

Appendix 4D

Half-year report

1. Company details

Name of entity: Novatti Group Limited
ACN: 606 556 183
Reporting period: For the half-year ended 31 December 2018
Previous period: For the half-year ended 31 December 2017

2. Results for announcement to the market

	2018 \$	2017 \$	Change %
Revenues from ordinary activities	3,848,938	2,273,392	69.30%
Loss from ordinary activities after tax attributable to the owners of Novatti Group Limited	(2,514,216)	(1,595,110)	(57.62%)
Loss for the half-year attributable to the owners of Novatti Group Limited	(2,514,216)	(1,595,110)	(57.62%)

Dividends

In respect of the half-year ended 31 December 2018, there have been no dividends paid nor provided for.

Corporate and Financial Overview

Novatti's cash holding as at 31 December 2018 of \$3,062,762.

Novatti is focused on the growth of its recurring and transaction revenues and also on the development of its banking solution. The bank's aim will be to deliver an innovative suite of digital first banking services to migrants in Australia through a culturally appropriate, customer centric approach.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.04	0.02

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable

6. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
High Impact	50.00%	50.00%	-	-
ATX Malaysia	50.00%	50.00%	112	(961)
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			112	(961)

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

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

8. Attachments

Details of attachments (if any):

The Interim Report of Novatti Group Limited for the half-year ended 31 December 2018 is attached.

9. Signed



Signed _____
Peter Pawlowitsch
Chairman
Melbourne

Date: 28 February 2019

Novatti Group Limited

ACN 606 556 183

Interim Report for the
half-year ended 31 December 2018

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General information

These financial statements cover Novatti Group Limited as a consolidated entity consisting of Novatti Group Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Novatti Group Limited's functional and presentation currency. Novatti Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 1,
Legacy House
293 Swanston Street
Melbourne Vic 3000

Principal place of business

Level 1,
Legacy House
293 Swanston Street
Melbourne Vic 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2019.

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Novatti Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors

The following persons were directors of Novatti Group Limited during the whole of the financial half-year, or part year per the respective appointment dates and up to the date of this report, unless otherwise stated:

Name	Office
Peter Pawlowitsch	Non-Executive Chairman
Peter Samuel Cook	Managing Director and Chief Executive Officer
Brandon Munro	Non-Executive Director
Kenneth Lai	Non-Executive Director
Paul Burton	Non-Executive Director
Steven Zhou	Non-Executive Director

Principal activities

The principal continuing activities of the consolidated entity consisted of:

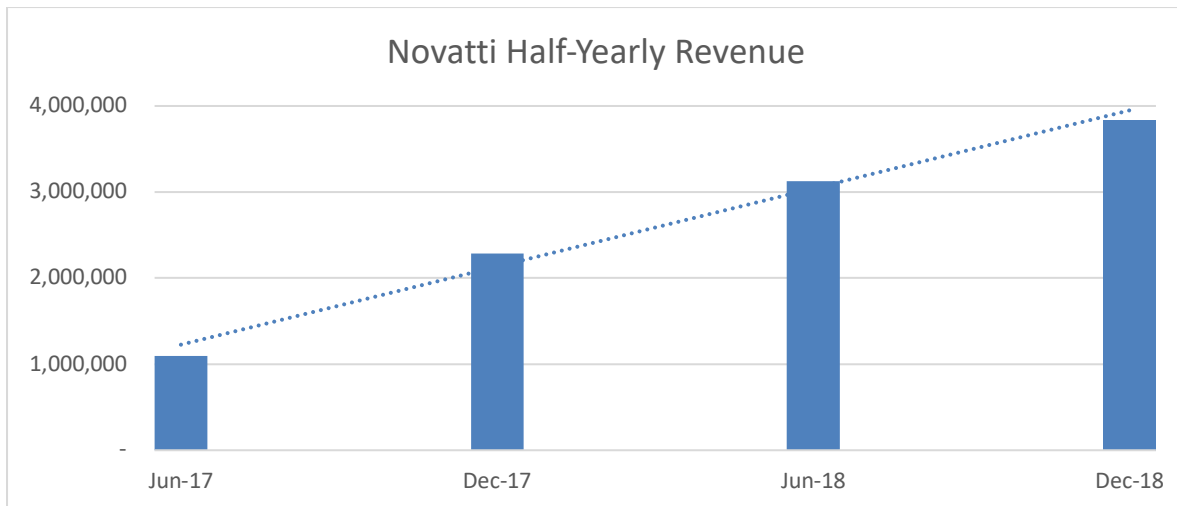
The provision of financial technology (FinTech) solutions for financial services enterprises and the processing of financial transactions.

Financial transaction processing incorporates compliance capabilities including AFSL and FCA (UK) licencing and Austrac reporting.

Review of operations

Highlights:

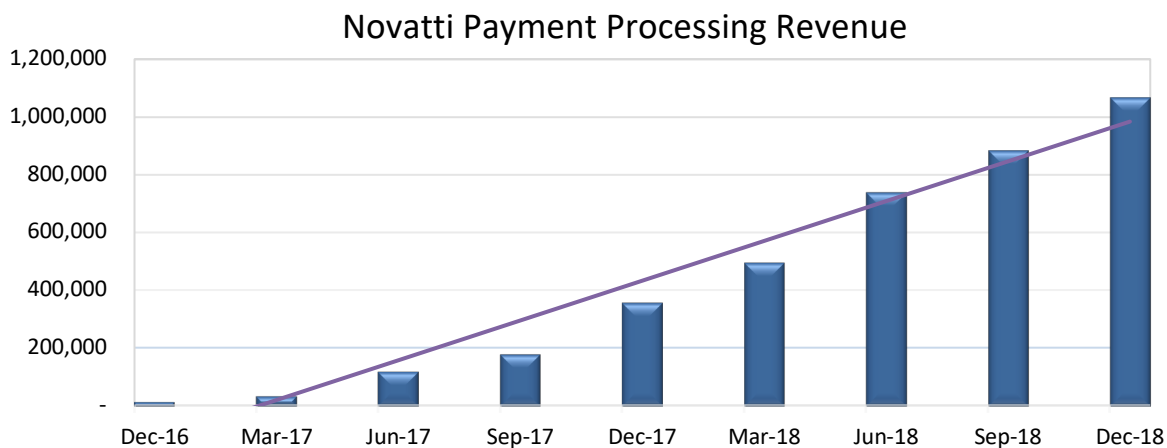
- Transaction processing revenue of over \$1m in the December quarter.
- Transaction processing now 54% of the revenue, two years ago for the December 2016 half-year it was 2%.
- Lodgement of Restricted Bank Licence application to APRA. A team of qualified staff have been hired with relevant banking experience to establish relevant policies and procedures.
- Continued growth of revenue half on half (excluding R&D rebate).
- The loss for the consolidated entity after providing for income tax amounted to \$2,514,216, prior year loss for the same period was \$1,595,110. Excluding the costs associated with the consolidated entity's new business unit of Vasco Pay and due diligence costs of potential acquisitions, the loss for the half-year was \$1,510,391. The consolidated entity has, as at the date of this report, yet to submit its FY18 research and development rebate claim and anticipates that it will be lodged in March 2019.
- The consolidated entity's revenue excluding the research and development rebate claim as shown in the graph below continues to grow at a strong rate.



Operating overview

Transaction processing

During the half-year ended 31 December 2018, the consolidated entity continues to increase its business development activities in transaction processing, as shown in the graph below and in the December quarter, broke through the \$1M of revenue in the quarter for the first time.



The majority of the consolidated entity's growth in financial transaction processing is generated by increasing the number of partnerships the consolidated entity has, with this growing from 41 at 30 June 2018 to 52 at 31 December 2018.

Some notable partners added are:

- Incentiapay Limited (ASX:INP) for Alipay processing,
- Alipay for direct merchant acquiring,
- Freight Lounge (a freight forwarders network) for digital wallet and payment processing,
- Bank of Shanghai for the payment of Australian bills,
- Multiple Chinese payment processors for collection of online marketplace payments and
- Multiple remittance companies for provision of remittance compliance and processing services.

Billing services

The consolidated entity billing services division basis2 continues to perform in line with expectations and during the half secured a new client through our distribution partner Giza Systems.

Banking

The company lodged its application to obtain an authorised deposit taking institutions licence (ADI) to the Australian Prudential Regulation Authority and is continuing the preparatory work for this business.

Financial technology sales

Clients are using the Novatti Platform for a number of financial applications including Loyalty, Fundraising, Digital Wallet, Remittances and Vouchers which continues to provide the consolidated entity with SaaS and maintenance support revenue.

Corporate and Financial Overview

The consolidated entity's cash holding as at 31 December 2018 of \$3,062,762.

The consolidated entity is focused on driving the proportion of recurring and transaction revenues within the revenue segments of the group. In addition to its transactional revenue focus, the group is also positioning itself to become a leading migrant services bank leveraging digital technologies such that new sophisticated and meaningful services can be offered from a low cost digital bank.

The consolidated entity has no debt.

Significant changes in the state of affairs

On the 22nd of November 2018, Novatti Group Limited lodged an application for a Restricted Authorised Deposit-taking Institution (RADI) license with the Australian Prudential Regulatory Authority (APRA).

The consolidated entity has capitalised on this opportunity to naturally extend its range of financial service offerings and leverage off its domain knowledge, expertise, deep cultural understanding of migrant needs and modern technology to deliver a new class of innovative solutions for migrants.

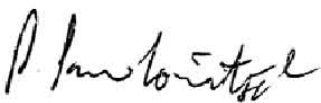
Other than discussed, there were no other significant changes in the state of affairs of the consolidated entity during the financial half-year ended 31 December 2018.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Pawlowitsch
Chairman

28 February 2019
Melbourne

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF NOVATTI GROUP LIMITED**

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2018 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136



N. S. Benbow
Director

Dated this 28th day of February, 2019

**CHARTERED ACCOUNTANTS
& ADVISORS**

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Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 \$	Consolidated 31 Dec 2017 \$
Revenue	3	3,839,871	2,262,778
Other income	3	9,067	10,614
		<u>3,848,938</u>	<u>2,273,392</u>
Expenses			
Client hosting fees and other direct services		(840,664)	(277,576)
Employee benefits		(3,559,502)	(2,562,842)
Depreciation and amortisation		(159,613)	(146,917)
Occupancy		(112,414)	(96,186)
Finance charges		(19,921)	(12,368)
Foreign currency translation gains		211,367	15,541
Travel expenses		(271,146)	(183,576)
Marketing expenses		(197,972)	(84,408)
Data management expenses		(102,916)	(41,311)
Share of net loss of joint ventures accounted for using the equity method		112	(961)
Accounting fees		(79,051)	(40,837)
Public company costs		(72,206)	(8,314)
Due diligence costs		(497,853)	-
Fund raising activities		-	(185,526)
Withholding tax not claimable		(21,521)	-
VAT not claimable		(121,656)	(11,263)
Other expenses		<u>(511,580)</u>	<u>(231,958)</u>
Loss before income tax expense		(2,507,598)	(1,595,110)
Income tax expense		<u>(6,618)</u>	-
Loss after income tax expense for the half-year attributable to owners		(2,514,216)	(1,595,110)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		129,090	19,900
		<u>(2,385,126)</u>	<u>(1,575,210)</u>
Total comprehensive loss for the half-year attributable to Owners of Novatti Group Limited	9	<u>(2,385,126)</u>	<u>(1,575,210)</u>
		Cents	Cents
Basic and diluted loss per share	9	(1.60)	(1.81)

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

Statement of Financial Position

As at 31 December 2018

	Note	Consolidated 31 Dec 2018 \$	Consolidated 30 June 2018 \$
Assets			
Current assets			
Cash and cash equivalents		3,062,762	4,509,142
Trade and other receivables		2,586,635	4,155,983
Financial assets – funds in trust	4	2,757,791	2,210,873
Other current assets	5	350,781	162,450
Total current assets		8,757,969	11,038,448
Non-current assets			
Investments accounted for using the equity method		5,134	4,969
Plant and equipment		161,888	142,507
Intangible assets	6	4,009,517	3,236,191
Total non-current assets		4,176,539	3,383,667
Total assets		12,934,508	14,422,115
Liabilities			
Current liabilities			
Trade and other payables	7	2,598,703	2,419,725
Financial liabilities – funds in trust	4	2,757,791	2,210,873
Unearned revenue		596,399	660,532
Employee benefits		440,037	358,067
Total current liabilities		6,392,930	5,649,197
Non-current liabilities			
Employee benefits		36,939	23,767
Total non-current liabilities		36,939	23,767
Total liabilities		6,429,869	5,672,964
Net assets		6,504,639	8,749,151
Equity			
Issued capital	8	22,234,239	22,234,239
Reserves		1,962,535	1,692,831
Accumulated losses		(17,692,135)	(15,177,919)
Total equity		6,504,639	8,749,151

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

Statement of Changes in Equity

As at 31 December 2018

Consolidated	Issued capital \$	Share based payments reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	22,234,239	1,265,108	427,723	(15,177,919)	8,749,151
Loss after income tax expense for the half-year	-	-		(2,514,216)	(2,514,216)
Foreign exchange translation differences	-	-	129,090	-	129,090
Total comprehensive income for the half-year	-	-	129,090	(2,514,216)	(2,385,126)
Vesting of share based payments arrangements	-	140,614	-	-	140,614
Balance at 31 December 2018	22,234,239	1,405,722	556,813	(17,692,135)	6,504,639

As at 31 December 2017

Consolidated	Issued capital \$	Share based payments reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2017	14,296,835	1,128,479	(44,169)	(13,108,885)	2,272,260
Loss after income tax expense for the half-year	-	-	-	(1,595,110)	(1,595,110)
Foreign exchange translation differences	-	-	19,900	-	19,900
Total comprehensive income for the half-year	-	-	19,900	(1,595,110)	(1,575,210)
Shares issued during the period	3,874,495	-	-	-	3,874,495
Value of option expense for Options converted to ordinary shares	102,438	-	-	-	102,438
Vesting of share based payments arrangements	-	44,124	-	-	44,124
Balance at 31 December 2017	18,273,768	1,172,603	(24,269)	(14,703,995)	4,718,107

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

Statement of Cash Flows

For the half-year ended 31 December 2018

	Consolidated 31 Dec 2018 \$	Consolidated 31 Dec 2017 \$
Cash flows from operating activities		
Receipts from customers	15,617,330	12,689,042
Payments to suppliers and employees	(17,306,246)	(13,058,133)
Interest received	5,775	10,270
Interest paid	(30,295)	(12,369)
Research and development rebate received	923,660	-
Net cash used in operating activities	(789,776)	(371,190)
Cash flows from investing activities		
Proceeds from investments (Receipts of adjustments from vendor of basis2)	-	242,935
Proceeds from the disposal of plant and equipment	-	1,200
Payments for plant and equipment	(37,388)	(14,034)
Payment for intangible assets	(830,582)	-
Net cash provided by/(used) in investing activities	(867,970)	230,101
Cash flows from financing activities		
Proceeds from share issue	-	3,956,133
Equity raising costs	-	(75,946)
Net cash from financing activities	-	3,880,187
Net decrease in cash and cash equivalents	(1,657,746)	3,739,098
Cash and cash equivalents at the beginning of the financial half-year	4,509,142	654,146
Effects of exchange rate changes on cash and cash equivalents	211,366	15,541
Cash and cash equivalents at the end of the financial half-year	3,062,762	4,408,785

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

Notes to the Financial Statements

Note 1. Significant accounting policies

The half-year financial report is a general purpose financial report that covers the consolidated position of Novatti Group Limited the legal parent (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018. The consolidated entity hereafter will be referred to as the 'Group')

This half-year financial report does not include all the notes of the type usually included in the annual financial report. It is recommended that this financial report be read in conjunction with the financial report for the year ended 30 June 2018 and any public announcements made by the Group during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation

This condensed financial report has 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'.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

New, revised or amending accounting standards and interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current interim reporting period.

Disclosures required by these standards that are deemed material have been included in this financial report on the basis that they represent a significant change in the information from that previously made available. Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the interim reporting period ended 31 December 2018.

The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

AASB 9 financial instruments

Measurement and classification

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. In this regard the Group has determined that the adoption of AASB 9 has impacted on the classification of financial instruments as follows:

Class of Financial Instrument	Measurement under AASB 139 (i.e. prior to 1 July 2018)	New measurement category under AASB 9 (i.e. from 1 July 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost

The change in classification has not resulted in any re-measurement adjustments at 1 July 2018.

Impairment of financial assets

In relation to financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, all balances are assessed to have low credit risk as they are held with reputable financial institutions.

The Directors have assessed the requirements of AASB 9 and have determined there is no impact on the Group for the interim reporting period ended 31 December 2018.

AASB 15 revenue from contracts with customers

AASB 15 replaces AASB 118, revenue and several revenue related interpretations. The new standard has been first adopted for this half-year ended 31 December 2018. The Group has adopted the 'Modified Retrospective' method of transition under AASB 15 Revenue from Contracts with Customers.

The Group has undertaken a full assessment of the impact of AASB 15. Based on the Group's assessment, this standard has not had a material impact on the transactions and balances when it was first adopted for this half-year ended 31 December 2018. For maintenance and support services where revenue is billed either yearly or quarterly in advance depending on the terms of the service agreement, it is the practice of the Group to apportion revenue. Maintenance and support income is apportioned across the period over which the customer consumes the service, such that any unused portion of the annual or quarterly invoices will be deferred and recognised in the balance sheet.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

To determine whether to recognise revenue the Group follows a five step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligations are satisfied

Revenue is recognised either at a point in time or over time when (or as) the Group satisfies performance obligations by transferring the promised services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations where applicable and reports these as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives consideration, the Group recognises a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The consolidated entity derived the following revenue:

Platform sales

Deployment and the support of specialist mobile and alternative payment technology. There are two primary components, the recognition of revenue on the completion and delivery of agreed milestones that are recognised at the stage of performance completion and the revenue for ongoing maintenance and support, recognised monthly.

Billing solutions

Provision of technologically advanced billing and customer information system platforms for the utilities industry. Yearly licence fees are amortised over the relevant year and professional services revenue is recognised in the month the service is provided.

Transaction sales

Included within transaction sales are:

- Fees for software as a service
- Fees for the facilitation of top up vouchers
- Settlement Services of financial transactions
- Fees from 'Prepaid' reloadable cards

Revenue from transaction sales are recognised in the month for which the transaction takes place.

Interest

Interest revenue is recognised on a time proportional basis that takes into account the effective yield on the financial asset.

Unearned revenue

Unearned revenue includes revenue from clients whereby services are billed in advance of their anniversary dates and have outstanding services owing at the interim reporting date of 31 December 2018.

Accrued revenue

Accrued revenue includes revenue from the sales of services unbilled as at the interim reporting date of 31 December 2018.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants

Government grants, including Research and Development revenues, are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be fulfilled.

AASB 16 leases

The consolidated entity will adopt AASB16 for the year ended 30 June 2020. Whilst the Group has yet to prepare a detailed analysis of its impact, it does note that the financial statements will be reflective of a "right of use" asset for capitalisation in the statement of financial position. A liability corresponding to the capitalised lease will also be recognised. In the earlier periods of the lease, the expenses associated with the lease under AASB16 will be higher when compared to the lease expenses under AASB117. However, EBITDA (Earnings before interest, tax and depreciation) results will be improved as the operating expense is replaced by depreciation and finance costs in the profit and loss under AASB16.

Financial instruments

The Group's financial instruments recognised in the statement of financial position consists of trade receivables and payables and cash held in trust for remittance and settlement services.

Recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs.

Classification and subsequent measurement

Financial instruments are subsequently measured at amortised cost using the effective interest method, or fair value through other comprehensive income or fair value through profit or loss. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 2. Operating segments

Identification of reportable operating segments

The Group is organised into four operating business segments:

1. Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform,
2. Billing Solutions, incorporating basis2 operating under Novatti Inc.,
3. Payment Processing Services incorporating Flexewallet Pty Ltd, Flexe Payments (Pty) Ltd (South Africa) Pty Ltd, Flexe Payments Ltd (UK) and Vasco Pay Pty Ltd and
4. Novatti Group Limited is the legal parent that holds the financial assets for the Group.

These operating business segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Novatti platform

Develops, deploys and supports specialised mobile and alternate payment technology, primarily through the deployment of the Novatti Platform.

Billing solutions

basis2, trading under Novatti Inc., provides a technologically advanced billing and CIS solution to service providers in the utilities industry.

Transaction services

TransferBridge: Provides a comprehensive global network that interconnects emerging payment platforms, remittance operators, financial institutions, retailers, utilities and all types of telecommunication operators.

Flexewallet and Flexe Payments: Offers customers an alternative payment method in the form of a prepaid cash voucher. Vouchers can be used for a multitude of payment methods such as prepaid account top-ups and for secure online payment of goods and services. Vouchers are available in a variety of currencies and locations globally.

Vasco Pay Pty Ltd: Provides a payment system centred around reloadable prepaid cards that meets the needs and wants of international and local university and college students.

Intersegment transactions

Intersegment transactions were made at cost, or, cost plus agreed margin. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans are eliminated on consolidation.

The following tables present information for reportable operating segments for the half-year ended 31 December 2018 and 31 December 2017:

	Novatti Platform \$	Billing Solutions \$	Payment Processing \$	Novatti Group Limited \$	Total \$
Consolidated – 31 December 2018					
Revenue					
Sales to external customers	871,543	1,032,841	1,935,487	-	3,839,871
Total sales revenue	871,543	1,032,841	1,935,487	-	3,839,871
Other revenue	-	-	-	2,949	2,949
Total revenue	872,825	1,032,841	1,935,487	2,949	3,842,820
EBITDA	(964,048)	69,471	(400,814)	(895,614)	(2,191,005)
Depreciation and amortisation	(16,220)	(98,933)	(1,785)	(42,675)	(159,613)
Interest revenue	1,281	-	-	4,837	6,118
Finance costs	(11,988)	(363)	(6,116)	(1,454)	(19,921)
Other costs	(9,898)	(12,520)	(120,759)	-	(143,177)
Profit before income tax expense	(1,000,873)	(42,345)	(529,474)	(934,906)	(2,507,598)
Income tax expense	-	(6,618)	-	-	(6,618)
Profit after income tax expense	(1,000,873)	(48,963)	(529,474)	(934,906)	(2,514,216)
Segment assets	3,640,801	2,330,540	5,169,704	1,793,463	12,934,508
Segment liabilities	1,428,732	248,851	3,951,289	800,997	6,429,869
Employee benefits	2,249,029	20,927	1,059,067	230,479	3,559,502
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	849,432	-	18,537	-	867,969
Consolidated – 31 December 2017					
Revenue					
Sales to external customers	860,696	888,255	513,827	-	2,262,778
Total sales revenue	860,696	888,255	513,827	-	2,262,778
Total revenue	860,696	888,255	513,827	-	2,262,778
EBITDA	(1,132,854)	199,149	(108,489)	(404,245)	(1,446,439)
Depreciation and amortisation	(12,609)	(91,533)	-	(42,775)	(146,917)
Interest revenue	1,247	-	5,117	4,250	10,614
Finance costs	(10,170)	(461)	(1,574)	(163)	(12,368)
Profit before income tax expense	(1,154,386)	107,155	(104,946)	(442,933)	(1,595,110)
Income tax expense	-	-	-	-	-
Profit after income tax expense	(1,154,386)	107,155	(104,946)	(442,993)	(1,595,110)
Segment assets	781,680	2,503,910	4,825,085	2,792,278	10,902,953
Segment liabilities	1,208,690	247,790	4,654,724	73,642	6,184,846
Employee benefits	1,939,113	15,917	460,251	147,561	2,562,842
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	14,034	-	-	-	14,034

Note 3. Revenue

	Consolidated 31 Dec 2018 \$	Consolidated 31 Dec 2017 \$
Sales revenue		
Novatti Platform Sales	871,543	860,696
Billing Solutions	1,032,841	888,255
Payment Processing Services	1,935,487	513,827
	3,839,871	2,262,778
Other income		
Interest	6,118	10,614
Other income	2,949	-
	9,067	10,614

Note 4. Net position of funds in trust

Reconciliation of the amounts displayed in the table below represent the net balance of client monies held in trust that is payable/receivable in the Statement of Financial Position in relation to the transaction services business of the Group. These funds are distributed under instructions within 24 hours.

Funds held for Settlement and Remittance

	Consolidated 31 Dec 2018 \$	Consolidated 30 Jun 2018 \$
Remittance		
Settlement funds payable	1,975,534	1,498,840
Remittance funds payable	782,257	712,033
Cash and cash equivalents held in trust	2,757,791	2,210,873

Note 5. Other current assets

	Consolidated 31 Dec 2018 \$	Consolidated 30 Jun 2018 \$
Prepayments	217,606	73,715
Security term deposit	54,305	33,233
Other	78,870	55,502
	350,781	162,450

Note 6. Intangible assets

	Consolidated 31 Dec 2018 \$	Consolidated 30 Jun 2018 \$
Intangible assets – at cost	4,467,383	3,530,519
Less: Accumulated amortisation	(457,866)	(294,328)
	4,009,517	3,236,191

	Goodwill	Intellectual Property	Customer Lists	Licenses	Software	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance as at 1 July 2018	569,630	847,000	1,905,049	208,840	-	3,471,652
Foreign exchange translation difference	-	-	106,282	-	-	106,282
Additions	-	-	-	666,308	164,274	830,582
Balance as at 31 December 2018	569,630	847,000	2,011,331	875,148	164,274	4,467,383
Accumulated amortisation						
Balance as at 1 July 2018	-	(93,003)	(201,325)	-	-	(294,328)
Amortisation expense	-	(42,675)	(98,933)	-	-	(141,608)
Foreign exchange translation difference	-	-	(21,930)	-	-	(21,929)
Balance as at 31 December 2018	-	(135,678)	(322,188)	-	-	(457,866)
Net book value						
As at 1 July 2018	569,630	753,997	1,703,724	208,840	-	3,236,191
Balance as at 31 December 2018	569,630	711,322	1,689,143	875,148	164,274	4,009,517

In accordance with AASB 121 the foreign exchange variance between the cost of the Intangible Asset and accumulated amortisation for the period is of AUD 84,352. This is a result of the conversion of the carrying amount of Customer Lists from USD 1,190,133 to AUD 1,689,143 using an exchange spot rate over the period of AUD 0.7046 to USD 1.

Major additions to intangible assets over the interim financial reporting period ended 31 December 2018, include licenses and software purchases. These purchases relate to the costs incurred in pursuit of the Group's RADl application.

Note 7. Trade and other payables

	Consolidated 31 Dec 2018	Consolidated 30 Jun 2018
	\$	\$
Trade payables	2,416,338	1,748,011
Accrued expenses	182,365	671,714
	<u>2,598,703</u>	<u>2,419,725</u>

Note 8. Issued capital and contributed equity

	Consolidated 31 Dec 2018	Consolidated 30 Jun 2018
	\$	\$
Issued and paid-up capital		
157,508,333 Fully paid ordinary shares	22,234,239	22,234,239

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Note 8.1 Ordinary shares

	No.	31 Dec 18 \$	No.	30 Jun 18 \$
Beginning of the period 1 July 2018	157,508,333	22,234,239	107,972,647	14,296,835
5M performance shares were converted to ordinary shares on a one for one basis at a total nominal value of \$1 upon the achievement of Milestone 1, as announced to the ASX on 16 September 2016. There is no change in value of 'Issued Capital'.	-	-	-	-
11.9M shares issued pursuant to one for four Entitlement Offer – Institutional Component, on 16 May 2017.	-	-	-	-
3.1M shares pursuant to one for four Entitlement Offer – Retail Component, on 29 May 2017.	-	-	-	-
1.5M fully paid ordinary shares issued on 3 July 2017.	-	-	1,539,285	-
Corporate advisor management fee.	-	-	-	-
Adjustment to the final consideration of the management fee.	-	-	-	(22,769)
Corporate advisor management fee – 18 July 2017.	-	-	301,777	-
Fully paid ordinary shares pursuant to the shortfall facility of the Retail Entitlement Offer – 18 July 2017.	-	-	700,000	98,000
25M fully paid ordinary shares issued to major shareholder – 11 October 2017.	-	-	25,000,000	3,500,000
Adjustment to consideration of Shortfall Placement Fee provided to corporate advisor – 30 November 2017.	-	-	-	17,077
Corporate advisor Shortfall Placement Fee final consideration – 30 November 2017.	-	-	-	(7,500)
Fully paid ordinary shares on exercise of options – 16 November 2017.	-	-	90,666	18,133
Value of option expense recognised in reserve for 90,666 options converted to ordinary shares.	-	-	-	1,223
Fully paid ordinary shares on exercise of options – 14 December 2017 ¹ .	-	-	500,000	100,000
Fully paid ordinary shares on exercise of options – 18 December 2017 ² .	-	-	1,200,000	240,000
Value of option expense recognised in reserve for 1.7M options converted to ordinary shares.	-	-	-	101,674
Professional consulting fees for funds raised and listing new shares on the ASX – 31 December 2017.	-	-	-	(68,447)
Fully paid ordinary shares on exercise of options – 9 February 2018.	-	-	120,000	24,000
Fully paid ordinary shares on exercise of options – 14 February 2018.	-	-	64,600	12,920
Value of option expense recognised in reserve for 184,600 options converted to ordinary shares.	-	-	-	11,090
18.2M fully paid ordinary shares issued to major shareholder– 6 March 2018.	-	-	18,213,041	3,500,000
Professional consulting fees for funds raised and listing new shares on the ASX – 31 March 2018.	-	-	-	(32,406)
Fully paid ordinary shares on exercise of ESOP 6 March 2018.	-	-	96,667	19,333
Value of option expense recognised in reserve for 96,667 options converted to ordinary shares.	-	-	-	1,520
Fully paid ordinary shares on exercise of options – 1 May 2018.	-	-	109,650	21,930
Value of option expense recognised in reserve for 109,650 options converted to ordinary shares.	-	-	-	6,585
Consideration for acquisition of the shares in Vasco Pay Pty Ltd.	-	-	1,600,000	408,000
Professional consulting fees for funds raised and listing new shares on the ASX – 30 June 2018.	-	-	-	(12,960)
Closing Balance	157,508,333	22,234,239	157,508,333	22,234,239

¹ For further information please refer to the ASX, 'Announcements' webpage dated 14 December 2017.

² Please refer to ASX 'Announcements' dated 18 December 2017.

Note 8.2 Equity reserve

	Consolidated 31 Dec 2018	Consolidated 30 Jun 2018
	\$	\$
Option reserve	1,405,722	1,265,108
Foreign currency reserve	556,813	427,723
	<u>1,962,535</u>	<u>1,692,831</u>

Option reserve

The option reserve is used to record the fair value of options issued to employees and directors as part of their remuneration. It is also used to record the fair value of options issued. The balance is transferred to Issued Capital when options are exercised and balance is transferred to retained earnings when options lapse.

On the 27th November 2018 at the Notice of Annual general Meeting (AGM) of shareholders 9.5M unlisted incentive options were approved to be issued to Group Directors at an exercise price of \$0.19.

In accordance with Resolution 9 of the AGM the incentive options will be issued free of charge and within one month after the date of the meeting, options issued to directors will be exercisable upon the successful completion of three milestones:

- Options that are linked to a specific milestone will not “vest” unless and until the relevant milestone has been achieved within the prescribed timeframe or a “Change of Control Event” occurs during that period. If neither of these events occurs within the prescribed timeframe, then the relevant number of Incentive Options will automatically lapse.
- In addition, all “unvested” Options will be forfeited and automatically lapse upon the recipient terminating or being removed from their role with the Company, unless the Board determines otherwise.

See the terms and conditions in Schedule 3 of the Notice of 2018 AGM for further details.

Details of these milestones and timeframes for achievement are as follows:

Milestone 1: The 20-day VWAP achieving a price greater than or equal to 130% of the November 2018 20-day VWAP at any time during the period commencing 1 December 2018 and ending 30 November 2019 (inclusive).

Milestone 2: The 20-day VWAP achieving a price greater than or equal to 160% of the November 2018 20-day VWAP at any time during the period commencing 1 December 2018 and ending 30 November 2020 (inclusive).

Milestone 3: The 20-day VWAP achieving a price greater than or equal to 190% of the November 2018 20-day VWAP at any time during the period commencing 1 December 2018 and ending 30 November 2021 (inclusive).

The exercise price for the Incentive Options will be equal to the November 2018 20-day VWAP. The Incentive Options will expire on 30 November 2022 after which date all of the Incentive Options not yet exercised automatically lapse.

The fair value of the options are valued at “grant date” using the Binomial model.

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Note 9. Earnings per share

	Consolidated 31 Dec 2018 \$	Consolidated 31 Dec 2017 \$
Loss after income tax	(2,514,216)	(1,595,110)
Loss after income tax attributable to the owners of Novatti Group Limited	(2,514,216)	(1,595,110)
Weighted average number of ordinary shares outstanding during the year:		
Number used in calculating Earnings Per Share	157,508,322	88,256,009
Number of potential ordinary shares that are considered to be antidilutive*	31,288,351	33,548,533
Basic and diluted earnings per share	(1.60)	(1.81)

* As the Group has incurred a loss for the half-year ended 31 December 2018, the number of potential ordinary shares on offer are not dilutive.

Note 10. Contingent liabilities

There exists a bank guarantee for offices leased in Melbourne. As at 31 December 2018 these totalled \$33,577 (30 June 2018: \$33,233). No other guarantees exist.

The parent entity had no contingent liabilities as at 31 December 2018.

Note 11. Events after the reporting period

There are no other matters or circumstances that have arisen since 31 December 2018 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 12. Fair value measurement

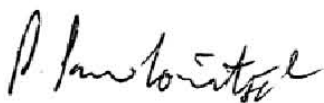
The net fair value of financial assets and liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Directors' Declaration

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 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 consolidated entity's financial position as at 31 December 2018 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 directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Pawlowitsch
Chairman

28 February 2019
Melbourne

Novatti Group Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Novatti Group Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2018, 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.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Novatti Group Limited is not 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 2018 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Responsibilities of the Directors for the Half-Year Financial Report

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

Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:
giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and
complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

CHARTERED ACCOUNTANTS & ADVISORS

Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
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As the auditor of Novatti Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

A handwritten signature in black ink, appearing to read 'N. S. Benbow'.

N. S. Benbow
Director

Dated this 28th day of February, 2019

**CHARTERED ACCOUNTANTS
& ADVISORS**

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Telephone: +61 3 9824 8555

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