



20 October 2014

Ms Lux Wigneswaran
ASX Compliance Pty Limited
20 Bridge Street
Sydney NSW 2000

Dear Ms Wigneswaran

Re: Kollakorn Corporation Limited (the “Company”)

We refer to the ASX letter dated 16 October 2014 and the questions that require answers.

1. Further to our discussions with you, the directors' of the Company and our auditors on the 14th October, the directors' confirm that the Annual Report complies with all relevant accounting standards. It is further the view of the directors' that the accounts give a true and fair view of the financial performance and financial position of the Company.
2. The Company is the owner of a 33.23% interest in Kollakorn Co., Ltd, a private company registered in Thailand (**Kollakorn Thailand**). Kollakorn Thailand is in the process of commercialising an Electronic Vehicle Registration system throughout Thailand. Kollakorn Thailand has in excess of US\$2 million of net assets which is primarily the written down value of an extensive Automated Vehicle Identification system costing close to US\$5 million. Currently a pilot program of 66,000 buses is being monitored for speeding by the system. Kollakorn Thailand is currently in discussions with the Thailand Government for the extension of the existing system to include:
 - a. 5 southern provinces for security purposes;
 - b. All commercial vehicles for speeding; and eventually;
 - c. All vehicles.

Either of (a) or (b) of the above proposed extensions will put Kollakorn Thailand in profit, justifying the carrying value of investment. The directors' of Kollakorn Thailand have advised that they will be able to raise sufficient finance to extend the existing system in the event that either (a) or (b) is above approved as there will be minimal additional capital expenditure required over what has been already invested. The directors' of Kollakorn Thailand have advised that they expect approval of either (a) or (b) above to be made by the Thailand Government around the end of this calendar year.

Approval of (a) or (b) above will further result in a direct inflow of income to the Company from the sale of tags used by Kollakorn Thailand, which in itself will improve the cash flows of the Company currently produced from royalty income.

In addition to the above, the directors' are in discussions with two parties concerning the raising of further finance for the Company and recently did a placement of shares with existing shareholders for the furtherance of the PCT patent programme for the Company's Biometric Identification patent.

Therefore the directors' are of the view that income is imminent and that in any event, the major shareholders of the Company will support the Company and therefore the directors' decision that the Annual Report be prepared on a going concern basis is reasonable.

3. Refer answer to 2 above.

4. The equity accounted investment in Kollakorn Thailand is accounted for at cost less in our case the Company's share of the Kollakorn Thailand losses as per AASB 128. The Company's share of the net assets of Kollakorn Thailand as disclosed in note 11 of our accounts is lower than our carrying value, as Kollakorn Thailand is a technology company and as such its costs are expensed as incurred as opposed to capitalised on their balance sheet. In relation to the carrying value we advise as follows. From the answer in 2 above it may be seen that Kollakorn Thailand has reasonable prospects of considerably extending its existing concession rights and becoming profitable. The directors' of the Company commissioned a valuation of Kollakorn Thailand which showed, based on the commercialisation of Thailand concession rights, that the Company's then 28.7% interest in Kollakorn Thailand was worth between \$19.78 million and \$22.62 million. Based upon that, the directors' considered the then carrying value of \$4.75 million to be fair and reasonable.

Since then, the Company has increased its interest in Kollakorn Thailand to 33.23% and the carrying value by a further \$620,000 to bring it to \$5,367,308. The directors' have reviewed the previous valuation and are still of the view that the carrying value of Kollakorn Thailand is fair and reasonable particularly in the light of the imminent commercialisation of the Kollakorn Thailand's projects.

5. The financial statements of a limited company, public limited company established under a Thai law, carrying on business in Thailand or a joint venture under the Revenue Code must be audited by a certified public accountant (CPA). A copy of the audit report is attached. Kollakorn Thailand's accounts are audited on an annual basis as at 31 December and were audited as at 31 December 2013. As a 1/3rd owner of Kollakorn Thailand, it is not possible for the Company to insist that Kollakorn Thailand change its balance date. In discussions with the 2/3rd owner, itself a public company in Thailand, it was pointed out that changing the balance date of Kollakorn Thailand to a June balance date would make it difficult for reporting of by the public company in Thailand.

The reason for the qualification by the auditor's is that Kollakorn Thailand does not (and is not required to) audit its accounts at the half year and therefore the auditor's cannot say that their opinion is based upon the fully audited accounts of Kollakorn Thailand. The accounts of Kollakorn Thailand brought into the accounts of the Company are based on half a year of audited accounts and half a year of unaudited accounts.

6. As may be seen from the foregoing the level of activity within the Company and Kollakorn Thailand is considerable. Much of the effort from the Company is directed at assisting Kollakorn Thailand meet its objectives as stated above. However in its own right, the Company has won several projects in jurisdictions other than Thailand. In addition to the Company's Break on Removal Patented Technology used in its EVR and AVI products, the Company was granted a new patent approximately 6 months ago for Biometric Identification of parties using the internet for financial transactions. While this patent is only new the Company is in discussions with parties concerning the development of this patent and the possible sale of part of the patent.

Therefore taking all of the above into account and the shareholders expectations that these patents will be developed within a listed entity, the directors are of the view that the Company complies with listing regulation 12.1.

7. The Company clearly needs more funding. The Company last year made a placement of convertible notes to existing shareholders however not all the placees honoured their obligations which has stressed the Company financially. Recently, as mentioned above, the Company made a placement of shares which was fully subscribed indicating that the Company has a level of support from its existing shareholder base.

In addition to the above, the directors are in discussions with external parties concerning proposals for providing funding to the Company and in the meantime the Company is trading within the terms specified by its creditors and is therefore not in the Directors' view, insolvent.

8. Not applicable

9. The basis of the disclaimer was a result of the pervasive nature of the combination of the following; "Going Concern", "the potential impact of the going concern on the carrying value of the investment" and "the audit of Kollakorn Thailand".

With respect to going concern, this has been answered in 7 above.

With respect to the carrying value of Kollakorn Thailand, provided that approval of the extension of the present Thailand project is agreed to by the Thai Government, Kollakorn Thailand should come into profit thereby justifying its carrying value.

With respect to the audit of Kollakorn Thailand, the auditors have advised that they will review their approach and assess whether they can utilise the 31 December audit and perform some additional work as at 30 June, in future years. This work would be in accordance with the applicable auditing standards, including working closely with the local auditors, to determine that the appropriate audit evidence can be obtained. If this evidence cannot be obtained to their satisfaction there may be a limitation of scope qualification, as there has been in the past. The auditors confirm that as a single issue or matter this would not result in a disclaimer.

We further advise the directors are in discussion with management in Thailand, and our auditors in determining the likelihood of performing audit work as at 30 June to provide the appropriate audit evidence which would remove this qualification.

10. The directors' are of the view that the Company is in compliance with the listing rules and in particular listing rule 3.1.

Yours faithfully

A handwritten signature in black ink, appearing to read 'R M Sealy', with a horizontal line underneath.

R M Sealy
Managing Director

Encl: Kollakorn Co. Ltd Audit Report

KOLLAKORN CO.,LTD
FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kollakorn Co.,Ltd

I have audited the financial statements of Kollakorn Co.,Ltd, which comprise the statement of financial position as at December 31, 2013, the related statements of income and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards for Non-publicly Accountable Entities and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kollakorn Co., Ltd, as at December 31, 2013, and its financial performance for the year then ended, in accordance with Thai Financial Reporting Standards for Non-publicly Accountable Entities.

Other Matter

The financial statement of Kolloakorn Co., Ltd for the year ended December 31, 2012, were audited by another auditor who expressed an unqualified opinion on those statement on March 4, 2013.



Wichian Manapongpun

Certified Public Accountant (Thailand) Registration No. 5716

WACC

11/138 Rimklongbangkho Road, Bangkho

Jomthong, Bangkok, Thailand

April 9, 2014



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PO Box H224
Australia Square NSW 1215

www.asx.com.au

16 October 2014

Mr Richard Sealy
Managing Director
Kollakorn Corporation Limited
Level 9, 65 York Street
Sydney NSW 2000

By Email

Dear Richard,

Kollakorn Corporation Limited (the "Company")

ASX Limited ("ASX") refers to the following.

1. The Company's Annual Report to shareholders for the year ended 30 June 2014, lodged with ASX on 30 September 2014 (the "Annual Report").
2. The Independent Auditor's Report on pages 18 to 20 of the Annual Report ("Auditor's Report") which includes the following Disclaimer of Opinion:

Bases for Disclaimer of Opinion

Going concern

As disclosed in the Note 1 to the financial statements, the company and consolidated entity incurred net losses of \$1,539,541 and \$1,615,241 respectively and the consolidated entity had net cash outflows from operating activities of \$542,205 during the year ended 30 June 2014. As at that date the company and consolidated entity had net current liabilities of \$2,910,621 and \$3,012,750. The ability of the company and consolidated entity to continue as going concerns is contingent on a number of future events, the most significant of which is the continued support of its creditors and the ability to source sufficient capital or other sources of funding to repay existing creditors and to fund the completion of the development and successful commercialisation of the RFID technology. We have been unable to obtain sufficient appropriate audit evidence to support the use of the going concern assumption given the significance of the uncertainty as to whether the company and consolidated entity will be able to raise sufficient capital and successfully commercialise the Radio Frequency Identification (RFID) technology.

Carrying value of associate

As disclosed in Note 11, the consolidated entity's investment in Kollakorn Co. Ltd is carried at \$5,367,308 in the statement of financial position. This asset represents approximately 90% of the consolidated entity's total assets as at 30 June 2014. The ability to realise the carrying value of this asset is dependent on sufficient funds being raised to complete the development and successful commercialisation of its RFID technology. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the consolidated entity's investment in Kollakorn Co. Ltd. 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 30 June 2014.

Share of loss of associate

As disclosed in Note 11, the consolidated entity's share of Kollakorn Co. Ltd's net loss of \$414,824 for the year ended 30 June 2014 is included in the consolidated entity's statement of comprehensive income. We were unable to obtain sufficient appropriate audit 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 audit procedures in this regard. Consequently, we were unable to determine whether any adjustments to the share of loss were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Bases for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on whether:

- (a) the financial report of Kollakorn Corporation Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Relevant Listing Rules and Guidance

- Listing Rule 12.1 – *The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing.*
- Listing Rule 12.2 – *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 19.11A (b) – *If a listing rule requires an entity to give ASX accounts, the accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*

Questions for Response

In light of the Auditor's Report, the information contained in the Annual Report, and the application of the Listing Rules stated above, please respond to each of the following questions.

1. Is the Company able to confirm that, in the directors' opinion, the Annual Report:
 - (a) complies with the relevant Accounting Standards; and
 - (b) gives a true and fair view of the financial performance and financial position of the Company?
2. Please explain the basis for and the factors considered by the directors to satisfy themselves that the financial statements in the Annual Report could be prepared on a going concern basis. In answering this question, please comment specifically on the matters referred to in note 2(a) to the financial statements in the Annual Report.
3. The Company has stated that its ability to continue as a going concern is dependent on the continued support of its creditors and the successful commercialisation of the RFID technology, as well as other factors. Please provide an update on these items.
4. Please explain how the directors are satisfied that the carrying value of \$5,367,308 attributed to Kollakorn Co. Ltd is appropriate given that the group's share of net assets per note 11 in the Annual

Report is \$526,135. In doing so, please detail the steps taken to ensure compliance with AASB 128 *Investments in Associates and Joint Ventures*.

5. Please detail the annual financial reporting requirements of Kollakorn Co. Ltd, including any requirement for its financial statements to be subject to an audit or review, under the laws of the jurisdiction in which it is incorporated.
6. Does the Company consider that its level of operations is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.1? In answering this question, please also explain the basis for this conclusion.
7. Does the Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
8. If the answer to questions 6 or 7 is "No", please explain what steps the Company has taken, or proposes to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rules 12.1 and 12.2 (as applicable).
9. What steps does the Company intend to take to obtain an unqualified audit opinion in the future?
10. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and the Company's response to the market. Accordingly, the Company's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by **no later than 9.30am AEDT on Monday, 20 October 2014**. If the information is required immediately under Listing Rule 3.1, you should discuss with ASX whether it is appropriate to request a trading halt in the Company's securities under Listing Rule 17.1.

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

If you have any queries regarding any of the above, please contact me.

Yours sincerely,

[sent electronically without signature]

Lux Wigneswaran

Principal Adviser, Listings Compliance (Sydney)