

ASX Announcement

28 February 2018

Accounts for the half-year ended 31 December 2017

The directors of Kollakorn Corporation Limited (**ASX: KKL**) (“the Company”) are very pleased to present the half-yearly accounts of the Company and its controlled entities (“the Group”) to 31 December 2017.

The highlights are:

- Revenue decreased from the comparative period by 28% to \$69,655 (2016: \$96,359). This was largely due to royalty revenue which declined to \$34,151 (2016: \$96,359) for the half-year. This decline was partly offset by revenue contributed by Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd (together referred to as “Isity Global”) in the amount of \$29,732 for the half-year.
- The Group made a loss after tax for the half-year of \$1,313,400 (2016: \$727,308), a decrease from the previous comparative period of 81%.
- Total assets increased from the previous period by 41% to \$7,148,482 (30 June 2017: \$5,074,625) largely due to Isity Global acquisition.
- Total liabilities decreased from the previous period by 61% to \$1,285,108 (30 June 2017: \$3,333,392) due to the conversion of Loan Notes and various unsecured creditors to ordinary shares during the half-year.

Kollakorn Thailand Results

- As in previous periods Kollakorn Thailand has been equity accounted. Total revenue and losses of Kollakorn Thailand for the half-year amounted to \$194,709 (2016: \$4,125) and \$211,099 (2016: \$836,554) respectively. The share of losses attributable to the Company was \$56,292 (2016: \$223,075).

Operations

At the Annual General Meeting (“AGM”) held in November 2017, we outlined our efforts in RFID in the ASEAN and Emerging Markets:

- With our local Partner we have done everything possible in Malaysia to meet the requirements of the Government authorities, including the establishment of a site as Proof of Concept. Our Partner is committed to using our tags for this project, meeting all test and specification requirements of the Government. We continue to await formal approval from the Ministry of Finance.
- We confirmed we had signed a Teaming Agreement for an exclusive relationship between Solutions Hub and Kollakorn to develop projects in Myanmar, and in particular to address the Expression of Interest issued by the Ministry of Transport and Communications of the Myanmar Government for the implementation of a National AVI and EVR system. We continue to aggressively pursue that opportunity.
- We also confirmed that Kollakorn had signed an exclusive teaming agreement with XNATIVA Technology of Argentina for an exclusive relationship to participate in the implementation of an EVR/AVI system, initially in the Province of Mendoza, and then in parallel, nationally. The first implementation, in the Province of Mendoza, will be a speed monitoring application on one of the roads on which inter-country trucking occurs. The specifications for the trial are being confirmed with the Government.
- An exclusive teaming agreement was also signed with Golden Coast International Services Limited (“GCIS”) for an exclusive relationship between GCIS and Kollakorn to participate in the

implementation of a series of products in several Western African Countries. These products will include Electronic Vehicle Registration (“EVR”), Automated Vehicle Identification (“AVI”) and Integrated Immigration Systems (“IIS” in partnership with Somapa Information Technology PCL) for providing identification and security over travellers beginning from their country of origin, border control, customs and within the country.

Patents

The Company has continued to diligently pursue the protection of all its patents and to examine a number of potential infringements of the CertainID and the Break on Removal Patents. While the Company has limited resources to pursue infringements it has never the less, with the help of its channel partners, carried out examinations of each situation brought to its attention.

CertainID

Throughout the year, we continued our development of the CertainID product. CertainID is our patented technology that effectively eliminates the possibility of a person’s biometric data being hacked, by not releasing the biometric data to the internet. We continue to engage with the CSIRO (through Data61) to support the productising and commercialisation of the patent. We are currently finalising the expert resources from Data61 who will provide the technical inputs to the project, and then to commence development.

Cash Flow

Reductions in royalty payments due to slower sales has had an impact on short term cash flow which continues to be an issue for the Company.

Isity Integration

Since the acquisition of Isity we have gained a greater understanding of the business and the opportunities and challenges that it faces.

Management has determined that the timeline for Isity Global’s pipeline of projects requires further time to mature into a sustainable, profitable business, and hence we undertook a complete review of the business model.

The current Isity Global business model and strategy, at this point in time, is not providing the expected foundations to create a sustainable business that would be sufficient to cover the ongoing cost base and make the profit levels that we expected. The Board remains confident that there are growth opportunities in both Sustainable Building Infrastructure and Waste to Energy, and that in the main our Strategy is correct. What we require is an adjustment to our execution to ensure the actions that we take deliver the outcomes we want – profitable revenue growth with minimal risk. To support that approach we implemented a number of key actions to ensuring we realign our strategic objective to ensure that we minimise risk, strive for the large opportunities, grow the brand, and manage costs.



Riad Tayeh
Chairman

Kollakorn Corporation Limited
ABN 41 003 218 862

Kollakorn Corporation Limited

ABN 41 003 218 862

Appendix 4D

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

Period 1 July 2017 to 31 December 2017

(Previous Corresponding Period 1 July 2016 to 31 December 2016)

Appendix 4D

Interim Financial Report

Name of entity

Kollakorn Corporation Limited			
ABN or equivalent company reference	Half-yearly (tick)	Preliminary final (tick)	Financial half-year ended ('current period')
41 003 218 862	✓		31 December 2017

1. Results for Announcement to the Market

Results			A\$
Revenues from ordinary activities	Down	28% to	69,655
Profit (Loss) from ordinary activities after tax attributable to members	Down	81% to	(1,313,400)
Net Profit (Loss) for the period attributable to members	Down	81% to	(1,313,400)
Dividends (distributions)		Amount per security	Franked amount per security
Final dividend		NIL	NIL
Previous corresponding period		NIL	NIL
Record date for determining entitlements to the dividend		N/A	
The Company does not have a dividend reinvestment plan and no dividends are proposed to be declared for the current year.			
Note: This Appendix 4D should be read in conjunction with the Commentary on the Results of the Interim Financial Report for the half-year ended 31 December 2017, with the accompanying notes to the Appendix 4D, and with the most recent annual financial report.			

2. Net Tangible Assets

	Half-year ended 31 December 2017 Cents	Year ended 30 June 2017 Cents
Net tangible assets per ordinary security	1.9670	1.4857

The comparative result at 30 June 2017 has been adjusted for the 10:1 share capital consolidation carried out by the Company on 12 July 2017.

3. Control Gained Over Entities

During the half-year ended 31 December 2017 the Company gained control of:

- Isity Global Pte Limited; and
- Isity Global (Shanghai) Co., Ltd.

Control was gained over Isity Global Pte Limited on 19 July 2017 when 100% of its issued share capital was acquired by the Company. Isity Global (Shanghai) Co., Ltd is 100% owned by Isity Global Pte Limited and hence the Company gained control of Isity Global (Shanghai) Co., Ltd when it gained control of Isity Global Pte Limited.

During the half-year Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd contributed losses to the Group in the amounts of \$123,284 and \$355,415 respectively. The loss of each entity during the whole of the previous corresponding period was \$54,510 and \$242,941 respectively.

4. Loss of Control Over Entities

Not applicable.

5. Details of Associates and Joint Venture Entities

	Reporting entity's percentage holding		Contribution to profit / (loss)	
	Half-year ended 31 December 2017 %	Half-year ended 31 December 2016 %	Half-year ended 31 December 2017 \$	Half-year ended 31 December 2016 \$
Name of Associate				
Kollakorn Co., Ltd	26.67	26.67	(108,302)	(223,075)

6. Audit Qualification or Review

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

7. Attachments

The Interim Financial Report of the Company for the half-year ended 31 December 2017 is attached.

Interim financial report
for the half-year ended 31 December 2017

Contents	Pages
Directors' report	1
Auditors independence declaration	2
Independent auditors report	3
Directors' declaration	5
Consolidated statement of profit or loss and other comprehensive income	6
Consolidated statement of financial position	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9
Notes to the financial statements	10

Directors' report **for the half-year ended 31 December 2017**

The directors of Kollakorn Corporation Limited ("the Company") submit this interim financial report of Kollakorn Corporation Limited and its controlled entities ("the Group") for the half-year ended 31 December 2017. In order to comply with the provisions of the *Corporations Act 2001*, the directors' report as follows:

1. Directors and secretary

The following persons were directors and secretaries of the Company during the whole of the half-year and up to the date of this report, except where indicated otherwise:

Directors

- Riad Tayeh (Chairman)
- Namchoke Somapa (resigned 30 August 2017)
- Nicholas Aston
- Charles Hunting

Secretary

- Tom Bloomfield

2. Principal activities

The principal activities of the Group during the half-year consisted of the development, marketing and commercialisation of security oriented identification, authentication and information storage technologies.

3. Review of operations for the half-year

For further commentary about the half-year accounts please refer to the attached covering letter.

4. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the half-year.

5. Auditor's independence declaration under S307C of the *Corporations Act 2001*

The Auditor's independence declaration is included on page 2 of the half-year report.

Signed in accordance with a resolution of directors made pursuant to S306 (3) of the *Corporations Act 2001*.



Riad Tayeh
Chairman

Sydney, 28 February 2018

RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000

GPO Box 5138 Sydney NSW 2001

T +61(0) 2 8226 4500

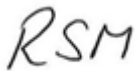
F +61(0) 2 8226 4501

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Kollakorn Corporation Limited for the half year ended 31 December 2017, 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.

**RSM AUSTRALIA PARTNERS**

David Talbot
Partner

Sydney, NSW
Dated: 28 February 2018

RSM Australia Partners

Level 13, 50 Castlereagh Street Sydney NSW 2000

GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500

F +61 (0) 2 8226 4501

www.rsm.com.au**INDEPENDENT AUDITOR'S REVIEW REPORT****TO THE MEMBERS OF****KOLLAKORN CORPORATION LIMITED****Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Kollakorn Corporation Limited ("the company") which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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 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 conducting the review in accordance with Australian Auditing Standards. Because of the matters described in the Bases for Disclaimer of Conclusion paragraphs, however, we were not able to obtain sufficient appropriate evidence to provide a basis for a review conclusion.

Independence

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 Kollakorn Corporation Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Bases for Disclaimer of Conclusion**Going concern*

As disclosed in the Note 1 to the financial statements, the consolidated entity incurred a loss after tax of \$1,313,400 and had net cash outflows from operating activities of \$550,001 during the half year ended 31 December 2017. As at that date the consolidated entity had net current liabilities of \$923,687. The ability of the consolidated entity to continue as a going concern is contingent on a number of future events, the most

significant of which is the ability of the consolidated entity to obtain additional funding to settle the consolidated entity's outstanding current liabilities and complete the development and successful commercialisation of the RFID technology. We have been unable to obtain alternative evidence which would provide sufficient appropriate audit evidence as to whether the consolidated entity may be able to raise sufficient capital and successfully commercialise the RFID technology and hence remove significant doubt of its ability to continue as a going concern within 12 months of the date of this auditor's report.

Carrying value of associate

As disclosed in Note 3, the consolidated entity's equity-accounted investment in Kollakorn Co. Ltd is carried at \$4,635,602 in the consolidated statement of financial position. This asset represents approximately 65% of the consolidated entity's total assets as at 31 December 2017. The ability to realise the carrying value of this investment is dependent on sufficient funds being raised by Kollakorn Co Ltd to complete the development and successful commercialisation of its RFID technology. As a result, we were unable to determine whether any adjustments were necessary in respect of the carrying value of investment in associates as at 31 December 2017.

Share of loss of associate

As disclosed in Note 3, the consolidated entity's share of Kollakorn Co. Ltd's net loss of \$108,302 for the half year ended 31 December 2017 is included in the consolidated entity's statement of profit or loss and other comprehensive income. We were unable to obtain sufficient appropriate evidence about the consolidated entity's share of Kollakorn Co. Ltd's net loss for the year because the financial statements of Kollakorn Co. Ltd are unaudited. We were unable to perform adequate alternative procedures in this regard. Consequently, we were unable to determine whether any adjustments to the share of loss were necessary during the half-year ended 31 December 2017.

Disclaimer of Conclusion

Because of the significance of the matters described in the Bases for Disclaimer of Conclusion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for a review conclusion. Accordingly, we do not express a conclusion on whether the half-year financial report of Kollakorn Corporation Limited is in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



David Talbot
Partner

Sydney, NSW
Dated: 28 February 2018

**Directors' declaration
for the half-year ended 31 December 2017**

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, *Australian Accounting Standard 134: Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors.



Riad Tayeh
Chairman

Sydney, 28 February 2018

**Consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2017**

	Note	Half-year ended 31 December 2017 \$	Half-year ended 31 December 2016 \$
Continuing operations			
Royalties received		34,151	96,359
Revenue from services		29,732	-
Revenue from sale of goods		5,607	-
Other revenue		165	6
Expenses by function:-			
Administration and general		(1,018,595)	(457,971)
Depreciation and amortisation		(43,850)	(43,593)
Finance costs		(14,125)	(52,941)
Foreign exchange loss		(7,170)	(2,684)
Research and development		(97,272)	(38,147)
Share of loss of associates accounted for using the equity method	3	(108,302)	(223,075)
Other expenses		(93,741)	(5,262)
Loss before tax from continuing operations		(1,313,400)	(727,308)
Income tax expense		-	-
Loss for the period from continuing operations		(1,313,400)	(727,308)
Net operating loss for the period		(1,313,400)	(727,308)
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences arising on translation of foreign operations		(4,143)	(7,900)
Other comprehensive loss for the period		(4,143)	(7,900)
Total comprehensive loss for the period		(1,317,543)	(735,208)
Loss attributable to:			
Members of the parent entity		(1,313,400)	(727,308)
Total comprehensive loss attributable to:			
Members of the parent entity		(1,317,543)	(735,208)
Earnings per share			
Basic (cents)	4	(0.75)	(0.71)
Diluted (cents)	4	(0.75)	(0.71)

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

**Consolidated statement of financial position
as at 31 December 2017**

	Note	31 December 2017 \$	30 June 2017 \$
Current Assets			
Cash assets		167,018	104,928
Trade and other receivables		141,549	149,700
Other current assets		52,854	-
Total Current Assets		361,421	254,628
Non-Current Assets			
Property, plant and equipment		1,244	-
Intangible assets	5	2,150,215	87,186
Investment in associates	3	4,635,602	4,732,811
Total Non-Current Assets		6,787,061	4,819,997
Total Assets		7,148,482	5,074,625
Current Liabilities			
Trade and other payables		1,194,743	2,045,561
Other financial liabilities	7	-	1,196,197
Provisions		90,365	91,634
Total Current Liabilities		1,285,108	3,333,392
Non-Current Liabilities			
Total Non-Current Liabilities		-	-
Total Liabilities		1,285,108	3,333,392
Net Assets		5,863,374	1,741,233
Equity			
Issued capital	8	56,512,351	51,025,167
Reserves	9	1,940,391	1,992,034
Accumulated losses		(52,589,368)	(51,275,968)
Total Equity		5,863,374	1,741,233

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

**Consolidated statement of changes in equity
for the half-year ended 31 December 2017**

	Fully paid ordinary shares \$	Fully paid performance shares \$	Equity-settled employee benefits reserve \$	Foreign currency translation reserve \$	Options Reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2016	50,562,667	-	2,096,130	(318,777)	94,834	(49,948,809)	2,486,045
Loss for the period	-	-	-	-	-	(727,308)	(727,308)
Exchange differences arising on translation of foreign operations	-	-	-	(7,900)	-	-	(7,900)
Total comprehensive income for the period	-	-	-	(7,900)	-	(727,308)	(735,208)
<i>Transactions with owners in their capacity as owners:</i>							
Issue of shares and options	287,500	-	-	-	26,942	-	314,442
Balance at 31 December 2016	50,850,167	-	2,096,130	(326,677)	121,776	(50,676,117)	2,065,279
Balance at 1 July 2017	51,025,167	-	2,191,130	(320,872)	121,776	(51,275,968)	1,741,233
Loss for the period	-	-	-	-	-	(1,313,400)	(1,313,400)
Exchange differences arising on translation of foreign operations	-	-	-	(4,143)	-	-	(4,143)
Total comprehensive income for the period	-	-	-	(4,143)	-	(1,313,400)	(1,317,543)
<i>Transactions with owners in their capacity as owners:</i>							
Issue of shares and options	4,832,184	412,500	-	-	-	-	5,244,684
Share-based payments	242,500	-	(47,500)	-	-	-	195,000
Balance at 31 December 2017	56,099,851	412,500	2,143,630	(325,015)	121,776	(52,589,368)	5,863,374

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

**Consolidated statement of cash flows
for the half-year ended 31 December 2017**

	Note	Half-year ended 31 December 2017 \$	Half-year ended 31 December 2016 \$
Cash flows from operating activities			
Receipts from customers		55,901	-
Payments to suppliers and employees		(591,777)	(170,856)
Finance costs		(14,125)	(14,125)
Net cash used by operating activities		(550,001)	(184,981)
Cash flows from investing activities			
Net cash provided by business combination	6	22,917	-
Interest received		165	6
Royalties received		44,320	102,941
Net cash provided by investing activities		67,402	102,947
Cash flows from financing activities			
Proceeds from the issue of shares		550,000	155,000
Net cash provided by financing activities		550,000	155,000
Net increase in cash and cash equivalents		67,401	72,966
Cash and cash equivalents at the beginning of the half-year		104,928	35,149
Effects of exchange rate changes on cash and cash equivalents		(5,311)	(1,776)
Cash and cash equivalents at the end of the half-year		167,018	106,339

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

Notes to the financial statements

Note 1: Summary of significant accounting policies

a) Basis of Preparation

These general purpose financial statements for the half-year reporting period ended 31 December 2017 (“the half-year”) have been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34: Interim Financial Reporting.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual financial statements for the Group for the year ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2017 annual report.

b) New or Amended Accounting Standards and Interpretations

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that a mandatory for the current half-year reporting period. The adoption of new or amended Accounting Standards and Interpretations has not resulted in any material changes to the Group’s accounting policies and has no effect on the amounts reported for the current or prior periods.

Any new or amended Accounting Standards and Interpretations that are not yet mandatory have not been early adopted.

c) Going concern

The financial statements have been prepared on the going concern basis, which contemplates the Group’s ability to pay its debts as and when they become due and payable for a period of at least 12 months from the date of authorising the financial report for issue.

For the half-year ended 31 December 2017 the Group incurred net losses of \$1,313,400 and net cash outflows from operating activities of \$550,001. As at 31 December 2017 the Group’s current liabilities exceeded its current assets by \$923,687.

The ability of the Group to continue as a going concern is dependent on a number of factors, the most significant of which are:

- the continued support of the Group’s creditors;
- the ability of the Company to source sufficient capital and other funding to settle the Group’s outstanding current liabilities; and
- the ability of the Group to generate continuing revenue streams from the RFID technology and its other businesses.

These factors indicate material uncertainty that may cast significant doubt over the Group’s ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts presented in the financial statements.

The directors are of the opinion that there are reasonable grounds to believe that the Group will be able to continue as a going concern after consideration of the following factors:

- the Group completed its acquisition of Isity Global on 19 July 2017 which is expected to provide new revenue streams on an ongoing basis;
- the Group has the ability to continue to raise additional funds on a timely basis, pursuant to the Corporations Act 2001;
- the directors anticipate to close significant sales contracts during the next 12 months which will increase operating cash flow;
- the Group has the ability to further scale back certain parts of its activities that are non-essential so as to conserve cash.

Notes to the financial statements (continued)

Note 1: Summary of significant accounting policies (continued)

c) Going concern (continued)

Accordingly, the directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of this financial report.

As at the date of approval of the financial report, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded. Accordingly, the financial statements do not include any adjustments relating to the recoverability or classification of recorded assets nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Note 2: Operating segments

Operating segments are 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.

Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on revenue for each type of good. The principal categories of customer for these goods are direct sales to major customers, wholesalers, retailers and internet sales. The Group's reportable segments under AASB 8 are:

- AVI (Automated Vehicle Identification)
- Smart&Secure
- TransitVault & CertainID

Revenue reported in the Smart&Secure segment relates to royalties received for the use of our Smart&Secure RFID technology by external parties. CertainID, the Group's bio authentication technology, earned no revenue in the half-year as this technology is still in a developmental stage.

Other segments represent the corporate head office activities of the Group.

Information regarding the Group's reportable segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Operating segment revenues and results

The following is an analysis of the Group's revenue and results, and assets by reportable operating segment for the half-year:

	AVI \$	Smart&Secure \$	TransitVault & CertainID \$	Other segments \$	Total \$
31 December 2017					
Revenue					
Sales to external customers	5,607	63,883	-	-	69,490
Total segment revenue	5,607	63,883	-	-	69,490
<i>Unallocated revenue</i>					
Interest revenue					165
Total revenue					69,655
EBITDA	(5,415)	(444,708)	(1,382)	(695,783)	(1,147,288)
Depreciation and amortisation	-	(43,850)	-	-	(43,850)
	(5,415)	(488,558)	(1,382)	(695,783)	(1,191,138)
Interest revenue					165
Finance costs					(14,125)
Share of loss from associates					(108,302)
Loss before income tax expense					(1,313,400)
Income tax expense					-
Loss after income tax expense					(1,313,400)

Notes to the financial statements (continued)

Note 2: Operating segments (continued)

31 December 2017	AVI \$	Smart&Secure \$	TransitVault & CertainID \$	Other segments \$	Total \$
Assets					
Segment assets	4,652,386	2,397,500	-	-	7,049,886
<i>Unallocated assets</i>					
Cash and cash equivalents					349
Trade and other receivables					98,247
Total assets					<u>7,148,482</u>
31 December 2016	AVI \$	Smart&Secure \$	TransitVault & CertainID \$	Other segments \$	Total \$
Revenue					
Sales to external customers	-	96,359	-	-	96,359
Total segment revenue	-	96,359	-	-	96,359
<i>Unallocated revenue</i>					
Interest revenue					6
Total revenue					<u>96,365</u>
EBITDA	(283)	91,097	(2,977)	(495,542)	(407,705)
Depreciation and amortisation	-	(43,593)	-	-	(43,593)
	(283)	47,504	(2,977)	(495,542)	(451,298)
Interest revenue					6
Finance costs					(52,941)
Share of profit from associates					(223,075)
Profit before income tax expense					(727,308)
Income tax expense					-
Profit after income tax expense					<u>(727,308)</u>

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

Segment profit / (loss) represents the profit / (loss) earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, investment revenue and finance costs, income tax expense, and gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Note 3. Investment in Associates

Details of the Group's associates are as follows.

Name of associate	Principal activity	Place of incorporation and operation
Kollakorn Co Ltd	IT Infrastructure	Thailand

Kollakorn Corporation Ltd acquired a 19.9% interest in Kollakorn Co Ltd ("Kollakorn Thailand") on 30 June 2011, and purchased an additional 8.8% in 2012, 2.49% in 2013 and 2.04% in 2014. Kollakorn Thailand offered all shareholders a pro rata rights issue in December 2015, however KKL elected not to participate. All other shareholders in Kollakorn Thailand have participated and the shares so issued have been called as to 25%. The effect was to reduce the Group's shareholding in Kollakorn Thailand to 26.67%.

The total purchase price for the 26.67% interest in this company to date has been \$6,461,652 (30 June 2017: \$6,461,652). The carrying amount in the statement of financial position of the Group's equity interest in Kollakorn Thailand at 31 December 2017 is \$4,635,602

Notes to the financial statements (continued)

Note 3. Investment in Associates (continued)

(30 June 2017: \$4,732,811). The Group's share of accumulated losses in Kollakorn Thailand at 31 December 2017 is \$1,826,050 (30 June 2017: \$1,728,841).

As the Group holds 26.67% of the equity shares of Kollakorn Thailand, the directors of the Company have adopted Australian Accounting Standard AASB 128 – Investments in Associates and Joint Ventures for the investment in Kollakorn Thailand. The directors of the Company do not however believe that they have control over the day to day running of Kollakorn Thailand.

Summarised financial information in respect of the Group's associates is set out below.

	31 December 2017	30 June 2017
	\$	\$
Total assets	3,444,655	3,954,829
Total liabilities	(2,069,765)	(2,215,397)
Net assets	1,374,890	1,739,432
Group's share of net assets of associates	366,628	463,837

	Half-year ended 31 December 2017	Half-year ended 31 December 2016
	\$	\$
Total revenue	194,708	4,125
Total loss	(211,099)	(836,554)
Group's share of loss of associates	(56,292)	(223,075)

Note 4. Earnings per share

The comparative result for the half-year ended 31 December 2016 has been adjusted for the 10:1 share capital consolidation carried out by the company on 12 July 2017.

Note 5. Intangible assets

	31 December 2017	30 June 2017
	\$	\$
Intangibles assets	2,150,215	87,186

Reconciliation of the written down value at the beginning and end of the half-year

	Total \$
Balance at 1 July 2016	174,371
Amortisation expense	(43,593)
Balance at 31 December 2016	130,778
Balance at 1 July 2017	87,186
Acquisition of subsidiary	2,106,622
Amortisation expense	(43,593)
Balance at 31 December 2017	2,150,215

Note 6. Business combinations

On 19 July 2017 the Group gained control of Isity Global Pte Limited and Isity Global (Shanghai) Co., Ltd by acquiring of 100% of the issued share capital of Isity Global Pte Limited which owns 100% of the issued share capital of Isity Global (Shanghai) Co., Ltd.

Notes to the financial statements (continued)

Note 6. Business combinations (continued)

The acquisition brings two potentially very powerful new technologies to the Group along with the ability to fund and operate projects generated from these technologies. Goodwill represents the reciprocal synergistic applications of the Isity Global technologies with the Group's existing businesses which the directors believe will enhance the value and market image of the Group.

The acquisition-date provisional fair value of total consideration transferred comprises:

	Shares	Market value per share \$	Total \$
Ordinary shares	31,250,000	0.0550	1,718,750
Performance shares	74,999,999	0.0055	412,500
Acquisition date fair value of consideration transferred			<u>2,131,250</u>

The ordinary shares transferred represents non-contingent consideration. The fair value of ordinary shares is derived from the market value on the day of completion being 19 July 2017 and represents non-contingent consideration.

The performance shares represent contingent consideration. Upon attaining certain performance milestones, each performance share entitles the holder to convert for one ordinary share (refer Note 8). The fair value of performance shares is derived from the market value of ordinary shares on the day of completion and a probability weighted methodology having regard for the stretch performance milestones attaching to said shares.

The acquisition date provisional fair values of assets acquired and liabilities assumed were as follows:

	Fair value \$
Cash and cash equivalents	22,917
Trade and other receivables	2,242
Other current assets	41,686
Property, plant and equipment	1,453
Trade and other payables	<u>(43,670)</u>
Net assets acquired	24,628
Goodwill	2,106,622
Acquisition date provisional fair value of total consideration transferred	<u>2,131,250</u>
<i>Representing:</i>	
Ordinary and performance shares issued to vendor	<u>2,131,250</u>
<i>Cash provided by business combination:</i>	
Acquisition date provisional fair value of total consideration transferred	2,131,250
Less:	
Ordinary and performance shares issued to vendor	(2,131,250)
Cash and cash equivalents acquired	<u>(22,917)</u>
Net cash (provided) by business combination	<u>(22,917)</u>

Note 7. Other liabilities

Other liabilities comprised Loan Notes and accrued interest charges. Interest on the Loan Notes accrued at 7% and was payable upon maturity. The Loan Notes had a maturity date of 31 August 2018 and were secured against an aggregate amount of 10% of the shares in Kollakorn Thailand.

Following approval by shareholders at the General Meeting held on 30 June 2017, the Loan Notes were extinguished by way of conversion to ordinary shares on 3 July 2017.

Notes to the financial statements (continued)

Note 8. Issued capital

	31 December 2017	30 June 2017	31 December 2017	30 June 2017
	#	#	\$	\$
Ordinary shares	188,777,191	1,113,310,077	56,099,851	51,025,167
Performance shares	74,999,999	-	412,500	-
	263,777,190	1,113,310,077	56,512,351	51,025,167

Ordinary shares

Ordinary shares entitled 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. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person, or by proxy, shall have one vote and upon a poll each share shall have one vote.

Performance shares

Performance shares are unlisted, non-transferable and do not carry any entitlement to vote, share in dividends or proceeds on winding up of the Company.

Performance shares entitled the holder to convert, subject to meeting the “performance milestones”, each performance share into one ordinary share on or before 30 June 2020. The performance milestones are:

1. the Revenue contributed by Isity Global in the financial year ending 30 June 2020 shall be equal to or exceed \$100,000,000; and
2. that earnings before interest, taxation, depreciation and amortisation (“EBITDA”) in the financial year ending 30 June 2020 shall equal or exceed \$30,000,000.

Consolidation of Share Capital

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company carried out a consolidation of its issued share capital and unexpired options on 12 July 2017 on a 10:1 basis with fractional entitlements rounded up to the nearest whole number.

Shares Issued in the Half-Year

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 129,134,899 ordinary shares on 3 July 2017 to the holders of 38 Loan Notes at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of all 38 Loan Notes valued at \$1,033,079 and owed by the Company to the Loan Noteholders.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 16,991,438 ordinary shares on 3 July 2017 to Brentnalls NSW Pty Ltd, a related entity of Nicholas Aston, a director of the Company, at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of 5 Loan Notes valued at \$135,932 and owed by the Company to Brentnalls NSW Pty Ltd.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 3,398,288 ordinary shares on 3 July 2017 to Mr Riad Tayeh, Chairman of the Company, at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of 1 Loan Note valued at \$27,186 and owed by the Company to Mr Tayeh.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 86,902,876 ordinary shares on 3 July 2017 to Brentnalls NSW Pty Ltd, a related entity of Nicholas Aston, a director of the Company, at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of \$695,223 of director fees and accounting fees owed by the Company to Brentnalls NSW Pty Ltd.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 30,587,040 ordinary shares on 3 July 2017 to Mr Riad Tayeh, Chairman of the Company, at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of \$244,696 of director fees owed by the Company to Mr Tayeh.

Notes to the financial statements (continued)

Note 8. Issued capital (continued)

Shares Issued in the Half-Year (continued)

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 12,833,310 ordinary shares on 3 July 2017 to Mr Charles Hunting, a director of the Company, at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of \$102,666 of director fees owed by the Company to Mr Hunting.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 25,025,029 ordinary shares on 3 July 2017 to Mr Namchoke Somapa, a former director of the Company, at \$0.008 per share (pre-consolidation value). The share issue resulted in the extinguishment of \$200,200 of director fees owed by the Company to Mr Somapa.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 9,531,772 ordinary shares to Mr David Mathews at \$0.008 per share (pre-consolidation value) pursuant to his employment agreement with the Company.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 31,250,000 ordinary shares on 24 July 2017 to the vendors of Isity Global Pte Limited at \$0.08 per share (post-consolidation value) as consideration for the acquisition of 100% of the issued share capital of Isity Global Pte Limited.

Following approval from shareholders at the General Meeting held on 30 June 2017, the Company issued 74,999,999 performance shares on 24 July 2017 to the vendors of Isity Global Pte Limited at \$0.08 per share (post-consolidation value) as consideration for the acquisition of 100% of the issued share capital of Isity Global Pte Limited. Included within this amount was 20,053,473 performance shares which were issued to Charles Hunting, a director of the Company and participating vendor of Isity Global Pte Limited.

On 9 October 2017, the Company issued 5,139,925 ordinary shares to Mr David Mathews in four parcels pursuant to his employment agreement with the Company. This share issue was ratified by shareholders at the Annual General Meeting held on 27 November 2017.

- 635,026 ordinary shares at \$0.0748 per share (post-consolidation value); and
- 830,419 ordinary shares at \$0.0572 per share (post-consolidation value); and
- 908,221 ordinary shares at \$0.0523 per share (post-consolidation value); and
- 2,766,259 ordinary shares at \$0.0536 per share (post-consolidation value).

On 6 November 2017, the Company issued 9,615,384 ordinary shares at \$0.052 per share (post-consolidation value) under the Company's 10% Placement Facility which was approved by shareholders at the Annual General Meeting held on 28 November 2016.

Note 9. Reserves

As at 31 December 2017, reserves comprise:

- equity-settled employee benefits reserve;
- foreign currency translation reserve; and
- options reserve.

During the period, the equity-settled share based payments reserve reduced by \$47,500 in relation to shares issued to Mr David Matthews, CEO, pursuant to the terms of his employment agreement with the Company.

Note 10. Contingent liabilities

At the date of this report, neither the Company nor the Group had any contingent liabilities.

Note 11. Events subsequent to reporting date

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 13. Interest in subsidiaries

Set out below are the Group's subsidiaries at 31 December 2017. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal place of business.

Notes to the financial statements (continued)

Note 13. Interest in subsidiaries (continued)

Subsidiaries' financial statements used in the preparation of these financial statements have also been prepared as at the same reporting date as the Group's financial statements.

Name of entity Parent entity	Country of incorporation	Ownership interest	
		2017 %	2016 %
Kollakorn Corporation Limited (i)	Australia	-	-
Subsidiaries			
Kollakorn Imaging Systems Pty Limited (ii) (iii)	Australia	100	100
Kollakorn (AVI) Pty Ltd (ii) (iii)	Australia	100	100
Kollakorn (IP) Pty Ltd (ii) (iii)	Australia	100	100
Mikoh Corporation	USA	100	100
Kollakorn Pty Limited (ii) (iii)	Australia	100	100
Kollakorn Technology Pty Limited (ii) (iii)	Australia	100	100
Isity Global Pte Limited	Singapore	100	-
Isity Global (Shanghai) Co., Ltd	China	100	-

- (i) Kollakorn Corporation Limited is the head entity within the tax-consolidated group.
- (ii) These companies are members of the tax-consolidated group.
- (iii) These wholly owned entities are classified as small proprietary entities and, in accordance with the Corporations Act 2001 are relieved from the requirement to prepare and lodge audited financial statements.