

Harris Technology Group Limited
ABN 93 085 545 973

Appendix 4D and Half-Year Report
For the half year ended 31 December 2017

Lodged with ASX under Listing Rule 4.2A

For personal use only

Harris Technology Group Limited

ABN 93 085 545 973

Current reporting period: 1 July 2017 to 31 December 2017

Previous corresponding period: 1 July 2016 to 31 December 2016

Results for Announcement to the Market

| | | % Change from previous corresponding period | | Current reporting period \$A |
|--|------|--|----|---------------------------------------|
| Revenues from ordinary activities | down | 10.93 | to | 22,848,229 |
| Profit from ordinary activities after tax attributable to members | up | 63.17 | to | (1,072,160) |
| Profit for the period attributable to members | up | 63.17 | to | (1,072,160) |
| Dividends (distributions) | | | | |
| | | Amount per share | | Franked amount per share |
| Final dividend | | | | |
| Interim dividend | | Nil ¢ | | Nil ¢ |
| Previous corresponding period | | Nil ¢ | | Nil ¢ |
| Record date for determining entitlements to the dividends | | N/A | | |

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Revenue for the half year ended 31 December 2017 was \$22,848,229, a decrease of 10.93% over the previous corresponding period (2016: \$25,652,846).

Net loss from continuing operations was \$1,072,160, a reduction in loss of 63.17% over the previous corresponding period (2016: operating net loss of \$2,911,000).

The Company does not propose to pay a dividend. No dividend or distribution plans are in operation.

| Net tangible assets | Dec 2017 | June 2017 |
|---|--------------|--------------|
| Net tangible assets per ordinary security | (1.84) cents | (1.19) cents |

Review opinion

This report is based on accounts which have been independently reviewed by the Company's external auditors. A copy of the directors' report and financial statements, together with the auditor's review report, is attached.

Other information required by Listing Rule 4.2A

Other information requiring disclosure to comply with Listing Rule 4.2A is contained in the accompanying half-yearly report for the period ended 31 December 2017.

This half-yearly reporting information should be read in conjunction with the most recent annual financial report of the Company.

HARRIS TECHNOLOGY GROUP LIMITED & CONTROLLED ENTITIES

DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2017

The Directors present their report together with the condensed financial report of the consolidated entity of Harris Technology Group Limited and the entities it controlled (**Group**) for the half-year ended 31 December 2017 (**H1 FY18**) and independent auditor's review report thereon. This financial report has been prepared in accordance with AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*.

Directors

The names of the Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

| | |
|--------------------------|--|
| Andrew Plympton | Non-Executive Chairman |
| Garrison Huang | Managing Director & Chief Executive Officer |
| Bob Xu | Executive Director |
| Mark Gouloupoulos | Non-Executive Director <i>Mr Gouloupoulos retired from the Board on 13 September 2017</i> |
| Howard Chen | Non-Executive Director |
| Company Secretary | Alyn Tai |

Principal activities

The Group's principal activities during the course of the half-year were in the area of online retailing and distribution. There has been no significant change in the nature of these activities during the half-year.

Review and results of operations

Revenue for the half year ended 31 December 2017 was \$22,848,229, a decrease of 10.93% over the previous corresponding period (H1 FY17: \$25,652,846).

Net loss from continuing operations was \$1,072,160, a reduction in loss of 63.17% over the previous corresponding period (H1 FY17: \$2,911,000 (H1 FY17 net loss reflected a non-cash impairment expense of \$3,117,482)).

The Group's H1 FY18 results reflect a decline in sales performance and margins, due to the following factors:

- Sales revenues were impacted by challenging retail conditions and a general slowdown in IT spending.
- During the half year, the Group experienced a high level of competition and an increase in customer rebates (including a one-off rebate payment of \$213K made to a major customer), which adversely impacted margins.
- Whilst the Group continued to implement a cost reduction strategy during the period, including through:
 - the closure of the South Australian warehouse and consolidation of South Australian operations with the Group's Victorian operations; and
 - reducing the Group's headcount through redundancies,

the H1 FY18 results also reflect one-off payroll expenses of \$65K arising from the redundancies which were incurred by the Group during the period. The Group expects to realise the benefits from its cost reduction initiatives in the longer term.

- The H1 FY18 results reflect an increase in the Group's financing costs due to ongoing loan interest repayments.

Outlook

Due to the Group's H1 FY18 results performing below expectations, the Board considers it unlikely that the Group will achieve a positive EBITDA result for the full financial year, as previously forecasted.

Notwithstanding this, the Board retains a positive trading outlook for the remainder of FY18, for the following reasons:

- Due to the seasonality of the Group's business, the Group's results are traditionally stronger during the second half. An uplift in sales and orders performance has been observed in January and February 2018, and the Board expects that this positive trend will continue during the remainder of the financial year.
- The Group continues to execute on its margin management initiatives through price reviews of existing product ranges, as well as cost reduction initiatives; the Board expects that the benefits of these initiatives will be realised during the second half.
- The Group continues to identify and implement initiatives to enable it to adapt to changing market conditions and remain competitive in a challenging industry. These initiatives include:
 - *Product range expansion:* The Group undertakes regular reviews of its product ranges, and has identified a market demand for cryptocurrency mining hardware products. The Group is exploring opportunities to commence distribution of these hardware products in the Australian market.
 - *Implementation of Manufacturer-To-Consumer (M2C) strategy:* The M2C model consists of drop-shipping orders from manufacturers directly to consumers. In Harris Technology Group's case, the Group will be able to leverage its strong existing business relationships in China, allowing products to be sourced directly from manufacturers in China and delivered to Australian consumers via drop-ship. The consumers will benefit from the Group's Australian based customer support and warranty team.

As announced on 31 January 2018, the Company has entered into a M2C joint venture agreement with Wong Sun Hing Limited (**WSH**). Under the incorporated joint venture, which is in the process of being formally established, the Company will work with Wanling Square Shopping Mall based in Guangzhou, China (a subsidiary of WSH) to offer a comprehensive range of products covering toys, home decoration, fashion, travel goods, office stationery and textiles to Australian consumers via the M2C cross border strategy. Revenue generation from this joint venture is expected to commence in late FY18.

The Group's objective is to be a leader in the local growing M2C landscape, and to achieve sustainable revenue growth through the further development of this scalable business model.

Significant changes in the state of affairs

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

Events Occurring After the Reporting Period

As announced on 31 January 2018, the Company has entered into a M2C joint venture agreement with WSH. The incorporated joint venture is in the process of being formally established. The initial cash contribution from the Company to the joint venture is HKD\$306,000 (AUD\$50,000).

On 28 February 2018, a loan holder agreed to convert \$742,204 of unsecured loans to equity.

No other matters or circumstances have arisen since the end of the reporting period which significantly affects the operations of the consolidated group, results of these operations, or the state of affairs of the consolidated group in future financial periods.

Auditor's Independence Declaration

The Auditor's Independence Declaration under section 307C of the Corporation Act 2001 is included on the following page and forms part of Harris Technology Group Limited's Directors' report for the period from 1 July 2017 to 31 December 2017.

Signed for and on behalf of the Directors in accordance with a resolution of the Board.



Andrew Plympton
Non-Executive Chairman
28 February 2018

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Harris Technology Group Limited for the half year ended 31 December 2017, 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 AUSTRALIA PARTNERS



J S CROALL
Partner

Dated: 28 February 2018
Melbourne, Victoria

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

| | Notes | Half Year to 31-Dec-17 \$ | Half Year to 31-Dec-16 \$ |
|---|-------|---------------------------------|---------------------------------|
| Revenue | | | |
| Sales revenue | | 22,848,229 | 25,652,846 |
| Direct costs | | (19,608,032) | (20,788,008) |
| Gross profit | | 3,240,197 | 4,864,838 |
| Other income | 2 | 111,283 | 3,166 |
| Distribution expenses | | (392,974) | (499,978) |
| Marketing expenses | | (111,124) | (144,142) |
| Transaction expenses | | (94,081) | (160,072) |
| Employee contractor and director expenses | | (2,571,090) | (2,544,981) |
| Occupancy costs | | (587,292) | (443,297) |
| Technology expenses | | (69,024) | (337,565) |
| Holding company expenses | | (202,376) | (200,936) |
| Depreciation and amortisation expenses | | (77,212) | (131,603) |
| Impairment expense | | - | (3,117,482) |
| Other expenses | | (73,468) | (49,167) |
| Finance costs | | (188,348) | (102,146) |
| Exchange gain / (loss) | | (56,651) | (47,635) |
| Profit / (Loss) before income tax | | (1,072,160) | (2,911,000) |
| Income tax benefit / (expense) | | - | - |
| Profit / (Loss) from continuing operations | | (1,072,160) | (2,911,000) |
| Other Comprehensive Income | | - | - |
| Total Comprehensive (loss) / profit for the period | | (1,072,160) | (2,911,000) |
| Earnings per share from continuing operations (cents per share) | | | |
| - Basic earnings/(loss) per share | 7 | (0.77) | (2.40) |
| - Diluted earnings/(loss) per share | 7 | (0.77) | (2.40) |

The accompanying notes form part of these financial statements.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

| | Notes | Consolidated 31-Dec-17 \$ | Consolidated 30-Jun-17 \$ |
|--------------------------------------|-------|---------------------------------|---------------------------------|
| Current Assets | | | |
| Cash and cash equivalents | | 1,421,311 | 2,219,264 |
| Trade and other receivables | | 5,537,742 | 5,979,589 |
| Inventories | | 6,127,805 | 7,238,240 |
| Prepayments and deposits | | 145,891 | 100,580 |
| Total Current Assets | | 13,232,749 | 15,537,673 |
| Non-current Assets | | | |
| Property, plant and equipment | | 783,967 | 844,910 |
| Intangible Assets | | 3,992 | 22,028 |
| Total Non-current Assets | | 787,959 | 866,938 |
| Total Assets | | 14,020,708 | 16,404,611 |
| Current Liabilities | | | |
| Trade and other payables | | 7,188,145 | 8,923,541 |
| Financial liability | 3 | 4,276,294 | 4,355,881 |
| Employee benefit liabilities | | 577,097 | 462,788 |
| Total Current Liabilities | | 12,041,536 | 13,742,210 |
| Non-current Liabilities | | | |
| Financial liability | 3 | 4,493,014 | 4,251,422 |
| Employee benefit liabilities | | 41,538 | 40,498 |
| Total Non-current Liabilities | | 4,534,552 | 4,291,920 |
| Total Liabilities | | 16,576,088 | 18,034,130 |
| Net Assets | | (2,555,380) | (1,629,519) |
| Equity | | | |
| Contributed equity | 4 | 6,852,710 | 6,706,411 |
| Accumulated profit / (loss) | | (9,408,090) | (8,335,930) |
| Total equity | | (2,555,380) | (1,629,519) |

The accompanying notes form part of these financial statements.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

| | Share Capital | Retained earnings | Total Equity |
|-----------------------------------|------------------|--------------------|--------------------|
| | \$ | \$ | \$ |
| At 1 July 2017 | 6,706,411 | (8,335,930) | (1,629,519) |
| Loss for the period | - | (1,072,160) | (1,072,160) |
| Other comprehensive income | - | - | - |
| Total comprehensive income | - | (1,072,160) | (1,072,160) |
| Share based payment | 146,299 | - | 146,299 |
| At 31 December 2017 | 6,852,710 | (9,408,090) | (2,555,380) |

| | Share Capital | Retained earnings | Total Equity |
|---|------------------|--------------------|--------------------|
| | \$ | \$ | \$ |
| At 1 July 2016 | 4,963,077 | (5,275,038) | (311,961) |
| Loss for the period | - | (2,911,000) | (2,911,000) |
| Other comprehensive income | - | - | - |
| Total comprehensive income | - | (2,911,000) | (2,911,000) |
| Shares issued on reverse acquisition | 933,471 | - | 933,471 |
| Share based payment | 9,863 | - | 9,863 |
| At 31 December 2016 | 5,906,411 | (8,186,037) | (2,279,626) |

The accompanying notes form part of these financial statements.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

| Notes | Half Year to 31-Dec-17 \$ | Half Year to 31-Dec-16 \$ |
|--|---------------------------------|---------------------------------|
| Cash flows from operating activities | | |
| Receipts from customers | 25,619,083 | 25,654,343 |
| Payments to suppliers and employees | (26,692,092) | (27,909,021) |
| Interest received | 430 | 2,966 |
| Net cash flows (used in) / provided by operating activities | (1,072,579) | (2,251,712) |
| Cash flows from investing activities | | |
| Cash acquired on reverse acquisition of Shoply | - | 508,496 |
| Acquisition of Audion | - | (1,420,706) |
| Payments for property, plant and equipment | (3,000) | (64,553) |
| Net cash flows used in investing activities | (3,000) | (976,763) |
| Cash flows from financing activities | | |
| Proceeds from shares issued | - | 800,000 |
| Proceeds /(repayment) from borrowings | 277,626 | 2,612,103 |
| Net cash flows provided by financing activities | 277,626 | 3,412,103 |
| Net increase / (decrease) in cash and cash equivalents | (797,953) | 183,628 |
| Cash and cash equivalents at the beginning of the financial year | 2,219,264 | 2,083,471 |
| Cash and cash equivalents at the end of the financial year | 1,421,311 | 2,267,099 |

The accompanying notes form part of these financial statements.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

1. Basis of preparation of the half-year financial report

(a) Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 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 financial report of the company for the year ended 30 June 2017, 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 principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

(b) New or amended Accounting Standards and Interpretations adopted

The consolidated entity 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.

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

(c) Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity incurred a loss of \$1,072,160 (HY2016: \$2,911,000 loss) and had net cash outflows from operating activities of \$1,072,579 (HY2016: \$2,251,712 cash outflow) for the half-year ended 31 December 2017. As at that date the consolidated entity had net liabilities of \$2,555,380 (June 2017: \$1,629,519 net liabilities). As disclosed in Note 3 Financial liability, Anyware Corporation Pty Ltd has failed to comply with its debt covenants in relation to the Westpac trade finance facility as at 31 December 2017.

These factors indicate a material uncertainty which may cast significant doubt as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

The Directors believe that there are reasonable grounds to believe that the consolidated entity will be able to continue as a going concern, after consideration of the following factors:

- The consolidated entity has positive net current assets of \$1,191,213 as at 31 December 2017 (June 2017: \$1,795,463 net current assets).
- As disclosed in Note 6 Events after the reporting period, \$742,204 of unsecured loans will be converted to equity by the loan holder. Furthermore, the Directors intend on converting \$700,000 of Directors' loans to equity subject to approval at an Extraordinary General Meeting. The effect of the above events would be to improve the net liability position of the Company by \$1,442,204.
- The Directors' have loaned to the consolidated entity an amount of \$4,088,685 as at 31 December 2017 and have provided commitments of financial support and irrevocably deferred monthly payments of principal and interest on these loans for a period through to 30 June 2019.
- Westpac has not taken any action in relation to the non-compliance of its covenants at this point in time. The Directors have considered alternate financing sources in the event the facility from Westpac is withdrawn.

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

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

2. Other Income

| | Consolidated Dec-17 \$ | Consolidated Dec-16 \$ |
|-------------------------------------|---------------------------------------|---------------------------------------|
| <i>Other income</i> | | |
| Interest received | 430 | 2,966 |
| Profit on sale of non-current asset | (4,768) | 200 |
| Gain on debt forgiveness | 115,620 | - |
| Total other income | 111,283 | 3,166 |

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

3. Financial liability

| | Consolidated Dec-17 \$ | Consolidated Jun-17 \$ |
|---------------------------|---------------------------------------|---------------------------------------|
| <i>Secured</i> | | |
| Trade finance | 2,577,147 | 2,155,504 |
| Equipment finance | 141,669 | 162,976 |
| <i>Unsecured</i> | | |
| Loan and interest payable | 1,961,807 | 2,150,518 |
| Directors' loans | 4,088,685 | 4,138,305 |
| Total | 8,769,308 | 8,607,303 |
| | | |
| Current | 4,276,294 | 4,355,881 |
| Non-current | 4,493,014 | 4,251,422 |
| Total | 8,769,308 | 8,607,303 |

Facility

Anyware Corporation Pty Ltd has a Westpac trade finance facility for \$4 million with drawdowns on the facility repayable within 180 days.

Covenants

The Westpac facility has the following covenants which are measured on a half yearly basis at June and December on the results of Anyware Corporation Pty Ltd.

- Interest Cover Ratio not less than 2.5 times; where Interest Cover Ratio is EBIT/Gross Interest Expense. As at 31 December 2017, this covenant was breached and has not been rectified as at the date of this report.
- Capital Ratio not less than 25%; where Capital Ratio is $[(\text{Tangible Assets less Total Liabilities}) / \text{Total Tangible Assets}] \times 100$.

Security

The Westpac trade finance facility is secured against all assets and undertakings of Anyware Corporation Pty Ltd and personal assets of Managing Director Garrison Huang.

The hire purchase facility is secured against the asset being financed.

**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

4. Contributed equity

| | Consolidated Dec-17 \$ | Consolidated Jun-17 \$ |
|-----------------|---------------------------------------|------------------------------|
| Ordinary shares | 6,852,711 | 6,706,411 |
| | Number | Number |
| Ordinary shares | 139,155,010 | 138,476,998 |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|--------------------------------------|-------------------------|--------------------|--------------------|--------------------|
| Balance | 30 June 2017 | 138,476,998 | | \$6,706,411 |
| Share issued under LTIP | 19 July 2017 | - | | \$84,000 |
| Directors' fee - share based payment | 7 December 2017 | 678,012 | | \$62,299 |
| Balance | 31 December 2017 | 139,155,010 | | \$6,852,711 |

HARRIS TECHNOLOGY GROUP LIMITED & CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

5. Operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Markers (CODM)) in assessing the performance of the consolidated group, and determining investment requirements. The operating segments are based on the manner in which services are provided to the market.

The consolidated group consists of one business segment which operates in one geographical area, being Australia.

6. Events after the reporting period

As announced on 31 January 2018, the Company has entered into a M2C joint venture agreement with WSH. The incorporated joint venture is in the process of being formally established. The initial cash contribution from the Company to the joint venture is HKD\$306,000 (AUD\$50,000).

On 28 February 2018, a loan holder agreed to convert \$742,204 of unsecured loans to equity.

No other matters or circumstance has 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.

7. Earnings per share

| | Consolidated Dec-17 \$ | Consolidated Dec-16 \$ |
|---|---------------------------------------|------------------------------|
| Profit / (Loss) from continuing operations | (1,072,160) | (2,911,000) |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 138,565,918 | 121,060,022 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 139,593,677 | 121,060,022 |
| | Cents | Cents |
| Basic earnings per share | (0.77) | (2.40) |
| Diluted earnings per share | (0.77) | (2.40) |

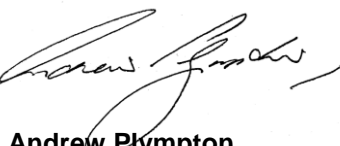
**HARRIS TECHNOLOGY GROUP LIMITED
& CONTROLLED ENTITIES
DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

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 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



Andrew Plympton
Non-Executive Chairman
28 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF

HARRIS TECHNOLOGY GROUP LIMITED

We have reviewed the accompanying half-year financial report of Harris Technology Group Limited which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on 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 half-year 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*. As the auditor of Harris Technology 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Harris Technology Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

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 Harris Technology 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 Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates the consolidated entity incurred a net loss of \$1,072,160 and incurred net cash outflows from operating activities of \$1,072,579 during the half-year ended 31 December 2017. As at that date the consolidated entity had net liabilities of \$2,555,380 and had failed to comply with its debt covenants in relation to the Westpac trade finance facility. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read "J S Croall".

J S CROALL
Partner

Dated: 28 February 2018
Melbourne, Victoria