

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 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

	2017 \$	2016 \$	Change %
Revenues from ordinary activities	2,273,392	2,434,798	(6.63)
Loss from ordinary activities after tax attributable to the owners of Novatti Group Limited	(1,595,110)	(1,895,046)	15.83
Loss for the half-year attributable to the owners of Novatti Group Limited	(1,595,110)	(1,895,046)	15.83

Dividends

In respect of the half-year ended 31 December 2017, there have been no dividends paid nor provided for.

Corporate and Financial Overview

Novatti's cash holding as at 31 December 2017 of \$4.4 M puts the Company in a good position to build on the progress that has been achieved in 2017.

Novatti is focussed on further building its business development pipeline and to strongly increase the proportion of recurring and transaction revenues within the revenue mix.

Subsequent event

On 11 October 2017, the Company announced an investment of \$3.5 million by a Chinese technology investor, Mr Xiadi Chen, by the issue of 25 million shares at 14 cents per share, that contemplated a further investment by Mr Chen of up to \$6.5 million at 19.217 cents per share. By mutual agreement, the Company has released Mr Chen from this commitment in lieu of a separate raising capped at \$3.5 million from other Chinese technology investors at the same issue price.

The non-associated investors are Madam Qing Li and Mr Qiang (Peter) Wei. Madam Li will subscribe for 10,407,452 shares (for \$2 million), taking her total shareholding in the Company to 22,907,452 shares, representing approximately 14.71% of the Company's issued share capital. Mr Wei will subscribe for 7,805,589 shares (for \$1.5 million), representing approximately 5.01% of the Company's issued share capital.

As announced on the ASX 28 February 2018, a total of 18,213,041 fully paid ordinary shares will be issued under the Company's current capacity per ASX listing rule 7.1. No options will be issued under this capital raising.

The Company has evaluated events up to the filing date of these interim financial statements and determined that no additional subsequent event activity requires disclosure.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.02	0.03

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%	(961)	(3,519)
Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)				
Profit/(loss) from ordinary activities before income tax			(961)	(3,519)

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.

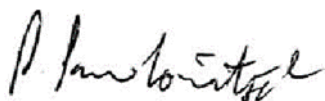
8. Attachments

Details of attachments (if any):

The Interim Report of Novatti Group Limited for the half-year ended 31 December 2017 is attached.

9. Signed

Date: 28 February 2018



Signed _____
Peter Pawlowitsch
Chairman
Melbourne

Novatti Group Limited

ACN 606 556 183

Interim Report – 31 December 2017

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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 2018.

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 2017.

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 (Appointment Date: 12.10.2017)

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

The loss for the consolidated entity after providing for income tax amounted to \$1,595,110. Prior year loss for the same period was \$1,895,046. The reduction in losses reflect the increase in sales from the Flexepin business and management's efforts in reducing the labour cost of the Group. In addition, the contribution of sales from the acquisition of basis2 business in May 2017 also strengthened the performance of the group for the half-year ended 31 December 2017, compared with the same period of half-year ended 31 December 2016.

The loss of \$1,895,046 for 31 December 2016 included the receipt and recognition of the Group's FY16 research and development \$1.3M rebate. The Group has, as at the date of this report, yet to submit its FY17 research and development rebate claim and anticipates that it will be lodged in March 2018.

Notwithstanding that the FY17 research and development claim is yet to be submitted, the Group's total revenue for the six months to 31 December 2017 was \$2.3M compared to \$1.1M on a like for like basis for the same period last year. In addition, total expenses have decreased from \$4.3M to \$3.9M in the six months ended December 2017, compared with the same period in FY 16.

Operating overview

During the half year ended 31 December 2017, Novatti continues to increase its business development activities in the primary functional areas of:

- Financial technology sales
- Compliance services
- Transaction processing

This focus on business development has led to increased business in all areas and a much stronger sales pipeline.

Financial technology sales

The Company has commenced projects for two new Software as a Service (SaaS) clients for its technology platforms. Clients are using the Novatti Platform for a number of financial applications including Loyalty, Fundraising, Digital Wallet, Remittances and Vouchers.

Transaction processing – Flexepin & TransferBridge

The Company's financial transaction processing services have all shown strong growth in the half year. This includes processing of China payment services in Australia, Flexepin sales, remittance services and allied compliance services revenues.

As new Chinese payment methods such as Alipay and Wechat Pay have been offered in the Australian market, Novatti has provided commercial compliance and settlement services that have seen strong uptake and growth.

Flexepin services have seen continued strong growth in Canada and Australia, along with initial sales into Europe.

Novatti relaunched its Remittance service in mid-July 2017 and has seen a healthy uptake in these services. The remittance industry has undergone a dramatic change recently as the need for greater compliance is pushed down from the banks. Novatti's compliance team is well equipped and structured to accommodate the growing compliance regime in this market place. The Company is also providing inbound remittance services by working with overseas foreign exchange and remittance companies to support their compliant settlement of transactions into Australia.

The Company announced in November 2017 that it had signed a Memorandum of Understanding to progress the integration of the Novatti platform into the Stellar Network, which is supported by US-based Lightyear.io. The aim of the platform will be to build a global money transfer solution to provide cross border, cross currency and cross asset payments.

Billing services

The Company completed the earnings accretive acquisition of basis2 in May 2017 and since then, it has deployed a major update in the software, relocated basis2 operating office and hired two new staff members. The operating results from the acquisition are largely falling in line with management's expectations.

Banking

The Company is progressing well with its application to obtain an authorised deposit taking institutions licence (ADI) as part of the proposals by the Australian Prudential Regulation Authority

Corporate and Financial Overview

The consolidated entity's cash holding as at 31 December 2017 of \$4,408,785 puts the consolidated entity in a good position to build on what has been achieved in 2017.

The consolidated entity is focussed on further building its business development pipeline and to strongly increase the proportion of recurring and transaction revenues within the revenue mix.

The consolidated entity has no debt.

Significant changes in the state of affairs

On 11 October 2017, the Company announced an investment of \$3.5 million by a Chinese technology investor, Mr Xiadi Chen, by the issue of 25 million shares at 14 cents per share, that contemplated a further investment by Mr Chen of up to \$6.5 million at 19.217 cents per share. By mutual agreement, the Company has released Mr Chen from this commitment in lieu of a separate raising capped at \$3.5 million from other Chinese technology investors at the same issue price.

The non-associated investors are Madam Qing Li and Mr Qiang (Peter) Wei. Madam Li will subscribe for 10,407,452 shares (for \$2 million), taking her total shareholding in the Company to 22,907,452 shares, representing approximately 14.71% of the Company's issued share capital. Mr Wei will subscribe for 7,805,589 shares (for \$1.5 million), representing approximately 5.01% of the Company's issued share capital.

As announced on the ASX 28 February 2018, a total of 18,213,041 fully paid ordinary shares will be issued under the Company's current capacity per ASX listing rule 7.1. No options will be issued under this capital raising.

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 2017.

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 2018

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 2017 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

J. C. Luckins

J. C. Luckins
Director

Dated this 28th day of February, 2018

**CHARTERED ACCOUNTANTS
& ADVISORS**

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Statement of Profit & Loss and Other Comprehensive Income

For the half year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 \$	Consolidated 31 Dec 2016 \$
Revenue	3	2,262,778	1,086,965
Other income	3	10,614	1,347,833
		<u>2,273,392</u>	<u>2,434,798</u>
Expenses	4		
Client hosting fees and other direct services		(277,576)	(321,671)
Employee benefits		(2,562,842)	(3,279,386)
Depreciation and amortisation		(146,917)	(14,660)
Occupancy		(96,186)	(73,674)
Finance charges		(12,368)	(5,972)
Foreign currency translation gains		15,541	16,148
Travel expenses		(183,576)	(168,130)
Marketing expenses		(84,408)	(71,188)
Data management expenses		(41,311)	(41,362)
Share of net loss of joint ventures accounted for using the equity method		(961)	(3,519)
Fund raising activities		(185,526)	-
Other expenses		(292,372)	(366,430)
		<u>(1,595,110)</u>	<u>(1,895,046)</u>
Loss before income tax expense		(1,595,110)	(1,895,046)
Income tax expense		-	-
		<u>(1,595,110)</u>	<u>(1,895,046)</u>
Loss after income tax expense for the half-year		(1,595,110)	(1,895,046)
Total comprehensive income for the half-year		<u>(1,595,110)</u>	<u>(1,895,046)</u>
Loss for the half-year is attributable to:			
Owners of Novatti Group Limited		(1,595,110)	(1,895,046)
		<u>(1,595,110)</u>	<u>(1,895,046)</u>
Total comprehensive income for the half-year is attributable to:			
Owners of Novatti Group Limited		(1,595,110)	(1,895,046)
		<u>(1,595,110)</u>	<u>(1,895,046)</u>
		Cents	Cents
Basic and Diluted loss per share		(1.81)	(2.09)

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

Statement of Financial Position

For the half year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 \$	Consolidated 30 June 2017 \$
Assets			
Current assets			
Cash and cash equivalents	5	4,408,785	654,146
Trade and other receivables		1,946,558	1,538,316
Financial assets	6	1,914,525	96,289
Other	8	99,967	85,493
Total current assets		8,369,835	2,374,244
Non-current assets			
Investments accounted for using the equity method		3,588	4,363
Property, plant and equipment		27,369	26,391
Intangible assets		2,502,161	2,668,614
Total non-current assets		2,533,118	2,699,368
Total assets		10,902,953	5,073,612
Liabilities			
Current liabilities			
Trade and other payables	9	5,779,501	2,302,623
Employee benefits		387,055	479,605
Total current liabilities		6,166,556	2,782,228
Non-current liabilities			
Employee benefits		18,290	19,124
Total non-current liabilities		18,290	19,124
Total liabilities		6,184,846	2,801,352
Net assets		4,718,107	2,272,260
Equity			
Issued capital	10	18,273,768	14,296,835
Reserves		1,148,334	1,084,310
Accumulated losses		(14,703,995)	(13,108,885)
Total equity		4,718,107	2,272,260

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

Statement of Changes in Equity

For the half-year ended 31 December 2017

Consolidated	Note	Issued capital	Options reserves	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)
Total comprehensive income for the half-year		-	-	-	(1,595,110)	(1,595,110)
Transactions with owners in their capacity as owners:						
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
Options issued			44,124			44,124
Foreign exchange translation differences				19,900		19,900
Balance at 31 December 2017		18,273,768	1,172,603	(24,269)	(14,703,995)	4,718,107

* The value for Shares issued during the half year ended 31 December 2017, includes net cash proceeds of \$3,880,187 and non-cash expenses of \$5,692 relating to brokerage fees. For further details on proceeds raised through share placement, please refer to Note 10.1.

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

Statement of Changes in Equity (continued):

For the half-year ended 31 December 2016

Consolidated	Note	Issued capital \$	Options reserves	Foreign currency translation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2016		11,940,604	713,465	849	(8,391,156)	4,263,762
Loss after income tax expense for the half-year		-	-	-	(1,895,046)	(1,895,046)
Total comprehensive income for the half-year		-	-	-	(1,895,046)	(1,895,046)
Transactions with owners in their capacity as owners:						
Options issued		-	284,177	-	-	284,177
Foreign exchange translation differences		-	-	1,638	-	1,638
Balance at 31 December 2016		11,940,604	997,642	2,487	(10,286,202)	2,654,531

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

Statement of Cash Flows

For the half-year ended 31 December 2017

	Consolidated 31 Dec 2017 \$	Consolidated 31 Dec 2016 \$
Cash flows from operating activities		
Receipts from customers	12,689,042	2,125,607
Payments to suppliers and employees	(13,058,133)	(5,518,012)
Interest received	10,270	23,504
Interest paid	(12,369)	(5,972)
Research and Development rebate received	-	1,320,099
Net cash used in operating activities	(371,190)	(2,054,774)
Cash flows from investing activities		
Proceeds from Investments (Receipts of adjustments from Vendor of Basis2)	242,935	-
Proceeds from the disposal of property, plant and equipment	1,200	2,100
Payments for property, plant and equipment	(14,034)	(2,200)
Net cash used in investing activities	230,101	(100)
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	3,739,098	(2,054,874)
Cash and cash equivalents at the beginning of the financial half-year	654,146	4,725,649
Effects of exchange rate changes on cash and cash equivalents	15,541	(31,678)
Cash and cash equivalents at the end of the financial half-year	4,408,785	2,639,097

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

Notes to the appendix 4D 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') and controlled entities for the period ended 31 December 2017.

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 2017 and any public announcements made by Novatti Group Ltd during the half year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The financial report for this half-year is prepared in accordance with the same accounting policies, methods and computations as those used in the financial report for the year ended 30 June 2017.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting 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 2017.

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

Based on the Group's preliminary assessment of AASB 9, there will be no material impact on the transactions and balances recognised in the financial statements when this standard is first adopted for the year ended 30 June 2019.

AASB 15 revenue from contracts with customers

The Group has undertaken a preliminary assessment of the impact of AASB 15. However, based on the Group's preliminary assessment, this standard is not expected to have a material impact on the transactions and balances in the financial statements when it is first adopted for the year ended 30 June 2019. The Group has adopted the 'Modified Retrospective' method of transition under AASB 15 Revenue from Contracts with Customers.

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 capitalization in the statement of financial position. A liability corresponding to the capitalized lease will also be recognized. 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 interested, tax and depreciation)

results will be improved as the operating expense is replaced by depreciation in the profit and loss under AASB16.

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'.

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.

The consolidated entity derived the following revenue for the provisions of its services:

Platform Sales

Deployment and the support of specialist mobile and alternative payment technology. There are three primary components, the recognition of revenue on the completion and delivery of agreed milestones, the revenue recognised for ongoing maintenance and support and fees for software as a service.

Transaction Sales

Included within transaction sales are:

- Fees for the facilitation of top up vouchers
- Fees for remittance and settlement and
- Compliance services

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 2017.

Accrued revenue

Accrued revenue includes revenue from the sales of services unbilled as at the interim reporting date of 31 December 2017.

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.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short- term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents also include cash held in trust for top up voucher services. Receipts from top up voucher distributors are recognised as (cash) “Receipts from Customers” whilst payments to merchants for top up vouchers are recognised as (cash) “Payments to suppliers (and employees)”.

Financial Instruments

The Group’s financial instruments recognised in the statement of financial position consists of 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 fair value, amortised cost using the effective interest method, or cost depending on their classification. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in the statement of profit or loss and other comprehensive income through the amortisation process and when the financial asset is derecognised.

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.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Novatti Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

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: (A) Novatti Platform, incorporating enterprise sales and Maintenance & Support via the Novatti Platform, (B) Advanced Billing Solutions, incorporating Basis2 operating under Novatti Inc (C) Payment Processing Services incorporating Flexewallet Pty Ltd, Flexepayments (South Africa) Pty Ltd, Flexe Payments Ltd, Flexewallet (NZ) Limited and Flexe Payments (MLT) Ltd and (D) 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.

Advanced Billing Solutions

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

Payment Processing 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 and settlement services offering. 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.

Intersegment transactions

Intersegment transactions were made at cost. 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 2017 and 31 December 2016:

	Novatti Platform \$	Billing Solutions \$	Payment Processing Services \$	Novatti Group Limited \$	Total \$
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)	-	-	-	-	-

	Novatti Platform \$	Payment Processing Services \$	Novatti Group Limited \$	Total \$
Consolidated – 31 December 2016				
Revenue				
Sales to external customers	1,030,600	56,365	-	1,086,965
Total sales revenue	1,030,600	56,365	-	1,086,965
Other revenue	1,320,351	3,600	-	1,323,951
Total revenue	2,350,951	59,965	-	2,410,916
EBITDA	(607,772)	(722,280)	(568,244)	(1,898,296)
Depreciation and amortisation	(14,660)	-	-	(14,660)
Interest revenue	1,556	-	22,326	23,882
Finance costs	(2,230)	(3,608)	(134)	(5,972)
Profit before income tax expense	(623,106)	(725,888)	(546,052)	(1,895,046)
Income tax expense				-
Profit after income tax expense	(623,106)	(725,888)	(546,052)	(1,895,046)
Segment Assets	3,018,475	(100,024)	1,413,019	4,331,470
Segment Liabilities	1,328,076	247,573	101,290	1,676,939
Employee Benefits	2,322,909	579,021	377,456	3,279,386
Additions to non-current assets (other than financial assets, deferred tax, post-employment benefits assets, rights under insurance contracts)	-	-	-	-

Note 3. Revenue

	Consolidated 31 Dec 2017 \$	Consolidated 31 Dec 2016 \$
Sales revenue		
Novatti Platform Sales	860,696	1,030,600
Billing Solutions	888,255	-
Payment Processing Services	513,827	56,365
	<u>2,262,778</u>	<u>1,086,965</u>
Other income		
Interest	10,614	23,882
Research and development	-	1,320,099
Other Income	-	3,852
	<u>10,614</u>	<u>1,347,833</u>
Revenue	<u>2,273,392</u>	<u>2,434,798</u>

Note 4. Expenses

	Consolidated 31 Dec 2017 \$	Consolidated 31 Dec 2016 \$
Profit before income tax includes the following specific expenses:		
Client hosting fees and other direct services	277,576	321,671
Finance costs		
Finance costs expensed	12,368	5,972
Share-based payments expense		
Share-based payments expense (Options)	146,562	284,177

Note 5. Current assets – cash and cash equivalents

	Consolidated 31 Dec 2017 \$	Consolidated 30 Jun 2017 \$
Cash and Cash Equivalents	4,408,785	654,146
Balance as per statement of cash flows	<u>4,408,785</u>	<u>654,146</u>

Note 6 Financial Assets

	Consolidated 31 Dec 2017 \$	Consolidated 30 Jun 2017 \$
Funds held as Bank Guarantee	32,899	32,554
Funds held in trust*	1,881,626	63,735
	<u>1,914,525</u>	<u>96,289</u>

*These include client monies held for remittance and settlement. These funds are distributed under instructions between 1-7 days respectively.

Note 7. Net Position of Funds in Trust

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 of Novatti Group Limited.

Funds held for Settlement and Remittance

	Consolidated 31 Dec 2017 \$	Consolidated 30 Jun 2017 \$
Remittance		
Cash and cash equivalents held in trust	1,881,626	63,735
Settlement Funds Payable	(1,522,873)	(63,735)
Remittance Funds Payable	(358,753)	-
Total Remittance	-	-

Note 8 Other Current Assets

	Consolidated 31 Dec 2017 \$	Consolidated 30 Jun 2017 \$
Prepayments	64,275	63,670
Other	11,414	8,590
Loan- High Impact*	24,278	13,233
	99,967	85,493

*Short term loan agreement of US\$18,335 provided to High Impact, a related party, on commercial terms, entered into on 27 March 2017. Interest calculated daily at 6% per annum.

Note 9 Trade and Other Payables

	Consolidated 31 Dec 2017 \$	Consolidated 30 Jun 2017 \$
Trade Payables	2,974,519	700,348
Unearned Income	453,479	565,272
Accrued Expenses	2,351,503	1,037,003
	5,779,501	2,302,623

Note 10. Issued capital and contributed equity

	Consolidated 31 Dec 2017 \$	Consolidated 30 Jun 2017 \$
Issued and paid-up capital		
137,304,375 Fully paid ordinary shares – 31 December 2017	18,273,768	-
107,972,647 Fully paid ordinary shares – 30 June 2017		14,296,835
Closing Balance	18,273,768	14,296,835

Note 10.1 ordinary shares

Ordinary shares	No.	31 Dec 2017 \$	No.	30 June 2017 \$
Opening Balance.			87,883,826	11,940,604
Beginning of the period 1 July 2017	107,972,647	14,296,835		
5 million Performance Shares were converted to Ordinary Shares on a one for one basis at a nominal value of \$1 upon the achievement of Milestone 1, as announced to the ASX on 16 September 2016. There is no change in the value of 'Issued Capital'	-	-	5,000,000	-
11.9 million Shares issued pursuant to one for four Entitlement Offer – Institutional Component, on the 16 May 2017. See Note (i)	-	-	11,910,051	1,667,407
3.1 million Shares pursuant to one for four Entitlement Offer – Retail Component, on the 29 May 2017. See Note (i)	-	-	3,178,770	445,028
1.5 million fully paid ordinary shares issued on 3 July 2017. See Note (i)	1,539,285	-		215,500
Capital Raising Costs related to shortfall facility	-	-		(36,722)
Corporate Advisor Management Fee. See Note (i)	-	-	-	65,018
Adjustment to the final consideration of the Management Fee. See Note		(22,769)	-	-
Corporate Advisor Management Fee – 18 July 2017. See Note (i)	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. See Note (ii)	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.		765	-	-
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)	-	-
Closing Balance	137,304,375	18,273,768	107,972,647	14,296,835

(i) Accelerated Non-Renounceable Entitlement Offer

On 8 May 2017, Novatti Group Limited announced an accelerated 1 for 4 non-renounceable pro-rata entitlement offer of new ordinary shares in the Company at an issue price of \$0.14, the purpose of the offer was to fund the acquisition of Basis2, a new business for the group.

At 31 December 2017, 17,629,882 ordinary shares have been issued under this entitlement raising \$2.4M. For further details on the Capital Raising Refer to the 'Acquisition of basis2 and Accelerated Entitlement Offer document, dated 8 May 2017.

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.

1.5 million fully paid ordinary shares were issued on 3 July 2017. The Shares were issued pursuant to the shortfall facility of the Retail Entitlement Offer as at 30 June 2017.

As final settlement of the Management Fee to the Corporate Advisor for the one for four accelerated Entitlement Offer, it was agreed that 301,777 ordinary shares be provided at a value of \$42,249, down from 464,419 shares at \$65,018 at 30 June 2017. In addition, there was an adjustment to the placement fee paid to the Advisor on the completion of the raising. The net amount of the adjustment was for \$9,577.

(ii) Placement to raise \$7 million

On 11 October 2017, the Company announced an investment of \$3.5 million by a Chinese technology investor, Mr Xiadi Chen, by the issue of 25 million shares at 14 cents per share, that contemplated a further investment by Mr Chen of up to \$6.5 million at 19.217 cents per share. By mutual agreement, the Company has released Mr Chen from this commitment in lieu of a separate raising capped at \$3.5 million from other Chinese technology investors at the same issue price.

The non-associated investors are Madam Qing Li and Mr Qiang (Peter) Wei. Madam Li will subscribe for 10,407,452 shares (for \$2 million), taking her total shareholding in the Company to 22,907,452 shares, representing approximately 14.71% of the Company's issued share capital. Mr Wei will subscribe for 7,805,589 shares (for \$1.5 million), representing approximately 5.01% of the Company's issued share capital.

As announced on the ASX 28 February 2018, a total of 18,213,041 fully paid ordinary shares will be issued under the Company's current capacity per ASX listing rule 7.1. No options will be issued under this capital raising.

Shares issued on exercise options

As at 31 December 2017 there were 27,845,584 number of options outstanding. These options are considered to be antidilutive.

Shares issued on exercise of the Options will rank equally with the other issued Shares.

If there is any reconstruction of the issued share capital of the Company, the rights of the Option holder may be varied to comply with the Listing Rules which apply to the reconstruction at the time of the reconstruction.

There are no participation rights or entitlements inherent in the Options and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options.

The fair value of the options are valued at "grant date" using the Black-Scholes model.

Note 11 Earnings per share

	Consolidated 31 Dec 2017 \$	Consolidated 31 Dec 2016 \$
Loss after income tax	(1,595,110)	(1,895,046)
Loss after income tax attributable to the owners of Novatti Group Limited	(1,595,110)	(1,895,046)
Weighted average number of ordinary shares outstanding during the year:		
Number used in calculating Earnings Per Share	88,256,009	90,780,001
Number of potential ordinary shares that are considered to be antidilutive	33,548,533	35,336,960
Basic and diluted earnings per share	(1.81)	(2.09)

Note 12. Contingent liabilities

Contingency – Employee personal leave

For employees carried over from basis2, personal leave entitlement days' accrued were carried over to the Company. Where, in the first two years, an employee draws down personal leave entitlements in excess of their personal leave entitlements whilst accrued under the Company, they will be entitled to draw down against the personal leave days brought over from the vendor and Novatti will be entitled to charge back that expense to the vendor, Prophecy International Holdings Ltd.

Contingency – New client acquisition

Where the Company enters into an agreement to License the basis2 product to a specific named potential client within the first two years of the completion date, May 26 2017, Novatti will pay 10% of the Licence fee to the Vendor.

At 31 December 2017, there are no other known material contingent liabilities.

Note 13. Events after the reporting period

On 11 October 2017, the Company announced an investment of \$3.5 million by a Chinese technology investor, Mr Xiadi Chen, by the issue of 25 million shares at 14 cents per share, that contemplated a further investment by Mr Chen of up to \$6.5 million at 19.217 cents per share. By mutual agreement, the Company has released Mr Chen from this commitment in lieu of a separate raising capped at \$3.5 million from other Chinese technology investors at the same issue price.

The non-associated investors are Madam Qing Li and Mr Qiang (Peter) Wei. Madam Li will subscribe for 10,407,452 shares (for \$2 million), taking her total shareholding in the Company to 22,907,452 shares, representing approximately 14.71% of the Company's issued share capital. Mr Wei will subscribe for 7,805,589 shares (for \$1.5 million), representing approximately 5.01% of the Company's issued share capital.

As announced on the ASX 28 February 2018, a total of 18,213,041 fully paid ordinary shares will be issued under the Company's current capacity per ASX listing rule 7.1. No options will be issued under this capital raising.

There are no matters or circumstances that have arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 14. Fair value measurement

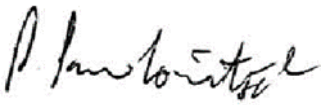
The net fair value of financial assets and liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly 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 2017 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 2018

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 2017, 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 2017 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 2017 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

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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.

A handwritten signature in blue ink that reads "William Buck".

William Buck Audit (Vic) Pty Ltd

ABN 59 116 151 136

A handwritten signature in blue ink, appearing to be "J. C. Luckins".

J. C. Luckins

Director

Dated this 28th day of February, 2018