

ASX Announcement

28 February 2017

Accounts for the Half-year Ended 31 December 2016

The directors of Kollakorn Corporation Limited (ASX: KKL) (“the Company”) are very pleased to present the half-yearly accounts of the Company and its controlled entities (“the Group”) to 31 December 2016.

The highlights are:

- Revenue decreased from the comparative period by 89% to \$96,359 (2015: \$911,094). This was solely due to the share of loss from our associated company, Kollakorn Co., Ltd (“Kollakorn Thailand”) of \$223,075 (2015: profit \$820,087).
- The Group made a loss after tax for the half-year of \$727,308 (2015: profit \$414,735), a decrease from the previous comparative period of 275%.
- Total assets decreased from the previous period by 3% to \$5,240,333 (30 June 2016: \$5,418,755).
- Total liabilities increased from the previous period by 8% to \$3,175,054 (30 June 2016: \$2,932,710).

Kollakorn Thailand Results

- As in previous periods Kollakorn Thailand has been equity accounted. Total revenue and losses of Kollakorn Thailand for the half-year amounted to \$4,125 (2015: \$13,593,214) and \$836,554 (2015: profit \$3,075,404) respectively. The share of losses attributable to the Company was \$223,075 (2015: profit \$820,087). As per the announcement from 11 November 2016, the Lao People’s Democratic Republic project revenues will follow in the second half of the 2017 financial year.

Operations

At the Annual General Meeting (“AGM”) held in November 2016, we outlined the exciting opportunity presented through the acquisition of Isity Global. Whilst our focus has been on preparing for the extraordinary general meeting (“EGM”) as outlined in the AGM, management has continued to progress existing and new opportunities:

- As previously reported, in Thailand we believe that the requirement this year for Thailand to change number plates to be ASEAN compliant will be the trigger for the rollout of a national RFID tag for all vehicles in Thailand. Recommendations to this effect have been submitted to the Government. This may be delayed due to the Year of Mourning for the recent passing of the King.
- In Malaysia there has been initial approval for the use of our RFID tag for the border crossing to be established between Thailand and Malaysia. We are now awaiting formal approval from the Ministry of Transport. This will be the precursor to the use of our RFID tags at 5 other border crossings. Management continue to meet with our Malaysian Partner to progress this opportunity.
- Through Kollakorn Thailand, the Company will share in the implementation of a new, Advanced Passenger Processing System (“APPS”) that will service three international airports of the Lao People’s Democratic Republic.
- Discussions have commenced in Australia to explore RFID tag opportunities in the supply chain for both a food export business, and a company in the manufacturing sector, with a view to implementing pilot projects for an asset management system.

- As we have anticipated, interest in our Thailand RFID Project has created interest in other ASEAN countries and we are in the process of identifying suitable partners to work with through initial Government Expressions of Interest.

Patents

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

CertainID

The lack of funding still continues to hamper the Company's activities with respect to the development of this particularly relevant patent. A fundamental reason for the Isity acquisition is the ability to fund this initiative and identify synergistic partners to help drive its development. Positive discussions have occurred to enable us to be well positioned to move forward after the EGM.

Cash Flow

Short term cash flow continues to be an issue for the Company. Kollakorn Thailand's obligations to retire bank debt meant that nearly all of the profit from the successful APPS project had to be used to meet these obligations and therefore a dividend could not be considered.

Future Prospects

The prospects for the Company are very good, and in particular the development of further projects in Asia. The proposed acquisition of Isity Global as outlined in the AGM is extremely exciting and will position the Company for excellent growth.

There is a real pipeline of projects, the Isity Global acquisition is progressing, and the future of the Company looks extremely positive.



Riad Tayeh
Chairman

Kollakorn Corporation Limited
ABN 41 003 218 862

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Appendix 4D

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

Period 1 July 2016 to 31 December 2016

(Previous Corresponding Period 1 July 2015 to 31 December 2015)

Appendix 4D

Interim Financial Report

Name of entity

Kollakorn Corporation Limited

| | | | |
|--|-------------------------------------|------------------------------------|--|
| ABN or equivalent company reference | Half-yearly <i>(tick)</i> | Preliminary final <i>(tick)</i> | Financial half-year ended ('current period') |
| 41 003 218 862 | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 31 December 2016 |

1. Results for Announcement to the Market

| Results | A\$ | | |
|---|--|---------------------|-----------------------------|
| Revenues from ordinary activities | Down | 89% to | 96,359 |
| Profit (Loss) from ordinary activities after tax attributable to members | Down | 275% to | (727,308) |
| Net Profit (Loss) for the period attributable to members | Down | 275% to | (727,308) |
| Dividends (distributions) | | | |
| | | Amount per security | Franked amount per security |
| Final dividend | | NIL | NIL |
| Previous corresponding period | | NIL | NIL |
| Record date for determining entitlements to the dividend | <input style="width: 150px; height: 30px;" type="text" value="N/A"/> | | |
| <p>The Company does not have a dividend reinvestment plan and no dividends are proposed to be declared for the current year.</p> <p>Note: This Appendix 4D should be read in conjunction with the Commentary on the Results of the Interim Financial Report for the half-year ended 31 December 2016, with the accompanying notes to the Appendix 4D, and with the most recent annual financial report.</p> | | | |

2. Net Tangible Assets

| | Half-year ended 31 December 2016 Cents | Year ended 30 June 2016 Cents |
|---|---|-------------------------------------|
| Net tangible assets per ordinary security | 0.0018 | 0.0023 |

3. Control Gained Over Entities

Not applicable.

4. Loss of Control Over Entities

Not applicable.

5. Details of Associates and Joint Venture Entities

| | Reporting entity's percentage holding | | Contribution to profit / (loss) | |
|--------------------|---|--|--|---|
| | Half-year ended 31 December 2016 % | Half-year ended 31 December 2015 % | Half-year ended 31 December 2016 \$ | Half-year ended 31 December 2015 \$ |
| Name of Associate | | | | |
| Kollakorn Co., Ltd | 26.67 | 26.67 | (223,075) | 820,087 |

6. Audit Qualification or Review

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

7. Attachments

The Interim Financial Report of the Company for the half-year ended 31 December 2016 is attached.

**Interim financial report
for the half-year ended 31 December 2016**

| Contents | Pages |
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Directors' report for the half-year ended 31 December 2016

The directors of Kollakorn Corporation Limited (“the Company”) submit this interim financial report of Kollakorn Corporation Limited and its controlled entities (“the Group”) for the half-year ended 31 December 2016. In order to comply with the provisions of the *Corporations Act 2001*, the directors’ report as follows:

1. Directors and secretary

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

Directors

- Riad Tayeh (Chairman)
- Namchoke Somapa
- Nicholas Aston
- Charles Hunting

Secretary

- Tom Bloomfield

2. Principal activities

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

3. Review of operations for the half-year

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

4. Significant changes in the state of affairs

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

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

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

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



Riad Tayeh
Chairman

Sydney, 28 February 2017

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Kollakorn Corporation Limited for the half year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

A handwritten signature in blue ink, appearing to read 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read 'C J Hume'.

C J HUME
Partner

Sydney, NSW

Dated: 28 February 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF

KOLLAKORN CORPORATION LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kollakorn Corporation Limited ("the company") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on conducting the review in accordance with Australian Auditing Standards. Because of the matters described in the Bases for Disclaimer of Conclusion paragraphs, however, we were not able to obtain sufficient appropriate evidence to provide a basis for a review conclusion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kollakorn Corporation Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Bases for Disclaimer of Conclusion

Going concern

As disclosed in the Note 1 to the financial statements, the consolidated entity incurred a loss after tax of \$727,308 and had net cash outflows from operating activities of \$82,040 during the half year ended 31 December 2016. As at that date the consolidated entity had net current liabilities of \$1,719,788. The ability of the consolidated entity to continue as a going concern is contingent on a number of future events, the most

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

Carrying value of associate

As disclosed in Note 3, the consolidated entity's equity-accounted investment in Kollakorn Co. Ltd is carried at \$4,818,632 in the consolidated statement of financial position. This asset represents approximately 92% of the consolidated entity's total assets as at 31 December 2016. The ability to realise the carrying value of this investment is dependent on sufficient funds being raised by Kollakorn Co Ltd to complete the development and successful commercialisation of its RFID technology. As a result, we were unable to determine whether any adjustments were necessary in respect of the carrying value of investment in associates as at 31 December 2016.

Share of loss of associate

As disclosed in Note 3, the consolidated entity's share of Kollakorn Co. Ltd's net loss of \$223,075 for the half year ended 31 December 2016 is included in the consolidated entity's statement of profit or loss and other comprehensive income. We were unable to obtain sufficient appropriate evidence about the consolidated entity's share of Kollakorn Co. Ltd's net loss for the year because the financial statements of Kollakorn Co. Ltd are unaudited. We were unable to perform adequate alternative procedures in this regard. Consequently, we were unable to determine whether any adjustments to the share of loss were necessary during the half-year ended 31 December 2016.

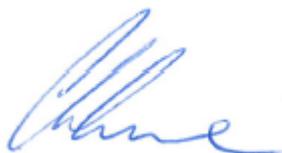
Disclaimer of Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



C J HUME
Partner

Sydney, NSW
Dated: 28 February 2017

**Directors' declaration
for the half-year ended 31 December 2016**

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, *Australian Accounting Standard 134: Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors.



Riad Tayeh
Chairman

Sydney, 28 February 2017

**Consolidated statement of profit or loss and other comprehensive income
 for the half-year ended 31 December 2016**

| | Note | Half-year ended 31 December 2016 \$ | Half-year ended 31 December 2015 \$ |
|--|------|---|---|
| Continuing operations | | | |
| Royalties received | | 96,359 | 91,007 |
| Share of (loss) / profit of associates accounted for using the equity method | 3 | (223,075) | 820,087 |
| Other income | | 6 | 21 |
| Expenses by function:- | | | |
| Administration and general | | (457,971) | (303,921) |
| Amortisation of intangible assets | | (43,593) | (43,593) |
| Finance costs | | (52,941) | (85,068) |
| Foreign exchange (loss) / gain | | (2,684) | 1,653 |
| Marketing and sales | | - | (686) |
| Research and development | | (38,147) | (64,765) |
| Other expenses | | (5,262) | - |
| (Loss) / profit before tax from continuing operations | | (727,308) | 414,735 |
| Income tax expense | | - | - |
| (Loss) / profit for the period from continuing operations | | (727,308) | 414,735 |
| Net operating (loss) / profit for the period | | (727,308) | 414,735 |
| Other comprehensive income | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Exchange differences arising on translation of foreign operations | | (7,900) | (8,032) |
| Other comprehensive loss for the period | | (7,900) | (8,032) |
| Total comprehensive loss for the period | | (735,208) | 406,703 |
| (Loss) / profit attributable to: | | | |
| Members of the parent entity | | (727,308) | 414,735 |
| Total comprehensive (loss) / income attributable to: | | | |
| Members of the parent entity | | (735,208) | 406,703 |
| Earnings per share | | | |
| Basic (cents) | | (0.07) | 0.04 |
| Diluted (cents) | | (0.07) | 0.04 |

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

**Consolidated statement of financial position
 as at 31 December 2016**

| | Note | 31 December 2016 \$ | 30 June 2016 \$ |
|--------------------------------------|------|------------------------|--------------------|
| Current Assets | | | |
| Cash assets | | 106,339 | 35,149 |
| Trade and other receivables | | 184,584 | 167,529 |
| Total Current Assets | | 290,923 | 202,678 |
| Non-Current Assets | | | |
| Intangible assets | | 130,778 | 174,371 |
| Investment in associates | 3 | 4,818,632 | 5,041,706 |
| Total Non-Current Assets | | 4,949,410 | 5,216,077 |
| Total Assets | | 5,240,333 | 5,418,755 |
| Current Liabilities | | | |
| Trade and other payables | | 1,913,303 | 1,712,267 |
| Provisions | | 97,408 | 94,917 |
| Total Current Liabilities | | 2,010,711 | 1,807,184 |
| Non-Current Liabilities | | | |
| Other liabilities | 4 | 1,164,343 | 1,125,526 |
| Total Non-Current Liabilities | | 1,164,343 | 1,125,526 |
| Total Liabilities | | 3,175,054 | 2,932,710 |
| Net Assets | | 2,065,279 | 2,486,045 |
| Equity | | | |
| Issued capital | 5 | 50,850,167 | 50,562,667 |
| Reserves | 6 | 1,891,229 | 1,872,187 |
| Accumulated losses | | (50,676,117) | (49,948,809) |
| Total Equity | | 2,065,279 | 2,486,045 |

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

**Consolidated statement of changes in equity
 for the half-year ended 31 December 2016**

| | Fully paid ordinary shares \$ | Equity-settled employee benefits reserve \$ | Foreign currency translation reserve \$ | Options Reserve \$ | Accumulated losses \$ | Total \$ |
|--|-------------------------------------|--|--|--------------------------|-----------------------------|------------------|
| Balance at 1 July 2015 | 50,058,175 | 2,096,130 | (311,406) | - | (49,297,503) | 2,545,396 |
| Profit for the period | - | - | - | - | 414,735 | 414,735 |
| Exchange differences arising on translation of foreign operations | - | - | (8,032) | - | - | (8,032) |
| Total comprehensive income for the period | - | - | (8,032) | - | 414,735 | 406,703 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Issue of shares and options | 284,392 | - | - | - | - | 284,392 |
| Share issue costs | (2,638) | - | - | - | - | (2,638) |
| Balance at 31 December 2015 | 50,339,929 | 2,096,130 | (319,438) | - | (48,882,768) | 3,233,853 |
| Balance at 1 July 2016 | 50,562,667 | 2,096,130 | (318,777) | 94,834 | (49,948,809) | 2,486,045 |
| Loss for the period | - | - | - | - | (727,308) | (727,308) |
| Exchange differences arising on translation of foreign operations | - | - | (7,900) | - | - | (7,900) |
| Total comprehensive income for the period | - | - | (7,900) | - | (727,308) | (735,208) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | | |
| Issue of shares and options | 287,500 | - | - | 26,942 | - | 314,442 |
| Balance at 31 December 2016 | 50,850,167 | 2,096,130 | (326,677) | 121,776 | (50,676,117) | 2,065,279 |

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

**Consolidated statement of cash flows
 for the half-year ended 31 December 2016**

| | Half-year ended 31 December 2016 | Half-year ended 31 December 2015 |
|---|---|-------------------------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers | 102,941 | 113,652 |
| Payments to suppliers and employees | (170,856) | (229,505) |
| Finance costs | (14,125) | (3,424) |
| | <hr/> | <hr/> |
| Net cash used by operating activities | (82,040) | (119,277) |
| | <hr/> | <hr/> |
| Cash flows from investing activities | | |
| Interest received | 6 | 21 |
| | <hr/> | <hr/> |
| Net cash provided by investing activities | 6 | 21 |
| | <hr/> | <hr/> |
| Cash flows from financing activities | | |
| Proceeds from the issue of shares | 155,000 | - |
| Payment for share issue costs | - | (2,638) |
| | <hr/> | <hr/> |
| Net cash provided / (used) by financing activities | 155,000 | (2,638) |
| | <hr/> | <hr/> |
| Net increase / (decrease) in cash and cash equivalents | 72,966 | (121,894) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at the beginning of the half-year | 35,149 | 211,009 |
| Effects of exchange rate changes on cash and cash equivalents | (1,776) | - |
| | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the half-year | 106,339 | 89,115 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

Notes to the financial statements

Note 1: Summary of significant accounting policies

a) Basis of Preparation

These general purpose financial statements for the half-year reporting period ended 31 December 2016 (“the half-year”) have been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34: Interim Financial Reporting.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual financial statements for the Group for the year ended 30 June 2016 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Accounting Policies

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

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the 30 June 2016 annual report.

b) New or Amended Accounting Standards and Interpretations

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

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

c) Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business for a period of at least 12 months from the date of authorising the financial statements for issue.

For the half-year the Group reported a loss of \$727,308 and net cash used by operating activities of \$82,040. As at 31 December 2016, the Group was in a net current liability position of \$1,719,788.

The ability of the Group to continue as a going concern is dependent on a number of factors, 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 RFID technology.

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

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

- the Group has the ability to continue to raise additional funds on a timely basis, pursuant to the Corporations Act 2001;
- the directors anticipate to close significant sales contracts during the next 12 months which will increase operating cash flow;
- the Group has the ability to further scale back certain parts of its activities that are non-essential so as to conserve cash; and
- the directors regularly monitor the Group’s cash position and, on an on-going basis, consider a number of strategic initiatives to ensure that adequate funding continues to be available.

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

Notes to the financial statements (continued)

Note 1: Summary of significant accounting policies (continued)

c) Going concern (continued)

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

Note 2: Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Products and services from which reportable segments derive their revenues

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

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

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

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

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

Operating segment revenues and results

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

| | AVI | Smart&Secure | TransitVault & CertainID | Other segments | Total |
|--------------------------------|-------|--------------|-----------------------------|----------------|-----------|
| | \$ | \$ | \$ | \$ | \$ |
| 31 December 2016 | | | | | |
| Revenue | | | | | |
| Sales to external customers | - | 96,359 | - | - | 96,359 |
| Total segment revenue | - | 96,359 | - | - | 96,359 |
| <i>Unallocated revenue</i> | | | | | |
| Interest revenue | | | | | 6 |
| Total revenue | | | | | 96,365 |
| EBITDA | (283) | 91,097 | (2,977) | (495,542) | (407,705) |
| Depreciation and amortisation | - | (43,593) | - | - | (43,593) |
| | (283) | 47,504 | (2,977) | (495,542) | (451,298) |
| Interest revenue | | | | | 6 |
| Finance costs | | | | | (52,941) |
| Share of loss from associates | | | | | (223,075) |
| Loss before income tax expense | | | | | (727,308) |
| Income tax expense | | | | | - |
| Loss after income tax expense | | | | | (727,308) |

Notes to the financial statements (continued)

Note 2: Operating segments (continued)

| | AVI \$ | Smart&Secure \$ | TransitVault & CertainID \$ | Other segments \$ | Total \$ |
|----------------------------------|-----------|--------------------|-----------------------------------|----------------------|------------------|
| 31 December 2016 | | | | | |
| Assets | | | | | |
| Segment assets | 4,857,463 | 191,160 | - | - | 5,048,623 |
| <i>Unallocated assets</i> | | | | | |
| Cash and cash equivalents | | | | | 88,290 |
| Trade and other receivables | | | | | 103,420 |
| Total assets | | | | | <u>5,240,333</u> |
| 31 December 2015 | | | | | |
| Revenue | | | | | |
| Sales to external customers | - | 91,007 | - | - | 91,007 |
| Total segment revenue | - | 91,007 | - | - | 91,007 |
| <i>Unallocated revenue</i> | | | | | |
| Interest revenue | | | | | 21 |
| Total revenue | | | | | <u>91,028</u> |
| EBITDA | (145) | 92,924 | (1,698) | (367,793) | (276,712) |
| Depreciation and amortisation | - | (43,593) | - | - | (43,593) |
| | (145) | 49,331 | (1,698) | (367,793) | (320,305) |
| Interest revenue | | | | | 21 |
| Finance costs | | | | | (85,068) |
| Share of profit from associates | | | | | 820,087 |
| Profit before income tax expense | | | | | <u>414,735</u> |
| Income tax expense | | | | | - |
| Profit after income tax expense | | | | | <u>414,735</u> |

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

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

Note 3. Investment in Associates

Details of the Group's associates are as follows.

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

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

Notes to the financial statements (continued)

Note 3. Investment in Associates (continued)

The total purchase price for the 26.67% interest in this company to date has been \$6,461,652 (30 June 2016: \$6,461,652). The carrying amount in the statement of financial position of the Group's equity interest in Kollakorn Thailand at 31 December 2016 is \$4,818,632 (30 June 2016: \$5,041,706). The Group's share of accumulated losses in Kollakorn Thailand at 31 December 2016 is \$1,643,020 (30 June 2016: \$1,419,945).

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

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

| | 31 December 2016 | 30 June 2016 |
|---|-------------------------|--------------|
| | \$ | \$ |
| Total assets | 4,389,415 | 5,165,187 |
| Total liabilities | (2,162,628) | (2,267,365) |
| Net assets | 2,226,787 | 2,897,822 |
| Group's share of net assets of associates | 593,795 | 772,733 |

| | Half-year ended 31 Dec 2016 | Half-year ended 31 Dec 2015 |
|--|--|--------------------------------|
| | \$ | \$ |
| Total revenue | 4,125 | 13,593,214 |
| Total (loss) / profit | (836,554) | 3,075,404 |
| Group's share of (loss) / profit of associates | (223,075) | 820,087 |

Note 4. Other liabilities

Other liabilities comprise Loan Notes and accrued interest charges. Interest on the Loan Notes accrues at 7% and is payable upon maturity.

The Loan Notes have a maturity date of 31 August 2018 and are secured against an aggregate amount of 10% of the shares in Kollakorn Thailand.

Note 5. Issued capital

Issued capital as at 31 December 2016 amounted to \$50,850,167 (1,072,060,077 ordinary shares).

Following approval from shareholders at the Annual General Meeting, the Company issued 12,490,097 ordinary shares to Mr David Mathews in two parcels. 4,439,251 shares were issued at \$0.0107 per share and 8,050,846 shares were issued at \$0.059 per share for a total value of \$95,000 in accordance with Mr David Mathews' employment agreement.

Following approval from shareholders at the Annual General Meeting, the Company issued 1,500,000 ordinary shares to Mr Riad Tayeh at \$0.005 per share. The shares were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

Notes to the financial statements (continued)

Note 5. Issued capital (continued)

Following approval from shareholders at the Annual General Meeting, the Company issued 6,000,000 ordinary shares to Mr Richard Sealy at \$0.005 per share. The shares were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

The Company issued a further 30,000,000 ordinary shares to Convertible Note holders at \$0.005 per share. The shares were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

Note 6. Reserves

Following approval from shareholders at the Annual General Meeting, the Company issued 750,000 options to Mr Riad Tayeh, each exercisable on or before 31 August 2018 at \$0.0125. The options were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

Following approval from shareholders at the Annual General Meeting, the Company issued 3,000,000 options to Mr Richard Sealy, each exercisable on or before 31 August 2018 at \$0.0125. The options were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

Following approval from shareholders at the Annual General Meeting, the Company issued 15,000,000 options to Brentnalls NSW Pty Ltd, each exercisable on or before 31 August 2018 at \$0.0125. The options were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

The Company issued a further 15,000,000 ordinary shares to Convertible Note holders, each exercisable on or before 31 August 2018 at \$0.0125. The options were issued pursuant to the terms of the Loan Notes announcement of 19 February 2016.

Note 7. Contingent liabilities

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

Note 8. Events subsequent to reporting date

On 22 December 2016 the Company announced the proposed acquisition of all the issued capital of Isity Global Pte Limited. The proposed acquisition is continuing to progress.

No other matter or circumstance has arisen since 31 December 2016 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 9. Interest in subsidiaries

Set out below are the Group's subsidiaries at 31 December 2016. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal place of business.

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

Notes to the financial statements (continued)

Note 9. Interest in subsidiaries (continued)

| Name of entity | Country of incorporation | Ownership interest | |
|--|--------------------------|--------------------|-----------|
| | | 2016 % | 2015 % |
| Parent entity | | | |
| Kollakorn Corporation Limited (i) | Australia | - | - |
| Subsidiaries | | | |
| Kollakorn Imaging Systems Pty Limited (ii) (iii) | Australia | 100 | 100 |
| Kollakorn (AVI) Pty Ltd (ii) (iii) | Australia | 100 | 100 |
| Kollakorn (IP) Pty Ltd (ii) (iii) | Australia | 100 | 100 |
| Mikoh Corporation | USA | 100 | 100 |
| Kollakorn Pty Limited (ii) (iii) | Australia | 100 | 100 |
| Kollakorn Technology Pty Limited (ii) (iii) | Australia | 100 | 100 |

(i) Kollakorn Corporation Limited is the head entity within the tax-consolidated group.

(ii) These companies are members of the tax-consolidated group.

(iii) These wholly owned entities are classified as small proprietary entities and, in accordance with the Corporations Act 2001 are relieved from the requirement to prepare and lodge audited financial statements.