foreign exchange transactions	(112,654)	97,417
Shares taken in lieu of advisory fees	–	82,591
Share-based compensation	516,873	370,875
	(4,681,331)	**(5,623,053)**
Add/(less) movements in working capital items		
Increase in receivables excl loans	(549,866)	(1,076,199)
(Increase)/decrease in derivative financial instruments	111,423	(116,828)
Increase in trade and other payables	533,666	51,028
Increase in income tax	134,151	130,610
	229,374	**(1,011,389)**
Less items classified as financing activity		
Interest on convertible notes	–	(3,356)
Net cash flow from operating activities	**(4,451,957)**	**(6,637,798)**

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial instruments comprise cash at bank, bank overdrafts, receivables, payables and loans.

The group manages its exposure to key financial risks, including currency risk, in accordance with the group's financial risk management policy. The objective of the policy is to support the delivery of the group's financial targets whilst protecting future financial security.

Group capital consists of share capital and retained earnings. To maintain or adjust the capital structure, the group may adjust amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or amend capital spending plans.

The main risks arising from the group's financial instruments are foreign currency, interest, credit and liquidity risk. The group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange risk and assessments of market forecasts for foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Risk exposures and responses

INTEREST RATE RISK

The group has exposure to interest rate risk to the extent it borrows funds at fixed and floating interest rates. The risk specifically relates to the variability of interest rates and the impact this will have on the group's financial results. The group manages its cost of borrowing by placing limits on the proportion of borrowings at floating rate and the proportion of fixed rate borrowing repriced in any year.

At balance date this year and prior year, the group did not have any financial liabilities exposed to variable interest rate risk.

LIQUIDITY RISK

Liquidity risk represents the group's ability to meet its financial obligations on time. In terms of managing its liquidity risk, the group generates sufficient cash flows from its operating activities and holds sufficient cash reserves to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all financial liabilities settled on a gross cash flow basis.

	CONTRACTUAL CASH FLOWS	6 MONTHS OR LESS	6 – 12 MONTHS	1 – 2 YEARS	2 – 5 YEARS	MORE THAN 5 YEARS
GROUP – 2016						
Accounts payable	2,519,707	2,519,707	–	–	–	–
Overdraft	–	–	–	–	–	–
Bank loans	–	–	–	–	–	–
Related party loans	335,044	335,044	–	–	–	–
Convertible notes	–	–	–	–	–	–
Leasehold fitout	–	–	–	–	–	–
Finance leases	9,089	5,453	3,636	–	–	–
	2,863,840	**2,860,204**	**3,636**	**–**	**–**	**–**
GROUP – 2015						
Accounts payable	1,570,478	1,570,478	–	–	–	–
Overdraft	–	–	–	–	–	–
Bank loans	–	–	–	–	–	–
Related party loans	292,416	292,416	–	–	–	–
Convertible notes	–	–	–	–	–	–
Leasehold fitout	19,275	7,586	7,585	4,104	–	–
Finance leases	6,451	3,226	3,225	–	–	–
	1,888,620	**1,873,706**	**10,810**	**4,104**	**–**	**–**

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

CURRENCY RISK

The group has exposure to foreign exchange risk as a result of transactions denominated in foreign companies. The risk specifically relates to the variability of foreign exchange rates for the currencies the group trades in and the impact this has on the group's financial results. The majority of the group's trading activities occur in New Zealand dollars, however, sales to overseas customers are transacted in United States and Australian dollars.

Refer to notes 7 and 11 for further details on the group's foreign currency denominated accounts receivable and cash balances.

The following table summarises the sensitivity to foreign currency exchange rate movements. A sensitivity of +/- 15% (2015: +/- 15%) has been selected owing to exchange rate volatility observed.

		FOREIGN CURRENCY RISK			
		-15%		+15%	
	CARRYING AMOUNT	POST-TAX PROFIT	EQUITY	POST-TAX PROFIT	EQUITY
	$	$	$	$	$
GROUP – 2016					
Foreign exchange balances					
Cash at bank	1,305,164	165,833	165,833	(122,572)	(122,572)
Trade receivables	1,868,577	244,153	244,153	(180,461)	(180,461)
Trade payables	(175,726)	(28,343)	(28,343)	20,949	20,949
Net exposure	**2,998,015**	**381,643**	**381,643**	**(282,084)**	**(282,084)**
Group – 2015					
Foreign exchange balances					
Cash at bank	1,561,776	198,437	198,437	(146,671)	(146,671)
Trade receivables	1,575,913	199,713	199,713	(147,614)	(147,614)
Trade payables	(175,726)	(22,328)	(22,328)	16,503	16,503
Net exposure	**2,961,963**	**375,822**	**375,822**	**(277,782)**	**(277,782)**

CREDIT RISK

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade receivable and other receivables. The group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The group does not hold any credit derivatives to offset its credit exposure.

The group trades only with recognised, creditworthy third parties and, as such, collateral is not requested. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

At reporting date 100% (2015: 100%) of the group's cash and cash equivalents was with one bank. The group has no other concentrations of credit risk.

20 SEGMENT INFORMATION

The board of directors and senior management team monitors the results of the group's operations as a whole for the purpose of making decisions about resource allocation and performance assessment and therefore the Board has determined the group is a single reportable segment.

Revenues are derived from installation and configuration projects and through the provision of support and maintenance, however, these activities are not independent of the principal activity of the group, being the provision of software solutions for the management and administration of corporate travel bookings.

GEOGRAPHIC INFORMATION	GROUP	
	2016	2015
New Zealand	615,562	674,930
Australia	12,228,852	9,501,347
India	166,961	116,951
Singapore	23,965	14,593
US	47,006	20,450
Other	39,220	32,931
Total Operating Revenue	**13,121,566**	**10,361,202**
Other Income		
Grant Income	1,296,264	1,413,182
Total Revenue & Other Income	**14,417,830**	**11,774,384**

New Zealand and Australia geographic information has been restated in the prior year. The total operating revenue has not changed.

As required under IFRS 8 Serko is required to report on major customers making up more than 10% of the revenue for the year. Under this disclosure Serko advises that 1 customer made up more than 10% of the revenue for the group. This customer accounted for $3,581,932 of the revenue for the year ended 31 March 2016.

	2016	2015
Receivables as part of the segmental revenue above		
New Zealand	77,462	215,946
Australia	2,772,346	2,130,848
India	88,860	62,114
Singapore	3,820	3,496
US	36,099	–
Other	5,553	3,715
	2,984,140	**2,416,119**
Allowance for impairment as part of trade receivables above		
New Zealand	–	26,937
Australia	–	2,988
India	7,429	12,406
Singapore	–	–
US	–	–
Other	–	–
	7,429	**42,331**

The revenue information above is based on the locations of the customers.

NON-CURRENT OPERATING ASSETS	2016	2015
New Zealand	1,767,149	1,731,537
Australia	284,754	553,083
	2,051,903	**2,284,620**

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

21 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 weighted average number of ordinary shares outstanding during the year, plus the weighted average number of shares that would be issued on conversion of all of the dilutive potential ordinary shares into ordinary shares.

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

	2016	2015
	$	$
Loss attributable to ordinary equity holders of the parent		
Continuing operations	(6,234,116)	(6,547,335)
Discontinued operations	–	–
	(6,234,116)	(6,547,335)

	2016	2015
	NUMBER	NUMBER
Basic earnings per share		
Issued ordinary shares (refer note 15)	72,894,342	62,699,382
Weighted average of issued ordinary shares	64,737,767	62,699,382
Basic earnings per share (dollars)	**(0.10)**	**(0.10)**
Diluted earnings per share		
Weighted average of issued ordinary shares	64,737,767	62,699,382
Adjusted for redeemable preference shares and share options	–	–
Weighted average of issued ordinary shares for diluted earnings per share	64,737,767	62,699,382
Diluted earnings per share (dollars)	**(0.10)**	**(0.10)**

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.

22 SHARE-BASED PAYMENTS

Employees of the group receive remuneration at the Board's discretion in the form of share-based payment transactions, where services are provided as consideration for the receipt of equity instruments.

The cost of share-based payment transactions are recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for share-based 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 for a period represents the movement in cumulative expenses recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest except where vesting is conditional upon a market condition.

Employee Restricted Share Plan

The Serko Limited Employee Restricted Share Plan (RSP) was introduced for selected executives and employees of the group. Under the RSP, ordinary shares in Serko Limited are issued to a trustee, Serko Trustee Limited, a wholly-owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the company.

The price for each share issued during the year under the RSP is the higher of the market price of the share on the date on which the shares are allocated or the invitation price.

Under the RSP, shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. If the individual is still employed by the group at the end of this specific period, the employee is awarded a cash bonus that must be used to repay the loan and shares are then transferred to the employee. The number of shares awarded is determined by the Remuneration Committee of the Board. The weighted average grant date fair value of restricted shares issued during the year was $0.95 (2015: $1.10) and was determined by the volume weighted average price (VWAP) of shares traded in the previous 20 trading days preceding the date of grant. The group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

	2016	2015
Unvested shares at 1 April	1,021,650	–
Granted	271,352	1,031,605
Forfeited	(13,500)	(9,955)
Vested	(4,000)	–
Unvested shares at 31 March – allocated to employees	**1,275,502**	**1,021,650**
Forfeited shares not yet reallocated – held by trustee	23,455	9,955
Unallocated shares – held by trustee	443,481	148,959
Total	**1,742,438**	**1,180,564**
Percentage of total ordinary shares	2.4%	1.9%
Ageing of unvested shares		
Vest within one year	536,364	–
Vest after one year	1,206,074	1,180,564
Total	**1,742,438**	**1,180,564**

The number of shares awarded pursuant to the RSP does not equal the number of shares created for the scheme, as the scheme had an allocated pool of shares upon set up and forfeited shares are held in the trust and reissued.

Share Appreciation Rights

The group's non-executive directors are granted share appreciation rights (SARs), settled by way of a non recourse loan. The SARs vest when the directors continue to be employed as non executive directors at the vesting date. The contractual term of the SARs is three years.

The following table lists the inputs to the model used for the SAR plan at the time of grant:

	2016	2015
Dividend yield (%)	n/a	0.00
Expected volatility (%)	n/a	20.00
Risk-free interest rate (%)	n/a	3.50
Expected life of share options/SARs (years)	n/a	2.5
Weighted average share price ($)	n/a	1.10
Model used		*Black Scholes*

The expected life of the SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Movements during the year

	2016		2015	
	NUMBER	WAEP	NUMBER	WAEP
Outstanding at 1 April 2015	**590,909**	–	–	–
Granted during the year	–	1.10	590,909	1.10
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at 31 March 2016	**590,909**	**1.10**	**590,909**	**1.10**
Exercisable at 31 March 2016	**590,909**	**1.10**	**590,909**	**1.10**

23 ACQUISITIONS

* On 1 May 2015 Serko Australia Pty Limited acquired the assets of Arnold Travel Technology Pty Limited, an Australian online corporate travel booking business, from the Expedia Group Inc.

The fair values of the identifiable assets of Arnold Travel Technology Pty Limited as at the date of acquisition, denominated in Australian dollars are:

	AU$
Customer contracts	100,000
Goodwill	30,000
Deferred tax liability	(30,000)
	100,000
Consideration transferred:	
Cash paid	100,000
Net cash paid on acquisition	**100,000**

As part of the acquisition, Serko Australia Pty Limited had related redundancy costs for some existing Arnold Travel Technology Pty Limited employees of AU$102,345.

The Goodwill recognised on the customer contracts as a result of the deferred tax liability was fully impaired during the year.

24 EVENTS AFTER BALANCE SHEET DATE

There have been no significant events occurring after balance date (2015: Arnold acquisition).

25 CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2015: $nil).


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