Vection Technologies Ltd
Appendix 4D
Half-year report

1. Company details

Name of entity:	Vection Technologies Ltd
ACN:	614 814 041
Reporting period:	For the half-year ended 31 December 2023
Previous period:	For the half-year ended 31 December 2022

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	38.1%	to	10,929
Loss from ordinary activities after tax attributable to the owners of Vection Technologies Ltd	up	12.1%	to	(9,035)
Loss for the half-year attributable to the owners of Vection Technologies Ltd	up	12.1%	to	(9,035)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
The loss for the Group after providing for income tax and non-controlling interest amounted to $9,035,000 (31 December 2022: $8,060,000).

Further information on the 'Review of operations' is detailed in the Directors' report which is part of the Interim Report.

Supplementary information
This report should be read in conjunction with the Annual Financial Report of the Company for the year ending 30 June 2023 and any public announcements made by the Company since that date.

3. Net tangible assets

	31 Dec 2023 $'000	31 Dec 2022 $'000
Net assets	10,954	21,887
Less: Intangibles	(20,813)	(14,180)
Less: Right-of-use (ROU) assets	(227)	(361)
Add: Lease liabilities - current	195	183
Add: Lease liabilities - non-current	77	233
Net tangible assets	(9,814)	7,762
Number of ordinary shares on issue	1,126,588,969	1,126,588,969

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(0.87)	0.68

4. Control gained over entities

Name of entities (or group of entities)	Invrsion Srl
Date control gained	5 September 2023

Refer to note 15 'Business combinations' for further details.

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5. Loss of control over entities

Not applicable.

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6. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

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7. Dividend reinvestment plans

Not applicable.

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8. Details of associates and joint venture entities

Not applicable.

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9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Currently all accounting policies of the Group are consistent with those adopted by its ultimate holding company, Vection Technologies Ltd.

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10. 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, which includes a paragraph addressing a material uncertainty related to going concern, is attached as part of the Interim Report.

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11. Attachments

Details of attachments (if any):

The Interim Report of Vection Technologies Ltd for the half-year ended 31 December 2023 is attached.

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12. Signed

Signed ____________________________ Date: 29 February 2024

Mr Damian Banks
Chairman
Perth, Western Australia

Vection Technologies Ltd

ACN 614 814 041

Interim Report - 31 December 2023

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Vection Technologies Ltd (referred to hereafter as the 'Company', 'parent entity' or 'Vection') and the entities it controlled at the end of, or during, the half-year ended 31 December 2023.

Directors

The following persons were Directors of Vection Technologies Ltd during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Damian Banks	Non-Executive Director and Chairman (appointed 10 November 2023)
Mr Umberto (Bert) Mondello	Non-Executive Director (resigned as Chairman on 10 November 2023)
Mr Gianmarco Biagi	Managing Director and CEO
Mr Gianmarco Orgnoni	Executive Director, CSO and CMO
Mr Jacopo Merli	Executive Director and COO
Mr Lorenzo Biagi	Executive Director

Principal activities

During the period, the principal continuing activity of the Group consisted of developing and commercialising integrated digital transformation technology solutions and services part of its INTEGRATED**XR**® suite, including ICT infrastructure, kiosks, mixed reality ('MR'), augmented reality ('AR'), virtual reality ('VR'), computer-aided design ('CAD'), 3D modelling and renderings, and artificial intelligence ('AI').

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Review of operations

Financial performance

For the half-year ended 31 December 2023 ('1H FY24'), the loss for the Group after providing for income tax was $9,108,000 (31 December 2022 ('1H FY23'): $8,203,000).

Revenue

The Group reported revenue from operating activities in the period of $10,929,000 (1H FY23: $7,912,000), up 38% versus the previous corresponding period ('PCP').

EBITDA

The Group's EBITDA was a loss of $7,479,000 (1H FY23: EBITDA loss of $7,683,000). Underlying EBITDA was a loss of $4,226,000 (1H FY23: Underlying EBITDA loss of $2,834,000) in 1H FY24 and excludes the impairment of assets, share-based payments expense and non-operating items in relation to the cost-reduction program.

An impairment charge of $2,859,000 has been taken at 31 December 2023 in respect of goodwill and software for the acquisition of Mindesk, and a receivable due from MYR S.r.l.

Earnings before interest, taxation, depreciation, and amortisation ('EBITDA') and underlying EBITDA are financial measures that the Australian Accounting Standards do not prescribe. Underlying EBITDA represents the Group's underlying earnings from its operations. It is determined by adjusting the statutory net loss after tax for items that are non-cash or non-operating in nature. The directors consider EBITDA and underlying EBITDA to represent the core earnings of the Group. The table below reconciles net loss before tax, EBITDA, and underlying EBITDA.

	1H FY24 $'000	1H FY23 $'000	Variance $'000	Variance %
Revenue	10,929	7,912	3,017	38%
Other income and interests revenue	555	393	162	41%
Total revenue	11,484	8,305	3,179	38%
Total expenses	(20,534)	(16,390)	(4,144)	25%
Loss before income tax expense	(9,050)	(8,085)	(965)	12%

	1H FY24 $'000	1H FY23 $'000	Variance $'000	Variance %
Loss before income tax expense	(9,050)	(8,085)	(965)	12%
Add: Depreciation and amortisation expense	1,137	545	592	109%
Add: Finance costs	456	76	380	500%
Less: Interest revenue	(22)	(219)	197	(90%)
EBITDA	(7,479)	(7,683)	204	(3%)
Share-based payments expense	394	1,323	(929)	(70%)
Impairment of assets	2,859	3,526	(667)	(19%)
Underlying EBITDA (non-IFRS)	(4,226)	(2,834)	(1,392)	49%

Highlights for the Half-Year

Business highlights

During the first half of FY24, our Group has strategically secured several contracts that, while not immediately material in terms of margins, are pivotal for opening doors to more profitable opportunities ahead. The Group has invested in increased working capital and diligently worked towards reducing debt, aligning closely with customer payment schedules.

The Group is focused on delivering value to our customers by reducing their costs and improving their sales effectiveness. The period also saw the Group advancing towards a more sector-specific offering of our product, solution, and service suite, allowing us to deeply understand and address our customers' unique challenges and pain points.

In line with this direction, we've acquired Inversion, strengthening our technological and commercial proposition in the fashion and retail sector. Furthermore, we're finalising the acquisition of MYR, a move that promises to bring new technology into this key industry vertical.

Thanks to these efforts and an expanding pipeline of sales opportunities, we're confident in our ability to drive new sales in the second half of FY24. This confidence is bolstered by over $5.9 million in Total Contract Value ('TCV') secured during the first two months of the second half, underscoring our strategic rationale.

Geographically, our primary focus remains on the EMEA region, with APAC as our secondary market and AMER contributing the least to our revenue in the first half. However, we anticipate growth across all regions in the second half, with EMEA expected to continue as the leading revenue contributor for the foreseeable future.

Following the period's end, the Group announced a significant contract win valued at $4.9 million (€3.0 million) in TCV, expected to be fully recognised in the third quarter of FY24. This project, centred on cybersecurity-focused ICT infrastructure in collaboration with DELL, is expected to yield positive earnings, albeit with a modest impact on our EPS for FY24. This repeat order from the customer reaffirms our enduring capability to sustain and enhance client relationships, underpinned by our confidence in the customer's creditworthiness.

The contract's scope includes providing ICT solutions primarily to bolster cyber and data security for National Security Intelligence, positioning us as a key player within the Defence, Space, Military, and Law Enforcement market segment. This engagement solidifies our role in the customer's supply chain and opens the door to potential future projects.

Additionally, we've successfully executed three contracts totalling $971k in TCV across healthcare, retail, and real estate segments, with expected revenue recognition of $760k in the second half of FY24 and $210k in FY25-FY27. These contracts are anticipated to deliver a gross margin of 35%-45% before overhead and other costs, showcasing the efficiency and potential of our innovative technology solutions and services.

The first half of FY24 has seen us expand our customer base and fortify our position as a provider of innovative technology solutions and services. With a focus on executing new contracts and delivering solid results in the second half of FY24, we remain committed to driving growth and creating value for our stakeholders.

FY24 Outlook

The Group has a strong and growing pipeline for the second half of the fiscal year. Our focus for the rest of FY24 will be to achieve organic revenue growth in the selected industrial verticals. We aim to improve our operating results across the business while prioritising our customers' needs to deliver time and cost savings, mitigate risks, and empower them with actionable data.

Significant changes in the state of affairs
The Company completed the acquisition of fashion and retail focused XR company Invrsion S.r.l. In consideration for this acquisition, on 5 September 2023, the Company issued 1 performance right that is convertible into a maximum of 62 million shares in the Company if certain targets are met.

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

Principal business risks
The material business risks that could adversely affect the Group's financial performance and growth potential in future years and how the Group propose to mitigate such risks were detailed in the Annual Report at 30 June 2023. Those risks have been assessed up to the reporting date with no significant changes noted since then.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 immediately after this Directors' report.

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

Mr Damian Banks
Chairman

29 February 2024

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Vection Technologies Limited for the half-year ended 31 December 2023, 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.

RSM

RSM AUSTRALIA PARTNERS

MATTHEW BEEVERS
Partner

Perth, WA
Dated: 29 February 2024

	Note	31 Dec 2023 $'000	31 Dec 2022 $'000
Revenue	4	10,929	7,912
Other income		533	174
Interest revenue calculated using the effective interest method		22	219
Expenses			
Changes in inventories		168	-
Variable cost of sales		(9,184)	(4,662)
Employee benefits expense		(3,641)	(2,723)
Consulting and professional fees		(1,104)	(1,539)
Depreciation and amortisation expense		(1,137)	(545)
Impairment of assets	5	(2,859)	(3,526)
Share based payments	17	(394)	(1,323)
Other expenses	5	(1,927)	(1,996)
Finance costs	5	(456)	(76)
Total expenses		(20,534)	(16,390)
Loss before income tax expense		(9,050)	(8,085)
Income tax expense		(58)	(118)
Loss after income tax expense for the half-year		(9,108)	(8,203)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		477	194
Other comprehensive income for the half-year, net of tax		477	194
Total comprehensive income for the half-year		(8,631)	(8,009)
Loss for the half-year is attributable to:			
Non-controlling interest		(73)	(143)
Owners of Vection Technologies Ltd		(9,035)	(8,060)
		(9,108)	(8,203)
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		-	-
Owners of Vection Technologies Ltd		(8,631)	(8,009)
		(8,631)	(8,009)
		Cents	Cents
Basic earnings per share	16	(0.802)	(0.901)
Diluted earnings per share	16	(0.802)	(0.901)

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

	Note	31 Dec 2023 $'000	30 Jun 2023 $'000
Assets			
Current assets			
Cash and cash equivalents		5,192	11,359
Trade and other receivables	6	11,503	13,648
Inventories		1,103	676
Total current assets		17,798	25,683
Non-current assets			
Property, plant and equipment		1,179	550
Right-of-use assets		227	322
Intangibles assets	7	20,813	15,463
Financial assets	13	64	84
Total non-current assets		22,283	16,419
Total assets		40,081	42,102
Liabilities			
Current liabilities			
Trade and other payables	8	11,205	10,969
Borrowings	9	7,977	8,114
Lease liabilities		195	211
Employee benefits		115	72
Income tax payable		309	16
Total current liabilities		19,801	19,382
Non-current liabilities			
Borrowings	9	1,744	2,194
Lease liabilities		77	164
Employee benefits		686	544
Deferred tax liabilities		619	627
Other financial liabilities	13,15	6,200	-
Total non-current liabilities		9,326	3,529
Total liabilities		29,127	22,911
Net assets		10,954	19,191
Equity			
Issued capital	10	46,592	46,592
Reserves	11	8,092	7,221
Accumulated losses		(42,946)	(33,911)
Equity attributable to the owners of Vection Technologies Ltd		11,738	19,902
Non-controlling interest		(784)	(711)
Total equity		10,954	19,191

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

	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2022	44,611	11,181	(27,336)	(479)	27,977
Loss after income tax expense for the half-year	-	-	(8,060)	(143)	(8,203)
Other comprehensive income for the half-year, net of tax	-	194	-	-	194
Total comprehensive income for the half-year	-	194	(8,060)	(143)	(8,009)
Transactions with owners in their capacity as owners:					
Issued share capital, net of transaction cost	126	-	-	-	126
Vesting/lapsed of performance rights	1,205	(6,083)	5,348	-	470
Share based payments	-	1,323	-	-	1,323
Balance at 31 December 2022	45,942	6,615	(30,048)	(622)	21,887

	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2023	46,592	7,221	(33,911)	(711)	19,191
Loss after income tax expense for the half-year	-	-	(9,035)	(73)	(9,108)
Other comprehensive income for the half-year, net of tax	-	477	-	-	477
Total comprehensive income for the half-year	-	477	(9,035)	(73)	(8,631)
Transactions with owners in their capacity as owners:					
Share-based payments (note 11)	-	394	-	-	394
Balance at 31 December 2023	46,592	8,092	(42,946)	(784)	10,954

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

	Note	31 Dec 2023 $'000	31 Dec 2022 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		14,910	6,879
Payments to suppliers and employees (inclusive of GST)		(18,441)	(7,997)
Interest received		22	219
Interest paid		(456)	(76)
Income taxes refunded		227	5
Net cash used in operating activities		(3,738)	(970)
Cash flows from investing activities			
Payments for property, plant and equipment		(767)	(88)
Payments for intangibles	7	(1,094)	(1,072)
Payments for other financial assets - term deposits		-	(8,000)
Net cash used in investing activities		(1,861)	(9,160)
Cash flows from financing activities			
Proceeds from borrowings		7,471	-
Repayment of borrowings		(8,058)	(194)
Repayment of lease liabilities		(68)	(34)
Net cash used in financing activities		(655)	(228)
Net decrease in cash and cash equivalents		(6,254)	(10,358)
Cash and cash equivalents at the beginning of the financial half-year		11,359	14,869
Effects of exchange rate changes on cash and cash equivalents		87	646
Cash and cash equivalents at the end of the financial half-year		5,192	5,157

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

Note 1. General information

The financial statements cover Vection Technologies Ltd as a Group consisting of Vection Technologies Ltd and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Vection Technologies Ltd's functional and presentation currency.

Vection Technologies Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4, Building C,
Garden Office Park,
355 Scarborough Beach Road,
Osborne Park WA 6017

A description of the nature of the Group'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 29 February 2024.

Note 2. Material accounting policy information

These general purpose financial statements for the interim half-year reporting period ended 31 December 2023 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 general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023 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.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial half-year ended 31 December 2023 and are not expected to have a significant impact for the full financial year ending 30 June 2024.

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

Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the six months ended 31 December 2023, the Group incurred a loss after tax of $9,108,000 and reported net cash used in operating activities of $3,738,000 and net cash used in investing activities of $1,861,000. As at 31 December 2023, the Group's current liabilities exceed its current assets by $2,003,000, generating material uncertainty with respect to the Group's ability to continue as a going concern and therefore its ability to realise its assets and settle its liabilities in the ordinary course of business and at the amounts set out in the financial statements.

The Directors have prepared a cash flow forecast, which indicates that the Group will have sufficient cash flows to meet its commitments and working capital requirements for the 12-month period from the date of signing this financial report.

Note 2. Material accounting policy information (continued)

The ability of the Group to continue as a going concern is principally dependent on the following:

- increased sales, underpinned initially by certain client orders and sales opportunities assessed by Directors as being reasonably probable to convert and later in the cash flow forecast by reference to their assessment of market opportunities;
- measures to be implemented to improve gross margins, including improved efficiencies in product and service delivery; and
- cost reductions across business units arising from management restructure and other cost minimisation measures, either recently implemented or to be implanted in coming months.

In addition to this, should the Group require any financing facilities, the Directors anticipate the availability of further funding, as needed, to be available through equity or debt raisings.

Based on the cash flow forecasts and other factors referred to above, the Directors are satisfied that the going concern basis of preparation is appropriate. In particular, given the Group's history of raising capital to date, the Directors are confident of the Group's ability to raise additional funds as and when they are required.

The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Note 3. Operating segments

Identification of reportable operating segments
The CODM reviews the Group's performance from a core operations perspective and two reportable segments of its continuing operations, being IT and outsourced services. These operating 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. There is no aggregation of operating segments. 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 a monthly basis.

Segment revenue and results
Segment revenue reported above represents revenue generated from external customers. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit before tax earned by each segment without allocation of central corporate and administration costs, employee benefits, depreciation and amortisation, and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities
All assets are allocated to reportable segments other than cash, GST receivables, office equipment, and certain other receivables. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments. All liabilities are allocated to reportable segments other than borrowings, and corporate creditors. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Note 3. Operating segments (continued)

Operating segment information

31 Dec 2023	IT $'000	Outsourced services $'000	Corporate $'000	Total $'000
Revenue				
Sales to external customers	9,949	980	-	10,929
Total revenue	9,949	980	-	10,929
Segment expenses	(13,781)	(2,036)	(4,162)	(19,979)
Loss before income tax expense	(3,832)	(1,056)	(4,162)	(9,050)
Income tax expense				(58)
Loss after income tax expense				(9,108)
Assets				
Segment assets	34,641	1,276	4,164	40,081
Intersegment eliminations				-
Total assets				40,081
Liabilities				
Segment liabilities	25,081	1,074	2,972	29,127
Intersegment eliminations				-
Total liabilities				29,127

31 Dec 2022	IT $'000	Outsourced services $'000	Corporate $'000	Total $'000
Revenue				
Sales to external customers	5,976	1,936	-	7,912
Total revenue	5,976	1,936	-	7,912
Segment expenses	(7,813)	(1,888)	(6,296)	(15,997)
Profit/(loss) before income tax expense	(1,837)	48	(6,296)	(8,085)
Income tax expense				(118)
Loss after income tax expense				(8,203)

Note 4. Revenue

	31 Dec 2023 $'000	31 Dec 2022 $'000
Revenue from contracts with customers	10,929	7,912

Note 4. Revenue (continued)

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	31 Dec 2023 $'000	31 Dec 2022 $'000
Major product lines		
INTEGRATEDXR® solutions and services	10,929	7,912
Geographical regions		
EMEA represents the geographical area composed by Europe, Middle East and Africa.	10,166	5,748
APAC represents the geographical area composed by Australia and the Asia-Pacific region	750	2,124
AMER represents the geographical area composed by North America and South America	13	40
	10,929	7,912
Timing of revenue recognition		
Goods transferred at a point in time	9,938	5,992
Services transferred over time	991	1,920
	10,929	7,912

Note 5. Expenses

	31 Dec 2023 $'000	31 Dec 2022 $'000
Loss before income tax includes the following specific expenses:		
Impairment of assets		
Goodwill (refer note 7)	761	955
Software patents and development costs (refer note 7)	1,591	2,526
Expected credit losses	507	45
Total impairment of assets	2,859	3,526
Other expenses		
Advertising and marketing expenses	561	584
Corporate and administrative expenses	1,099	883
Rent expenses	394	346
Net foreign exchange (gain)/loss	(127)	183
	1,927	1,996
Finance costs		
Interest and finance charges paid/payable on borrowings	324	76
Interest and finance charges paid/payable on lease liabilities	132	-
Finance costs expensed	456	76

Note 6. Trade and other receivables

	31 Dec 2023 $'000	30 Jun 2023 $'000
Current assets		
Trade receivables	8,604	12,026
Less: Allowance for expected credit losses	(685)	(231)
	7,919	11,795
Other receivables	3,099	1,352
Prepayments	485	501
	3,584	1,853
	11,503	13,648

Note 7. Intangibles

	31 Dec 2023 $'000	30 Jun 2023 $'000
Non-current assets		
Goodwill - at cost	10,078	8,682
Less: Impairment	(1,734)	(973)
	8,344	7,709
Intellectual property - at cost	2,825	2,825
Less: Impairment	(1,892)	(1,892)
	933	933
Patents and licences - at cost	2,223	-
Less: Accumulated amortisation	(79)	-
	2,144	-
Other intangible assets (software and development costs) - at cost	14,881	10,473
Less: Accumulated amortisation	(2,647)	(2,401)
Less: Impairment	(2,842)	(1,251)
	9,392	6,821
	20,813	15,463

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

	Goodwill $'000	Intellectual property $'000	Patent and licences $'000	Other intangibles $'000	Total $'000
Balance at 1 July 2023	7,709	933	-	6,821	15,463
Additions	-	-	-	1,094	1,094
Additions through business combinations (note 15)	1,351	-	2,223	3,873	7,447
Exchange differences	45	-	-	-	45
Impairment of assets	(761)	-	-	(1,591)	(2,352)
Amortisation expense	-	-	(79)	(805)	(884)
Balance at 31 December 2023	8,344	933	2,144	9,392	20,813

Note 7. Intangibles (continued)

Goodwill impairment testing
As at 31 December 2023, the Group has undertaken a review for indicators of significant impairment since 30 June 2023 to determine whether a more detailed impairment test is required. As a consequence of this review, detailed impairment testing was undertaken with respect to the Vection Italy and Mindesk CGUs. The recoverable amount of the cash-generating units ('CGUs') was determined by a value-in-use calculation using a discounted cash flow model, based on a five to seven year project period together with a terminal value approved by management. The forecast budget process was developed based on revenue expectations on existing customer contracts along with ongoing opportunities. Key assumptions are those to which the recoverable amount of an asset or cash-generating unit is most sensitive. The following key assumptions were used in the discounted cash flow models as at 31 December 2023:

	Vection Italy	Mindesk Group
Pre-tax discount rate	22.50%	20.30%
Average projected revenue growth rate	42.00%	28.00%
Cash flow growth rate for terminal value	2.00%	2.00%
EUR to AUD exchange rate	0.6097	0.6097

The discount rate of pre-tax reflects management's estimate of the time value of money and the Group's weighted average cost of capital adjusted for the division, the risk-free rate and volatility of the share price relative to market movements.

Management believes the above-projected revenue growth rate is reasonable based on the following factors:
(i) New salespeople hired in the local market;
(ii) Cisco partnership creating increased opportunities across product suite;
(iii) Tenders already in the pipeline which, if won will create further visibility; and
(iv) Client opportunities are currently being negotiated.

Based on the above, no goodwill impairment expense was recorded other than in relation to Mindesk CGU of $761,000, since the recoverable amounts of other CGUs exceeded the carrying amounts. In determining the other intangible assets impairment, management have concluded that the carrying amount of software within the Mindesk Group CGU exceed its recoverable amount and resulted in an impairment of $1,591,000.

The Directors have made judgements and estimates in respect of impairment testing have been made. Should these judgments and estimates not occur the recoverable amount of the CGUs may be lower than the carrying amount. The sensitivities are as follows:

	Vection Italy
Increase in pre-tax discount rate to:	>29.50%
Decrease in average projected revenue growth rate to:	<22.00%

As a consequence of this review, formal impairment testing was undertaken with respect to the Vection Italy and Mindesk Group CGUs.

Note 8. Trade and other payables

	31 Dec 2023 $'000	30 Jun 2023 $'000
Current liabilities		
Trade payables	7,803	10,212
Sundry creditors and accruals	3,402	757
	11,205	10,969

Note 9. Borrowings

	31 Dec 2023 $'000	30 Jun 2023 $'000
Current liabilities		
Bank loans	7,896	8,114
Insurance premium funding	81	-
	7,977	8,114
Non-current liabilities		
Bank loans	1,744	2,194
	9,721	10,308

Bank loans - the terms of the borrowings are as follow:

Entity	Bank	Type of facility	Interest rate %	Expiry date	Balance $'000
Vection Italy	Banco BPM	Bank loan *	1.25%	6 June 2026	25
Vection Italy	Intesa San Paolo	Bank loan **	1.75%	9 June 2026	132
Vection Italy	BPER	Invoice finance	4.90%	short-term	98
Vection Italy	Intesa San Paolo	Invoice finance	8.20%	short-term	563
Vection Italy	Intesa San Paolo	Invoice finance	3.12%	short-term	404
Vection Health	Intesa San Paolo	Invoice finance	5.57%	short-term	81
JMC	Banco BPM	Bank loan **	1.25%	13 August 2026	914
JMC	MPS	Bank loan **	0.45%	31 October 2026	749
JMC	Dell Financial	Bank loan ***		May 2026	305
JMC	IFIS per digital	Cessione del credito	7.70%	short-term	123
JMC	UNICREDIT	Invoice finance	5.90%	short-term	467
JMC	MPS	Invoice finance	3.60%	short-term	2,424
JMC	BPM	Invoice finance	5.60%	short-term	805
JMC	BPER	Invoice finance	4.70%	short-term	586
JMC	Intesa San Paolo	Invoice finance	4.11%	short-term	1,284
Xinntex	Banco BPM	Bank loan **	1.40%	11 March 2027	277
Xinntex	BPM	Invoice finance	5.60%	short-term	17
Invrsion	BPER	Invoice finance	4.42%	short-term	5
Invrsion	BPER	Cash overdraft	3.91%	short-term	16
Invrsion	Intesa San Paolo	Invoice finance	6.70%	short-term	145
Invrsion	BNL	Bank loan	7.23%	30 June 2026	220
					9,640

*	Fixed rate
**	Variable rate
***	There are four financing facilities at 3 years each and at interest rate of 1.99%, 1.99% 4.39% and 13.08%, respectively.

Insurance premium funding
The facility, used to fund the Group's insurance premiums, has a term of 12 months and is repaid in monthly instalments.

Assets pledged as security
The bank loans are secured by first mortgages over the Group's assets.

Note 9. Borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	31 Dec 2023 $'000	30 Jun 2023 $'000
Total facilities		
Bank loans	11,232	10,308
Used at the reporting date		
Bank loans	9,640	10,308
Unused at the reporting date		
Bank loans	1,592	-

Note 10. Issued capital

	31 Dec 2023 Shares	30 Jun 2023 Shares	31 Dec 2023 $'000	30 Jun 2023 $'000
Ordinary shares - fully paid	1,126,588,969	1,126,588,969	46,592	46,592

Ordinary shares
Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Note 11. Reserves

	31 Dec 2023 $'000	30 Jun 2023 $'000
Share-based payments reserve	7,829	7,435
Foreign currency reserve	263	(214)
	8,092	7,221

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Note 11. Reserves (continued)

Movements in reserves
Movements in each class of reserve during the current financial half-year are set out below:

	Share-based payments $'000	Foreign currency $'000	Total $'000
Balance at 1 July 2023	7,435	(214)	7,221
Foreign currency translation	-	477	477
Performance rights	394	-	394
Balance at 31 December 2023	7,829	263	8,092

Note 12. Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 13. Fair value measurement

Fair value hierarchy
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

31 Dec 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Listed equity shares at fair value to profit or loss ('FVTPL')	35	-	-	35
Interest rate swap (derivative financial instruments)	-	-	29	29
Total assets	35	-	29	64
Liabilities				
Contingent consideration - rights to be issued (note 15)	-	-	6,200	6,200
Total liabilities	-	-	6,200	6,200

30 Jun 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Listed equity shares at fair value to profit or loss ('FVTPL')	28	-	-	28
Interest rate swap (derivative financial instruments)	-	-	56	56
Total assets	28	-	56	84

There were no transfers between levels during the financial half-year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Due to the nature of contingent consideration and derivative financial instruments it have been categorised as Level 3.

Note 13. Fair value measurement (continued)

Contingent consideration represents the obligation to pay additional amounts to vendors in respect of businesses acquired by the Group, subject to certain conditions being met. It is measured based on the likelihood of the rights' performance hurdles being met during the periods. The fair value of contingent consideration is calculated on the expected future cash outflows. Generally, the contingent consideration is a performance based payment. These are reviewed at the reporting date to provide the expected future cash outflows for each contract.

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current financial half-year are set out below:

	Contingent consideration $'000	Interest rate swap $'000	Total $'000
Balance at 1 July 2023	-	56	56
Gains recognised in profit or loss	-	27	27
Additions through business combinations (note 15)	6,200	-	6,200
Balance at 31 December 2023	6,200	83	6,283

The level 3 assets and liabilities unobservable inputs and sensitivity have been measured based on the likelihood of the performance hurdles being met during the periods.

Note 14. Contingent liabilities

The Company had no contingent liabilities as at 31 December 2023 (30 June 2023: $nil).

Note 15. Business combinations

Invrsion Srl
On 5 September 2023, the Company issued 1 performance right, which will convert into up to 62M shares on achievement of milestones, as consideration of the acquisition of Invrsion Srl ('the Business'). The Business operates in the virtual reality market and is a prominent technology company specialising in 3D and mixed reality solutions for the fashion, retail, consumer goods and real estate sectors, which was acquired to enhance the Company's position as a leader in the integrated-extended reality ('**XR**') technology space, providing customers with innovative XR solutions and unlocking new organic growth opportunities. The goodwill of $1,351,000 represents the expected synergies from merging this business with the wider Vection Group. The acquired Business contributed revenues of $499,000 and loss after tax of $112,000 to the Group for the period from 5 September 2023 to 31 December 2023. If the acquisition occurred on 1 July 2023 the half year contributions would have been revenues of $558,000 and profit after tax of $337,000.

The consideration transferred is represented by the performance right, which converts into fully paid ordinary shares in VR1 ('**Shares**') subject to Matteo Esposito ('**Invrsion CEO**') remaining employed until 30 June 2026 ('**Performance Right**').

The terms of the contingent consideration are as follows:
Vection will issue one Performance Right which will convert into a number of shares that is equal to the lesser of:

(i) The total of:
   a) 0.95 times the audited revenue for the Business for the financial year ending 30 June 2023;
   b) 2 times the audited revenue for the Business for the financial year ending 30 June 2024;
   c) 2 times the audited revenue for the Business for the financial year ending 30 June 2025; and
   d) 1.5 times the audited revenue for the Business for the financial year ending 30 June 2026;

   and
(ii) EUR 4,000,000;

Note 15. Business combinations (continued)

divided by the greater of $0.10 and the volume-weighted average price ('VWAP') 10 days prior of the revenue results being announced to the market. The FX rate will be at the average RBA rate, capped at EUR1 to AUD1.55.

The Performance Right will only convert into shares if alternatively;
- Matteo Esposito (Invrsion CEO) remains employed or engaged by Invrsion S.r.l. or Vection until 30 June 2026; or
- Matteo Esposito ceases employment with Invrsion S.r.l. but is not a bad leaver.

Schedule 3 of the Acquisition Agreement contains a copy of a separate Employment Agreement for Matteo Esposito.

Taking into an assessment of the range of possible outcomes noted above, the fair value of the above contingent consideration has been provisionally determined as $6,200,000.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	4
Trade and other receivables	452
Plant and equipment	54
Intangible assets	6,096
Trade and other payables	(1,073)
Employee benefits	(85)
Borrowings	(599)
Net assets acquired	4,849
Goodwill	1,351
Acquisition-date fair value of the total consideration transferred	6,200
Representing:	
Right issued as a consideration	6,200

The Business's assets and liabilities' fair value have been measured provisionally. If new information is obtained within one year of the date of the acquisition about facts and circumstances that existed at the date of acquisition resulting in adjustments to the amount above, the accounting for the acquisition will be revised.

Note 16. Earnings per share

	31 Dec 2023 $'000	31 Dec 2022 $'000
Loss after income tax	(9,108)	(8,203)
Non-controlling interest	73	143
Loss after income tax attributable to the owners of Vection Technologies Ltd	(9,035)	(8,060)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,126,588,969	894,509,025
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,126,588,969	894,509,025
	Cents	**Cents**
Basic earnings per share	(0.802)	(0.901)
Diluted earnings per share	(0.802)	(0.901)

Note 16. Earnings per share (continued)

32,500,000 (2022: 59,006,452) options and 23,295,612 (2022: 23,295,611) performance rights over ordinary shares are not included in the calculation of diluted earnings per share because they are anti-dilutive for the half-year ended 31 December 2023. These options could potentially dilute basic earnings per share in the future.

Note 17. Share-based payments

Shares are granted under the Long Term Incentive Plan ('LTIP'), which has been established by the Group. Subject to the ASX listing rules and under the terms of the LTIP, the Board may grant options and/or performance rights (options with a zero exercise price and performance conditions) to eligible participants ('awards'). Each award granted represents a right to receive one share once the award vests and is exercised by the relevant participant. The vesting of the options are contingent upon various company performance and term-of-service metrics.

No share rights were granted during the six months at 31 December 2023 (other than as set out in Note 15). The share based payment expense recognised during the period in profit or loss was $394,000 (2022: $1,323,000).

Options
Options are issued to employees under the Company's LTIP, vesting upon the achievement of performance and term-of service related criteria.

Set out below are summaries of options granted under the plan:

	Number of options 31 Dec 2023	Weighted average exercise price 31 Dec 2023	Number of options 31 Dec 2022	Weighted average exercise price 31 Dec 2022
Outstanding at the beginning of the financial half-year	59,006,452	$0.00	59,006,452	$0.00
Expired	(26,506,452)	$0.11	-	$0.00
Outstanding at the end of the financial half-year	32,500,000	$0.25	59,006,452	$0.00
Exercisable at the end of the financial half-year	32,500,000	$0.25	-	$0.00

Performance rights
Performance rights are issued to directors and corporate advisor under the Company's LTIP for nil consideration, vesting upon the achievement of performance and term-of-service related criteria. Refer to note 15 'Business combinations' for further details on the performance rights granted during the half-year ended 31 December 2023.

Set out below are summaries of performance rights granted under the plan:

	Number of rights 31 Dec 2023	Weighted average exercise price 31 Dec 2023	Number of rights 31 Dec 2022	Weighted average exercise price 31 Dec 2022
Outstanding at the beginning of the financial half-year	23,295,611	$0.00	85,893,417	$0.00
Granted (refer note 15)	1	$0.00	-	$0.00
Vested	-	$0.00	(11,377,791)	$0.00
Lapsed	-	$0.00	(51,220,015)	$0.00
Outstanding at the end of the financial half-year	23,295,612	$0.00	23,295,611	$0.00
Exercisable at the end of the financial half-year	-	$0.00	-	$0.00

Note 18. Events after the reporting period

No matter or circumstance has arisen since 31 December 2023 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.

In the Directors' opinion:

- 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 Group's financial position as at 31 December 2023 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

Mr Damian Banks
Chairman

29 February 2024

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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF VECTION TECHNOLOGIES LIMITED

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of Vection Technologies Limited (**Company**) and its subsidiaries (**Group**), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the 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 Group comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Vection Technologies Limited is not in accordance with the *Corporations Act 2001* including:

(a) Giving a true and fair view of the Group's financial position as at 31 December 2023 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibility for the review of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (**Code**) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Vection Technologies Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material uncertainty related to going concern

We draw attention to Note 2 in the interim financial report, which indicates that the Group incurred a net loss of $9.1 million, had net cash outflows from operating activities of $3.7 million and net cash outflows from investing activities of $1.9 million for the half-year ended 31 December 2023. As at 31 December 2023, the Group's current liabilities exceed it current assets by $2.0m. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the interim financial report

The directors of Vection Technologies Limited are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2023 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*.

A review of an interim 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.

RSM

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 29 February 2024

MATTHEW BEEVERS
Partner