



20 May 2016

Ms Lisa Banh
ASX Compliance Pty Limited
20 Bridge Street
Sydney NSW 2000

Dear Ms Banh

Re: Kollakorn Corporation Limited (the “Company”)

We refer to the ASX letter dated 17th of May 2016 and the questions to which you require answers.

1. Compliance with Accounting Standards

- (a) The Directors’ confirm that the half year report complies with all relevant accounting standards other than for the matters qualified by the auditor’s in the audit report.
- (b) The Directors’ confirm that the half year accounts give a true and fair view of the financial performance and financial position of the Company.

2. The basis that the Directors were satisfied that the Financial Statements in the Half Year Report could be prepared on a Going Concern Basis

- 2.1 The Company is the owner of a 26.67% interest in Kollakorn Co., Ltd, a private company registered in Thailand (**Kollakorn Thailand**). Kollakorn Thailand is in the process of commercialising several projects in Thailand and other ASEAN countries. The accounts of Kollakorn Thailand show that it has net assets in excess of US\$3.2 million which are primarily the written down value of the extensive Automated Vehicle Identification system deployed in and around Bangkok and originally costing approximately US\$8 million.
- 2.2 As announced to the ASX in December 2015, Kollakorn won a project to own and install a new high end data system for **Somapa Information Technology PCL** (a public company in Thailand and the majority owner of Kollakorn Thailand) (**Somapa**) who in turn will use it to operate a contract with Airports of Thailand (AOT) for an Advanced Passenger Processing System (**APPS**). Kollakorn Thailand earned revenue of A\$13.2m and a net profit of A\$3.0m from the construction, installation and implementation of this computer system. KKL’s share of this income which was disclosed and equity accounted in the 2016 half year financial statements, was A\$0.82m.
- 2.3 The Company and Kollakorn Thailand continue discussions with the Thailand Government for an RFID system to be installed in the 5 Southern Provinces and eventually on all vehicles in Thailand. The Director’s previously announced that the Thailand Government had approved the use of RFID to

curb crime in the Southern Provinces of Thailand and in particular, robberies and killings that are being perpetrated using stolen vehicles. Further, the Ministers Council has approved in principle the use of RFID by the Department of Land Transport and as a result of this, the directors believe that the requirement this year for Thailand to change all the number plates in Thailand to be ASEAN compliant will be the catalyst for the rollout of a national RFID tag for all vehicles in Thailand.

- 2.4 In Malaysia there has been informal approval for the use of Kollakorn's RFID tag for the border crossing between Thailand and Malaysia. We are now awaiting formal approval from the Ministry of Transport which should be granted within the next 3 months. This will be the first of 6 border crossings to use the Kollakorn tags in Malaysia.
- 2.5 The Company has in the last 3 months delivered several orders of tags to Israel and has had significant enquiries for new projects from Africa for speed control, India for congestion tolling and Laos for border control. The Directors believe that several of these projects could commence trading within the next 6 months.

Therefore, the Directors' are of the view that income from RFID projects which has commenced should continue to grow to a sustainable level and that in any event, the major shareholders of the Company, as they have demonstrated in the past, will support the Company and therefore the decision that the Annual Report be prepared on a going concern basis is reasonable.

3. Company's Ability to Continue as a Going Concern

The Company is currently in confidential negotiations with the CSIRO on a joint venture to develop a prototype to seek commercialization of the patented Certain ID technology. Discussions continue with third parties as to a possible amalgamation of the Company with other synergistic companies.

As disclosed in the December 2015 report to shareholders, the Company is progressing its implementation of a pilot project with Queensland Government Asset Management. At a very recent meeting with Queensland Government Asset Management it has been agreed to move forward with a pilot program, requiring the Company to supply the necessary equipment to proceed. Queensland Government Asset Management has indicated the Kollakorn tag and system is a superior product that they believe it may provide the best solution for their needs.

The Company in February 2016 renegotiated with the noteholders to extend the repayment period for their loans to 31 August 2018. In doing so, it also negotiated the forfeiture of \$381,364 in past interest due to the noteholders, thereby increasing the period for the Company in which the Noteholder debt falls due and reducing liabilities. The Company also renegotiated the interest rate payable on the Notes from 15% to 7% for the remaining period of the loans. At the same time the company also issued to the Noteholders 84.75m options at prices of \$0.0075 or \$0.0125, allowing for a possible future cash injection to the Company of approximately \$715,000.

The Company is in final confidential negotiations for the appointment of a replacement CEO for Mr. Sealy. This appointment is subject to signing of contracts however the Directors believe this will be finalised and announced to the market within the next 10 working days.

The Company also believes that it should be able to announce the appointment of a COO, a new position that will further strengthen and support the new CEO, and so as to be able to take advantage of opportunities currently presenting themselves to the Company.

The above renegotiation of the Noteholders loans, the recent developments on projects using the RFID technology, potential joint venture and funding opportunities in relation to Certain ID, potential additional income streams and the imminent appointment of a new CEO and COO is the basis upon which the Directors are able to state that the Company has the ability to continue as a going concern.

4. Carrying Value of Kollakorn Thailand

From the answer in 2 above it may be seen that Kollakorn Thailand has excellent prospects of considerably extending its existing projects and gaining new ones. The unaudited accounts of Kollakorn Thailand as at December 2015, show a net profit of \$3m net tax paid profit for the year, demonstrating the directors' belief as previously reported that Kollakorn Thailand was about to move to a positive operating position.

In addition, as also previously announced in December 2015, Kollakorn Thailand is in the final phase of obtaining a joint venture agreement in Cambodia for the implementation of a Motor Vehicle licensing system and RFID nameplate system which will include for the licenses, the use of an RFID chip and a biometric fingerprint. The biometric system will be supplied by Beijing Hisign Co Ltd of China (**Hisign**) who has granted exclusivity to Kollakorn Thailand for this project. Hisign is a major biometric company in China having partners such as Alibaba and operating the Chinese National ID Card system with a database of in excess of 1 billion fingerprints.

At the time of the investment in Kollakorn Thailand, the Directors' commissioned a valuation of Kollakorn Thailand which showed that based on the commercialisation of Kollakorn Thailand's projects that the Company's then 28.7% interest in Kollakorn Thailand was worth between \$19.78 million and \$22.62 million.

Based upon the recent success of Kollakorn Thailand and the fact that it earned revenues and profits for the year ended 31 December 2015, the Directors' consider that the valuation above is still proportionately applicable to the carrying value of its 26.67% share and therefore a valuation of \$5,821,776 is fair and reasonable.

5. Kollakorn Thailand's Reporting Requirements

Kollakorn Thailand's accounts are audited on an annual basis as at 31 December of each year. Kollakorn Thailand's accounts were audited as at 31 December 2015 and every year previously and the audited accounts of Kollakorn Thailand provided to the Company's auditors.

The basis of the preparation of the Company's half year accounts was:

- To include an unaudited allocation of the last 6 months of trading of Kollakorn Thailand, prepared by Kollakorn Thailand from their full year 2015 **audited** accounts which showed the Company's share of profits, as previously disclosed, was \$820,087.
- The balance sheet of Kollakorn Thailand used to prepare the half yearly accounts of the Company was from the full year 2015 **audited** accounts of Kollakorn Thailand.

6. Reasons for Continued Quotation under Regulation 12.1

As may be seen from the foregoing, the level of activity within the Company and within Kollakorn Thailand is considerable. Much of the effort from the Company is directed at assisting Kollakorn Thailand meet its objectives however, in its own right, the Company has won several projects and is very close to winning other projects in jurisdictions other than Thailand.

The Company's patented RFID Break on Removal patented technology which is mature has now started to allow the Company to win RFID projects throughout the world, the results of which will become evident this year.

Once the Company has finalizing the negotiations with CSIRO, the patented Biometric Identification technology should provide funds so as to continue the development of this technology into a proof of concept. The Company continues to pursue the international PCT in countries around the world and to date has achieved patent extensions in the USA, Canada, China, Malaysia, Korea and a several European countries.

The Directors' are therefore of the view that the Company complies with listing regulation 12.1.

7. Continued Quotation under Regulation 12.2

As previously stated to the ASX in similar letters responding to questions of this nature, the Company has improved its financial position considerably and this is even more so the case as may be seen from the answers to questions 2 and 3 above.

Therefore, the Directors are of the view that the Company complies with listing regulation 12.2 because:

- The recent negotiations with the noteholders and forfeiture of interest by the noteholders has assured the Company of considerable time within which to complete the pipeline of projects and get them revenue earning;
- The potential of a grant from the CSIRO will assist in funding the development of the CertainID patent and will assist the Company greatly in furthering the commercialisation of this valuable patent;
- The Company has in the last 3 months received a strong pipeline of projects which the directors believe will start trials in this year;

- The Company has several opportunities for amalgamating patents and potentially even shareholdings with other companies that are now being vigorously pursued;
- The Directors are negotiating with certain parties already shareholders of the Company to invest further funds in the Company that should support operations for another 12 months, and
- The Company continues to receive an improved royalty stream which in itself is enough to cover the present basic operational outgoings of the Company.

8. Not Applicable

9. Obtaining an Unqualified Opinion in the Future

The basis of the qualification by the auditors at the half year was “going concern”, “carrying value of Kollakorn Thailand” and “audit of Kollakorn Thailand”.

- 9.1 With respect to “going concern”, the Directors’ believe that the answers provided above satisfactorily cover this point.
- 9.2 With respect to the carrying value of Kollakorn Thailand, the directors are of the view that the recent success from the implementation of the APPS project shows that Kollakorn Thailand can generate significant profits. Also the fact that additional new projects are expected to be implemented by Kollakorn Thailand shows that Kollakorn Thailand is now starting to become a viable operating entity thereby justifying its carrying value.
- 9.3 With respect to the audit of Kollakorn Thailand, the auditors have advised that if the only issue was obtaining an audited half yearly report from Kollakorn Thailand, they would not have deemed this as sufficient reason to qualify the accounts of the Company. This position remains unchanged from last year and the Company has no power to force Kollakorn Thailand to change either its year end date for accounting purposes or its audit reporting requirements within Thailand.

10. Confirmation that the Company is in Compliance with the Listing Rules in Particular Listing Rule 3.1.

The Directors’ are of the view that the Company is in compliance with the listing rules and in particular listing rule 3.1.



kindest Regards
 Riad Tayeh
 Chairman



17 May 2016

Mr Tom Bloomfield
Company Secretary
Boardroom Limited
Level 7, 207 Kent Street
Sydney NSW 2000

By email:

Dear Mr Bloomfield,

Kollakorn Corporation Limited (the “Entity”): Financial Condition Query

ASX Limited (“ASX”) refers to the following:

1. The Entity’s half-year financial report for the half-year ended 31 December 2015, lodged with ASX on 22 February 2016 (the “Half Year Report”).
2. The Independent Auditor’s Review Report on pages 8 to 9 of the Financial Report (“Auditor’s Review Report”) which includes the following Disclaimer of Opinion (the “Disclaimer”):

Bases for Disclaimer of Conclusion

Going concern

As disclosed in the Note 1 to the financial statements, the consolidated entity made a profit after tax of \$414,735 and had net cash outflows from operating activities of \$119,277 during the half year ended 31 December 2015. As at that date the consolidated entity had net current liabilities of \$2,805,886. The ability of the consolidated entity to continue as a going concern is contingent on a number of future events, the most significant of which is the continued support of its creditors and the ability to source sufficient capital or other sources of funding to



repay existing creditors and generate revenue streams from the Radio Frequency Identification (RFID) technology. We have been unable to obtain sufficient appropriate evidence to support the use of the going concern assumption given the significance of the uncertainty as to whether the consolidated entity will be able to raise sufficient capital and successfully generate revenue streams from the RFID technology.

Carrying value of associate

As disclosed in Note 3, the consolidated entity's investment in Kollakom Co. Ltd is carried at \$5,821,776 in the statement of financial position. This asset represents approximately 90% of the consolidated entity's total assets as at 31 December 2015. The ability to realise the carrying value of this asset is dependent on the associate successfully generating revenue streams from the RFID technology. We were unable to obtain sufficient appropriate evidence about the carrying amount of the consolidated entity's investment in Kollakom 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 31 December 2015.

Share of profit of associate

As disclosed in Note 3, the consolidated entity's share of Kollakom Co. Ltd's net profit of \$820,087 for the half year ended 31 December 2015 is included in the consolidated entity's statement of comprehensive income. We were unable to obtain sufficient appropriate evidence about the consolidated entity's share of Kollakom Co. Ltd's net profit for the year because the financial statements of Kollakom Co. Ltd are unaudited. We were unable to perform adequate alternative procedures in this regard. Consequently, we were unable to determine whether any adjustments to the share of profit were necessary during the half-year ended 31 December 2015.

Disclaimer of Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

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 – *If a listing rule requires an entity to give ASX accounts, the following rules apply:*
 - ...
 - *(b) 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 Review Report, the information contained in the Half Year Report, and the application of the listing rules stated above, please respond to each of the following questions:

1. Is the Entity able to confirm that in the Directors' opinion the Financial 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 Entity?
2. Please explain the basis for and the factors considered by the directors to satisfy themselves that the financial statements in the Half Year Report could be prepared on a going concern basis. In answering this question, please comment specifically on the matters referred to in Note 3 to the financial statements in the Half Year 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 ability to source sufficient capital or other sources of funding to repay existing creditors and to generate revenue streams from the Radio Frequency Identification (RFID) technology. Please provide an update on these items.
4. Please explain how the directors are satisfied that the carrying value of \$5,821,776 attributed to Kollakorn Co. Ltd is appropriate given that the Group's share of net assets per note 3 in the Half Year Report is \$1,179,877. In doing so, please detail the steps taken to ensure compliance with AASB 128 *Investments in Associates and Joint Ventures*.
5. Please detail the Half Year 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 Entity consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please explain the basis for this conclusion.
7. Does the Entity consider that the financial condition of the Entity is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2? In answering this question, please explain the basis for this conclusion.
8. If the answer to questions 6 or 7 is "No", please explain what steps the Entity has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.
9. What steps does the Entity intend to take to obtain an unqualified audit/review report for future financial periods?
10. Please confirm that the Entity is in compliance with the listing rules and, in particular, listing rule 3.1 and 12.2.



Please note the ASX reserves its right under listing rule 18.7A to release this letter and the Entity's response to the market. Accordingly, the Entity'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 **9:30am AEST, Friday, 20 May 2016**. 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 or concerns about any of the above, please contact me immediately.

Yours sincerely,

[sent electronically without signature]

Lisa Banh

Senior Adviser, Listings Compliance