

MaxSec Group Limited

ABN 89 000 029 265

and controlled entities

Appendix 4E

Preliminary Final Report

For the year ended 30 June 2018

Lodged with the ASX under Listing Rule 4.3A

Contents

MAXSEC GROUP LIMITED REGISTERED OFFICE
UNIT 29, 1 TALAVERA ROAD, NORTH RYDE, NSW 2113, Australia
TEL: + 612 8817-2800 Fax: + 612 8817-2811
www.maxsec.com

TABLE OF CONTENTS	PAGE
Results for announcement to the market	2
Dividends and distributions	2
Net tangible assets per security	3
Control gained or lost over entities during the period	3
Details of associates and joint venture entities	3
Other significant information	3
Commentary on significant features of operating performance	3
Commentary on results	4
Consolidated Statement of 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 Consolidated Financial Statements	10
Compliance Statement	17

Name of Entity: MaxSec Group Limited ("Company", "MaxSec")

Details of the reporting period

Current Period: 1 July 2017 – 30 June 2018

Previous Corresponding Period: 1 July 2016 – 30 June 2017

Results for announcement to the market

	Up / down	% movement	Amount of change \$'000	2018 30-Jun \$'000	2017 30-Jun \$'000
Revenues from ordinary activities	Up	68%	5,068	12,497	7,429
Loss from ordinary activities after tax attributable to members	Down	17%	580	(2,855)	(3,434)
EBITDA* loss for the period attributable to members	Down	25%	785	(2,336)	(3,121)

* Earnings before interest, tax, depreciation and amortisation

Dividends and distributions

Current Period:

No final or interim dividend has been declared or paid.

Previous Corresponding Period:

No final or interim dividend was declared or paid.

Details of dividends/distribution reinvestment plan

The Company does not have a dividend reinvestment plan.

Net tangible assets per security

	Current Period	Previous Corresponding Period
Net asset backing per share	0.72 cents	1.17 cents
Net tangible asset backing per share*	0.19 cents	0.60 cents
*Excludes Intangibles.		

Control gained or lost over entities during the period

There were no changes over entities during the period. (2017: None).

Details of associates and joint venture entities

The Company did not have any associated entities or joint ventures during the year (2017: None).

Other significant information

Refer to Commentary on Results below for details on other significant matters and information regarding the Consolidated Entity.

Commentary on significant features of operating performance

The net result for the Consolidated Entity attributable to shareholders for the year ended 30 June 2018 is a loss of \$2.855 million (2017: loss of \$3.434 million).

Revenue

Total revenue for the year was \$12.497 million (2017: \$7.429 million). Refer to Commentary on results for further explanation of the primary causes of the increase.

Depreciation and amortisation expense

Depreciation and amortisation expenses were \$0.522 million (2017: \$0.330 million). The increase was primarily due to increased capitalisation of product development costs year on year.

Commentary on Results

Review and Results of Operations

Highlights:

- Revenue from ordinary activities of \$12.497 million for the twelve months to 30 June 2018 (FY2018):
 - 68% increase on FY2017 (\$7.429 million) primarily due to growth in sales for the international valuable logistics business.
- Gross margin of 35% (FY2017: 43%) as a result of higher sales from the lower margin international valuable logistics business.
- Non-operating income of \$0.423 million (FY2017: \$0.412 million) comprising:
 - Interest Income of \$6k
 - R&D Tax Incentive of \$222k
 - Gains on foreign exchange of \$183k
 - Other Income of \$12k
- Operating expenses excluding depreciation and amortisation, interest and taxes of \$7.081 million (FY2017 \$6.277 million) due to:
 - Increased spending in advertising and marketing
 - Reduced travel and entertainment spending
 - Higher facilities and office costs due to international expansion; and
 - Employee expenses increased due to a shift from longer term projects which are capital in nature to shorter term projects and an increase in headcount in sales resources
- Net loss from ordinary activities of \$2.855 million - a 17% decrease on FY2017 loss of \$3.434 million.
- EBITDA loss of \$2.336 million - a 25% decrease on FY2017 loss of \$3.121 million.
- Net assets of \$3.294 million (FY2017 \$4.813 million) due to working capital requirements and operating losses.

The financial year was a period of capital raising, merger related activity and continued growth due to the development of our market sectors and channels. Key milestones and achievements during the period are:

- MaxSec became a controlled entity of Ava Risk Group Limited (ASX:AVA) 'Ava', on 29 November, 2017 with Ava acquiring a controlling 86.8% stake in the business.
- MaxSec raised \$1.845 million for working capital and development requirements from the issue of 61,500,000 ordinary shares at \$0.03 cents each to Ava.
- During the period 04 May to 29 June 2018, MaxSec cancelled 18,276,192 shares through a combination of on-market buy-back and an unmarketable parcel buy-back of its own shares.
- The International Valuables Logistics business continues to grow both in terms of execution of new service level agreements and increasing market share from existing group clients. The gross margin percentage continues to improve with increasing economies of scale and due to a focus on a higher

margin sectors.

- BQT Solutions was a new Product Showcase award winner in the category of Lock Systems and Secure Storage Containers at ISC West, Las Vegas for its YG10 locking solution.
- BQT Solutions has further increased investment in sales, marketing and promotion activity growing our pipeline of opportunities.
- BQT Solutions was awarded as preferred tenderer and subsequent execution of an agreement with the Australian Government for the supply of BQT smart readers to the Department of Human Services (DHS) in the new year. The contract estimates that requirements will be for the provision of approximately 6,500 readers and additional associated equipment over a planned implementation period of approximately two years.
- BQT Solutions executed distribution agreements with Dormakaba Australia Pty. Limited and Dormakaba NZ Limited for the respective non-exclusive and exclusive distribution of BQT Solutions co-branded locking products within Australia and New Zealand.

Following this the company has reported a consolidated loss for the year of \$2.855 million (2017: Loss \$3.435 million).

The loss is reflective of the resourcing of International Valuable Logistics business segment during the establishment period and increased sales, marketing and promotion activity in the BQT Solutions operations. During the period the Company also incurred non-recurring direct costs of \$262k in relation to the bid by Ava. If these costs had not been incurred by the Company the net loss for the period would have been \$2.593 million.

The Company ended the year with a cash balance of \$1.144 million (30 June 2017: \$1.587 million). Receivables at the end of the year amounted to \$1.642 million (30 June 2017: \$1.907 million).

As at the report date, Ava holds 90.3% in MaxSec and is eligible under *Section 664C of the Corporations Act* to apply to compulsory acquire the remaining 9.7% shareholding.

Other than the matters noted above there has been no matter or circumstance, which has arisen subsequent to 30 June 2018 that has significantly affected or may significantly affect the operations of the consolidated entity, or the results of those operations, or the state of affairs of the consolidated entity.

Outlook

The Directors remain focused on continuing along the path of delivering the Group's stated strategic objectives as noted below and continue to support management in implementing and executing these objectives to increase shareholder value, these are:

- Develop and launch new products and services to increase market share and profitability;
- Implementation and continued development of a direct sales model for BQT's traditional core markets and a distribution model for developing and other markets;
- Integrated sales approach offering holistic security solutions to Group clients; and
- Cost control and working capital maximisation initiatives.

Date 31 August 2018



Geoffrey Cleaves
Chief Executive Officer

Consolidated Statement of Comprehensive Income

MAXSEC GROUP LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
Revenue and other income			
Revenues from sales and services	2	12,497	7,429
Other income	2	423	412
		<u>12,920</u>	<u>7,841</u>
Less:			
Cost of raw materials, consumables used, and labour		(8,169)	(4,663)
Employee benefits expense		(4,665)	(4,015)
Depreciation and amortisation expenses		(522)	(330)
Advertising and marketing		(490)	(296)
Travel and entertainment		(438)	(521)
Facilities and office		(450)	(307)
Professional fees		(671)	(684)
Finance costs		(3)	(3)
Other expenses		(367)	(456)
Loss for the year before income tax		<u>(2,855)</u>	<u>(3,434)</u>
Income tax benefit / (expense)		-	-
Loss for the year		<u>(2,855)</u>	<u>(3,434)</u>
Loss for the year attributable to:			
Equity holders of the parent company		(2,855)	(3,434)
Non-controlling interests		-	-
		<u>(2,855)</u>	<u>(3,434)</u>
Other comprehensive income for the year, net of tax			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Exchange differences on translation of foreign operations, net of tax		(67)	(695)
Total comprehensive loss for the year		<u>(2,922)</u>	<u>(4,129)</u>
Total comprehensive loss attributable to:			
Total comprehensive loss attributable to equity holders of the parent		(2,922)	(4,129)
Total comprehensive loss attributable to non-controlling interests		-	-
Loss per share for loss attributable to the ordinary equity holders of the company:		<u>(2,922)</u>	<u>(4,129)</u>
Basic and diluted loss per share (cents per share)*		(0.62) cents	(0.84) cents

This Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

* Basic and diluted loss per share amounts are calculated by dividing loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year of 462,068,836 (2017: 410,510,928).

Consolidated Statement of Financial Position

MAXSEC GROUP LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
CURRENT ASSETS			
Cash and cash equivalents		1,144	1,587
Receivables		1,642	1,907
Inventories		1,304	1,102
Other assets		171	90
TOTAL CURRENT ASSETS		4,261	4,686
NON-CURRENT ASSETS			
Plant and equipment		92	97
Intangible assets	4	2,426	2,335
TOTAL NON-CURRENT ASSETS		2,518	2,432
TOTAL ASSETS		6,779	7,118
CURRENT LIABILITIES			
Payables		2,972	2,070
Borrowings	5	200	-
Provisions		291	195
TOTAL CURRENT LIABILITIES		3,463	2,265
NON-CURRENT LIABILITIES			
Non-current provisions		22	40
TOTAL NON-CURRENT LIABILITIES		22	40
TOTAL LIABILITIES		3,485	2,305
NET ASSETS		3,294	4,813
EQUITY			
Issued capital	6	68,256	66,857
Retained earnings/(losses)		(88,850)	(85,995)
Reserves		23,888	23,951
Equity attributable to owners of the parent		3,294	4,813
Non-controlling interest		-	-
TOTAL EQUITY		3,294	4,813

This Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

MAXSEC GROUP LIMITED AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2018

	Share Capital	Share Based Expenses Reserve	Capital Profit Reserve	Foreign Exchange Translation Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED ENTITY						
Balance as at 1 July 2017	66,857	23,356	1,031	(436)	(85,995)	4,813
Loss for the period	-	-	-	-	(2,855)	(2,855)
Exchange differences on translation of foreign operations, net of tax	-	-	-	(67)	-	(67)
Total comprehensive income for the year	-	-	-	(67)	(2,855)	(2,922)
Transactions with owners in their capacity as owners						
Shares issued	1,845	-	-	-	-	1,845
Share Buy Back	(446)	-	-	-	-	(446)
Share based payments	-	4	-	-	-	4
Total transactions with owners in their capacity as owners	1,399	4	-	-	-	1,403
Balance as at 30 June 2018	68,256	23,360	1,031	(503)	(88,850)	3,294
Balance as at 1 July 2016	66,857	23,337	1,031	259	(82,560)	8,924
Loss for the period	-	-	-	-	(3,435)	(3,435)
Exchange differences on translation of foreign operations, net of tax	-	-	-	(695)	-	(695)
Total comprehensive income for the year	-	-	-	(695)	(3,435)	(4,130)
Transactions with owners in their capacity as owners						
Share based payments	-	19	-	-	-	19
Total transactions with owners in their capacity as owners	-	19	-	-	-	19
Balance as at 30 June 2017	66,857	23,356	1,031	(436)	(85,995)	4,813

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

Consolidated Statement of Cash Flows

MAXSEC GROUP LIMITED AND CONTROLLED ENTITIES CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$'000	\$'000
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	13,428	7,237
Other receipts	222	392
Payments to suppliers and employees	(15,121)	(10,490)
Interest received	6	20
Finance costs	(3)	(3)
NET CASH USED IN OPERATING ACTIVITIES	(1,468)	(2,844)
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for product development expenses	(565)	(500)
Purchase of property, plant and equipment	(46)	(32)
NET CASH USED IN INVESTING ACTIVITIES	(611)	(532)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	1,845	-
Share buy Back	(446)	-
Proceeds from borrowings	200	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,599	-
NET DECREASE IN CASH HELD	(480)	(3,376)
Cash and cash equivalents at beginning of year	1,587	4,968
Foreign exchange differences on cash holdings	37	(5)
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,144	1,587

This Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

Note 1 – Summary of Significant Accounting Policies

The unaudited preliminary final report covers MaxSec Group Limited and its controlled entities as a consolidated entity (together referred to as the 'Group'). It has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited financial report. MaxSec Group Limited is a company limited by shares, incorporated and domiciled in Australia.

The preliminary final report does not include all the notes of the type normally included in an annual financial report and cannot be expected to provide a full understanding of the financial performance and financial position of the Group.

This report is based on the financial report which is in the process of being audited.

The preliminary financial report is presented in Australian dollars, unless otherwise stated, with the current reporting period being the year ended 30 June 2018, and the previous corresponding period is the year ended 30 June 2017.

Except as described below, the significant accounting policies adopted in the preparation of the preliminary financial report are consistent with those of the annual financial report for the year ended 30 June 2017.

Historical Cost Convention

The preliminary financial report has been prepared under the historical cost convention as modified by revaluations to fair value for certain classes of assets as described by the accounting policies.

Going Concern

The financial report has been prepared on a going concern basis. The Group generated a loss but is supported by the parent entity, Ava to enable the financial report to be prepared on a going concern basis. Ava has provided a \$750,000 borrowing facility to the Group which is drawn to the amount of \$200,000 at year end. The Group monitors its current performance using the budgets approved by the Board of Directors.

Changes in Accounting Policy

There have been no changes in accounting policies during the year ended 30 June 2018.

Rounding of Amounts

The Group has applied the relief available under ASIC Corporations (Rounding in Financial /Directors' Reports) Instrument 2016/191 and accordingly, amounts in the preliminary financial report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Note 2 – Revenue

	2018 \$'000	2017 \$'000
Revenue and other income from continuing operations		
Revenue from sales of goods	5,113	5,432
Revenue from provision of services	7,384	1,997
Total revenues from operating activities	12,497	7,429
Other income		
Interest	6	20
R&D Tax incentive	222	225
Gains on foreign exchange – realised	183	-
Other Income	12	167
Total other income	423	412
Total revenue and other income	12,920	7,841

Note 3 – Operating Segments

The Group operates in the access control and international valuable logistics industries which are its reportable segments. These business units offer different products and services and are managed separately because they require different technology and marketing strategies.

2018	Access Control Solutions \$'000	International Valuable Logistics \$'000	Eliminations \$'000	Total \$'000
Revenue				
External customers	5,148	7,349	-	12,497
Interest Income	6	-	-	6
R&D Tax Incentive	222	-	-	222
Other revenue	136	59	-	195
Segment revenues and other income	5,512	7,408	-	12,920
Segment operating loss	(1,111)	(1,744)	-	(2,855)
Segment assets	11,798	1,641	(6,660)	6,779
Segment liabilities	(1,715)	(8,430)	6,660	(3,485)

The total amount of external revenue derived from major customers where the revenue is greater than 10% of operating revenue is \$5.2 million (FY2017: \$0.8 million).

Segment Reporting (continued)

2017	Access Control Solutions	International Valuable Logistics	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000
Revenue				
External customers	5,432	1,997	-	7,429
Interest Income	20	-	-	20
R&D Tax Incentive	225	-	-	225
Other revenue	167	-	-	167
Intersegment revenue	21	-	(21)	-
Segment revenues and other income	5,865	1,997	(21)	7,841
Segment operating loss	1,648	(3,276)	(1,806)	(3,434)
Segment assets	11,219	1,246	(5,347)	7,118
Segment liabilities	(1,363)	(6,042)	5,100	(2,305)

Note 4 – Intangible Assets

	Goodwill	Patents	Product Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
Year ended 30 June 2018				
Carrying amount at beginning of year	702	2	1,631	2,335
Additions	-	-	513	513
Exchange adjustment - cost	-	-	52	52
Amortisation	-	(1)	(473)	(474)
Carrying amount at end of year	702	1	1,723	2,426
At 30 June 2018				
Cost (gross carrying amount)	702	280	2,938	3,920
Accumulated amortisation	-	(279)	(1,215)	(1,494)
Net carrying amount	702	1	1,723	2,426
Year ended 30 June 2017				
Carrying amount at beginning of year	731	4	1,413	2,148
Additions	-	-	501	501
Exchange adjustment - cost	(29)	-	-	(29)
Amortisation	-	(2)	(283)	(285)
Carrying amount at end of year	702	2	1,631	2,335
At 30 June 2017				
Cost (gross carrying amount)	702	280	2,373	3,355
Accumulated amortisation	-	(278)	(743)	(1,020)
Net carrying amount	702	2	1,631	2,335

Note 5 – Borrowings

During the year Ava, the ultimate holding company of the group provided a \$750,000 facility under a loan agreement.

The key terms of the agreement are as follows:

- (i) Loan term is 1 year but repayable on demand
- (ii) Interest rate of 9.55% (Fixed Rate 2.30% and Variable Rate 7.25%)
- (iii) Interest accrues and will be calculated on the daily balance owing in the loan account from the first day of drawing to the date of repayment. Interest will be charged to the Borrower on the last day of the month.

As at 30 June 2018, \$200,000 had been drawn down from this facility.

Note 6 – Issued capital

Share issue

MaxSec became a Controlled Entity of Ava on 29 November 2017. MaxSec raised \$1.845 million for working capital and development requirements from the issue of 61,500,000 ordinary shares at \$0.03 cents each.

Share Buy Back

The Company announced a share buy-back of its own shares on 9 March 2018. During the period 04 May to 29 June 2018, MaxSec cancelled 18,276,192 shares through a combination of on-market buy-back and an unmarketable parcel buy-back.

There were no other significant changes in the state of affairs of the parent entity during the financial year.

Movements in shares on issue

	2018 Number of shares	\$'000	2017 Number of shares	\$'000
Beginning of the financial year	410,510,928	66,857	410,510,928	66,857
Issue of shares	61,500,000	1,845	-	-
Transaction costs relating to shares issued	-	-	-	-
Share Buy Back	(18,276,192)	(446)	-	-
Transaction costs relating to shares cancelled	-	-	-	-
End of the financial year	453,734,736	68,256	410,510,928	66,857

Note 7 – Related Party Transactions

There were no loans to directors or key management personnel during the year ending 30 June 2018 (2017: none).

During FY2018, Ava and its subsidiaries, a company of which Robert Broomfield and Christopher Fergus are directors, prior to acquisition, sold \$497k of services to MaxSec Group. MaxSec also sold services of \$35k to

Ava during this period. The terms of these arrangements were on an arm's length basis in the normal course of business.

In FY2017, Ava sold services to MaxSec amounting to \$1.211 million. Ava also purchased services from MaxSec for an amount of \$104k. The terms of these arrangements were on an arm's length basis in the normal course of business.

There were no other transactions with Directors or KMP during the year ended 30 June 2018 (FY2017: none).

In the 7 months since acquisition of MaxSec by Ava, there were sales of \$234k from Ava to MaxSec. MaxSec also sold services amounting to \$36k to Ava during the period.

There have been no other related party transactions other than those described above between the Company and its subsidiaries during the year ended 30 June 2018 (FY2017: none).

Note 8 – Contingent Liabilities

A subsidiary company, Ava Global DMCC has a performance plan which allows for senior employees of the company to share in a pooled allocation of up to 32.7% of the exit value of Ava Global DMCC in excess of 5 million or the debt and equity funding provided to Ava Global to run the business, whichever is greater. In addition, the plan provides for a shared annual bonus pool of 32.7% of the net profits that the Ava Global business unit generates. The incentives are payable in cash conditional upon meeting pre-defined KPIs by the executives. The performance plan expires if the executive resigns or their employment is terminated by the company within the first 3 years. Otherwise the performance plan terminates on 1 February 2021.

Other than the above the Group had no significant contingencies at 30 June 2018 (2017: None).

Note 9 – Subsequent Events

Change in Auditors

On 17 July 2018 the Company announced that Ernst & Young had been appointed auditors of the company effective immediately.

Since 30 June 2018, the Company has drawdown on the borrowing facility with Ava Risk Group Limited by \$450,000. As at the date of reporting, the total amount drawn down is \$650,000.

No other matters or circumstances have arisen since the end of the financial year which significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group going forward.

Compliance Statement

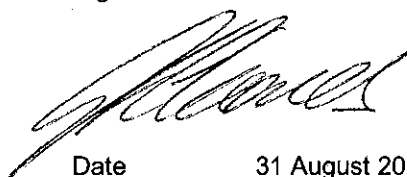
Audit/review of accounts upon which this report is based

This report is based on accounts to which one of the following applies (tick one):

<input type="checkbox"/>	The accounts have been audited (refer attached financial statements).	<input type="checkbox"/>	The accounts have been subject to review (refer to attached financial statements)
<input checked="" type="checkbox"/>	The accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The accounts have not been audited or reviewed.

The financial report is not likely to contain an independent audit report that is subject to a modified opinion, material uncertainty or other matter paragraph.

Signature



Date 31 August 2018
Name Geoffrey Cleaves
Position Company Secretary