AVA RISK GROUP LTD
ABN 67 064 089 318
AND CONTROLLED ENTITIES

HALF-YEAR INFORMATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

PROVIDED TO THE ASX UNDER LISTING RULE 4.2A.3

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2018.

Rule 4.2A.3

Appendix 4D

Half Year Report for the six months to 31 December 2018

Name of entity. Ava Risk Group Limited

ABN or equivalent company reference: 67 064 089 318

1. Reporting period

Report for the half year ended: 31 December 2018

Previous corresponding periods: Financial year ended 30 June 2018
Half- year ended 31 December 2017

2. Results for announcement to the market

Revenues from ordinary activities *(item 2.1)*	up/~~down~~	95%	to	16,689,000
Profit (loss) from ordinary activities after tax attributable to members (*item 2.2*)	~~up~~/down	1385%	to	(2,646,000)
Net profit (loss) for the period attributable to members *(item 2.3)*	~~up~~/down	1385%	to	(2,646,000)

Dividends *(item 2.4)*	Amount per security	Franked amount per security
Interim dividend	Nil ¢	Nil ¢
Final dividend	Nil ¢	Nil ¢
Previous corresponding period	Nil ¢	Nil ¢
Record date for determining entitlements to the dividend *(item 2.5)*	Not applicable	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood *(item 2.6)*: Net loss for the period for the consolidated entity was $2,655,000 including non-controlling interests share of a loss of $9,225.

3. Net tangible assets per security *(item 3)*

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	3.3 cents	7.1 cents

4. Details of entities over which control has been gained or lost during the period: *(item 4)*

Control gained over entities

Name of entities *(item 4.1)*	Not applicable
Date(s) of gain of control *(item 4.2)*	Not applicable
Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities since the date(s) in the current period on which control was acquired *(item 4.3)*	$ Nil
Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period *(item 4.3)*	$ Nil

Loss of control of entities

Name of entities *(item 4.1)*	Not applicable
Date(s) of loss of control *(item 4.2)*	Not applicable
Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities to the date(s) in the current period when control was lost *(item 4.3)*.	$ Nil
Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period *(item 4.3)*	$ Nil

5. Dividends *(item 5)*

	Date of payment	Total amount of dividend
Interim dividend year ended 30 June 2018	N/A	$ Nil
Final dividend year ended 30 June 2018	N/A	$ Nil

Amount per security

		Amount per security	Franked amount per security at % tax	Amount per security of foreign sourced dividend
Total dividend:	Current year	Nil ¢	Nil ¢	Nil ¢
	Previous year	Nil ¢	Nil ¢	Nil ¢

Total dividend on all securities

	Current period $A'000	Previous corresponding Period - $A'000
Ordinary securities *(each class separately)*	Nil	Nil
Preference securities *(each class separately)*	Nil	Nil
Other equity instruments *(each class separately)*	Nil	Nil
Total	Nil	Nil

6. Details of dividend or distribution reinvestment plans in operation are described below *(item 6)*:

N/A

The last date(s) for receipt of election notices for participation in the dividend or distribution reinvestment plan	N/A

7. Details of associates and joint venture entities *(item 7)*

Name of associate or joint venture entity	%Securities held
N/A	N/A

Aggregate share of profits (losses) of associates and joint venture entities

Group's share of associates' and joint venture entities':	2018 $	2017 $
Profit (loss) from ordinary activities before tax		
Income tax on ordinary activities		
Net profit (loss) from ordinary activities after tax		
Adjustments		
Share of net profit (loss) of associates and joint venture entities		

8. The financial information provided in the Appendix 4D is based on the half year condensed financial report (attached).

9. Independent review of the financial report *(item 9)*

(Select appropriate option)

The financial report has been independently reviewed. The financial report is not subject to a qualified independent review statement.

10. Matters relating to a qualified independent review statement

A description of the dispute or qualification in respect of the independent review of the half-year financial report is provided below *(item 9)*

N/A

Ava Risk Group Limited

(A.C.N. 064 089 318)

and controlled entities

CONDENSED FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

This half-year condensed financial report is to
be read in conjunction with the financial report
for the year ended 30 June 2018

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The directors present their report together with the condensed financial report of the consolidated entity consisting of Ava Risk Group Limited (the Company) and its controlled entities (the Group) for the half-year ended 31 December 2018 and independent review report thereon. This financial report has been prepared in accordance with *AASB 134 Interim Financial Reporting*.

Directors' Names

The names of the directors in office at any time during or since the end of the half-year are:

Name	Period of Directorship
D Cronin (Chairman)	Appointed 10 April 2018
M Stevens (Non-Executive Director)	Appointed 11 March 2015
M McGeever (Non-Executive Director)	Appointed 8 August 2018
T Winters (Non-Executive Director)	Appointed 09 September 2004 - Resigned 31 August 2018
F Davis (Non-Executive Director)	Appointed 30 September 2017 - Resigned 8 August 2018
C Fergus (Chief Executive Officer)	Appointed 12 February 2018
R Broomfield (Executive Director)	Appointed 27 February 2008

The directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

On 8 August 2018, Mike McGeever was appointed as a Non-Executive Director. Dr Fred Davis resigned as a Non-Executive Director on 8 August 2018. On 31 August 2018, Terry Winters resigned as a Non-Executive Director.

Review of operations

Highlights

- Revenue from ordinary activities of $16.689 million for the 6 months to 31 December 2018 (HY2019):
    - 95% increase on HY2018 ($8.561 million).
    - 31 December 2018 sales orders backlog of $4.652 million
    - Services division revenue of $8.473 million* a 159% increase on a full 6 month comparison basis (HY2018: $3.268 million)

- Gross margin of 41% (HY2018: 65%) as a result of lower margins in the new Services Division offsetting the improved margins in the Technology Division.

- Operating expenses excluding depreciation and amortisation of $8.638 million (HY2018 $6.253 million) due to:
    - the full 6-month P&L impact of the recently acquired MaxSec group compared to 1 month in HY2018
    - Positive impact of post merger operating cost reductions
    - One time costs of post merger cost reductions activites of $229,000
    - Foreign exchange impact of a stronger USD on revenues and certain foreign based expenditure

- Net loss from ordinary activities of $2.655 million - a decrease on HY2018 profit of $114k. This was driven by
    - the full 6-month P&L impact of the recently acquired MaxSec group compared to 1 month in HY2018
    - a one-time tax credit of $1.067 million in HY2017 which arose on the acquisition of MaxSec; and
    - $0.434 million increase in amortisation on acquired intangible assets as part of the MaxSec group acquisition.

- The balance sheet has net assets of $19.906 million (FY2018 $23.547 million) with no external debts or borrowings.

* *Service division revenue which totalled $0.456 million was consolidated in Ava Risk Group Limited for the half year ended 31 December 2017, representing revenue in December 2017 month only*.

Rounding of amounts
In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is provided with this report.

This report is made in accordance with a resolution of directors.

David Cronin
Chairman
27 February 2019

Building a better working world

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Auditor's Independence Declaration to the Directors of Ava Risk Group Limited

As lead auditor for the review of Ava Risk Group Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Ava Risk Group Limited and the entities it controlled during the financial period.

Ernst & Young

Robert Dalton
Partner
27 February 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

For the half-year ended 31 December 2018	Note	Consolidated 31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue and other income			
Revenue from contracts with customers	4	**16,689**	8,561
Other income	4	**13**	235
		16,702	**8,796**
Less: Expenses			
Cost of raw materials and consumables used		**(9,801)**	(3,025)
Employee benefit expenses		**(5,567)**	(3,557)
Research and development		**(340)**	(184)
Advertising and marketing		**(231)**	(104)
Travel and entertainment		**(620)**	(283)
Facilities and office		**(548)**	(334)
Compliance, legal, and administration		**(664)**	(891)
Provision for impairment of receivables		**(89)**	(21)
Impairment of investments		**-**	(246)
Depreciation and amortisation expenses		**(918)**	(471)
Finance costs		**-**	(1)
Foreign exchange losses		**(9)**	(301)
Other expenses		**(570)**	(331)
		(19,357)	(9,749)
Profit/(Loss) for the half-year before income tax		(2,655)	(953)
Income tax (expense)/benefit		**-**	1,067
Profit/(Loss) for the half-year		(2,655)	114
Profit/(Loss) for the half-year attributable to:			
Equity holders of the parent company		**(2,646)**	206
Non-controlling interest		**(9)**	(92)
		(2,655)	**114**
Other comprehensive income for the half-year, net of tax			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations, net of tax		**458**	70
Items that will not be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations, net of tax, attributable to non-controlling interests		**(93)**	-
Total other comprehensive income for the half-year		**365**	**70**
Total comprehensive income for the half-year		**(2,290)**	**184**
Total comprehensive income attributable to:			
Equity holders of the parent company		**(2,188)**	271
Non-controlling interests		**(102)**	(87)
		(2,290)	**184**
Profit/(Loss) per share for loss attributable to the ordinary equity holders of the company:			
Basic and diluted earnings/(loss) per share		**(1.26) Cents**	0.09 Cents

The accompanying notes form part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

As at 31 December 2018	Note	Consolidated	
		31 Dec 2018	30 Jun 2018
		$'000	$'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	**3,094**	5,910
Receivables		**5,214**	5,317
Inventories		**4,965**	4,567
Other current assets		**512**	463
Total Current Assets		**13,785**	16,257
Non-Current Assets			
Plant and equipment		**1,029**	932
Intangible assets		**12,953**	12,695
Other non-current assets		**26**	31
Total Non-Current Assets		**14,008**	13,658
TOTAL ASSETS		**27,793**	29,915
LIABILITIES			
Current Liabilities			
Payables		**5,566**	4,076
Deferred revenue		**711**	691
Provisions		**1,517**	1,528
Total Current Liabilities		**7,794**	6,295
Non-Current Liabilities			
Provisions		**93**	73
Total Non-Current Liabilities		**93**	73
TOTAL LIABILITIES		**7,887**	6,368
NET ASSETS		**19,906**	23,547
EQUITY			
Contributed equity	9	**55,112**	55,187
Accumulated losses		**(33,446)**	(30,800)
Reserves		**(1,760)**	(1,284)
Equity attributable to owners of the parent		**19,906**	23,103
Non-controlling interest		**-**	444
TOTAL EQUITY		**19,906**	23,547

The accompanying notes form part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

For the half-year ended 31 December 2018	Share Capital	Share Options Reserve	Foreign Exchange Translation Reserve	Other Equity Reserves	Accumulated Losses	Total attributable to owners of parent	Non-controlling interest	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2018	**55,187**	**934**	**(135)**	**(2,083)**	**(30,800)**	**23,103**	**444**	**23,547**
Loss for the half-year	-	-	-	-	(2,646)	**(2,646)**	(9)	**(2,655)**
Other comprehensive income/(loss)	-	-	458	-	-	**458**	(93)	**365**
Total comprehensive income for the half-year	**-**	**-**	**458**	**-**	**(2,646)**	**(2,188)**	**(102)**	**(2,290)**
Transactions with owners in their capacity as owners								
Compulsory acquisition	-	-	-	(916)	-	**(916)**	(324)	**(1,240)**
Share -based payments (Note 11)	-	30	-	-	-	**30**	-	**30**
Share buy-back (Note 9)	(75)	-	-	(48)	-	**(123)**	(18)	**(141)**
Total transactions with owners in their capacity as owners	(75)	30	-	(964)	-	**(1,009)**	(342)	**(1,351)**
Balance at 31 December 2018	**55,112**	**964**	**323**	**(3,047)**	**(33,446)**	**19,906**	**-**	**19,906**
At 1 July 2017	**44,183**	**477**	**148**	**-**	**(27,942)**	**16,866**	**-**	**16,866**
Profit for the half-year	-	-	-	-	206	**206**	(92)	**114**
Other comprehensive income/(loss)	-	-	65	-	-	**65**	5	**70**
Total comprehensive income for the half-year	**-**	**-**	**65**	**-**	**206**	**271**	**(87)**	**184**
Transactions with owners in their capacity as owners								
Shares issued (Note 9)	11,038	-	-	(1,721)	-	**9,317**	985	**10,302**
Share based payments	-	395	-	-	-	**395**	-	**395**
Total transactions with owners in their capacity as owners	11,038	395	-	(1,721)	-	**9,712**	985	**10,697**
Balance at 31 December 2017	**55,221**	**872**	**213**	**(1,721)**	**(27,736)**	**26,849**	**898**	**27,747**

The accompanying notes form part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS
AS AT 31 DECEMBER 2018

For the half-year ended 31 December 2018	Note	Consolidated	
		31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flow from operating activities			
Receipts from customers		**16,765**	9,833
Receipts from R&D tax incentives		**-**	1,268
Payments to suppliers and employees		**(17,311)**	(8,069)
Finance costs paid		**-**	(1)
Interest received		**11**	26
Net cash flows from/(used in) operating activities		**(535)**	3,057
Cash flow from investing activities			
Payment for intangible assets		**(573)**	(350)
Payment for plant and equipment		**(278)**	(14)
Proceeds from the sale of plant and equipment		**-**	1
Payment for investment in MaxSec		**(1,240)**	(1,845)
Cash acquired through acquisition of MaxSec		**-**	1,875
Net cash flows from/(used in) investing activities		**(2,091)**	(333)
Cash flow from financing activities			
Share buy-back in MaxSec		**(66)**	-
Share buy-back in Ava Risk Group		**(75)**	-
Repayment of borrowings		**-**	(15)
Net cash flows from/(used in) financing activities		**(141)**	(15)
Net decrease in cash and cash equivalents		**(2,767)**	2,709
Net foreign exchange differences on cash		**(49)**	(161)
Cash and cash equivalents at beginning of year		**5,910**	6,945
Cash and cash equivalents at end of year	**8**	**3,094**	9,493

The accompanying notes form part of these condensed consolidated financial statements.

1. Corporate information

The consolidated financial statements of Ava Risk Group Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 27 February 2019. Ava Risk Group Limited (the parent) is a limited company incorporated and domiciled in Australia and whose shares are publicly traded. The registered office is located at 10 Hartnett Close, Mulgrave, Victoria 3170, Australia.

The Group is principally engaged in

- the provision of security technology products for perimeter intrusion detection solutions;
- the provision of security access control products; and
- the provision of international valuable logistics services.

2. Basis of preparation and changes to the Group's accounting policies Report

(a) Basis of preparation

This condensed consolidated half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, as appropriate for for-profit entities, and the *Corporations Act 2001*.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2018 and the corresponding half-year with the exception of AASB 15 *Revenue from Contracts with Customers* and *AASB 9 Financial Instruments* which are disclosed below.

This condensed consolidated half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Ava Risk Group Limited during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The half-year financial report was authorised for issue by the directors as at the date of the directors' report.

(b) Going concern

The financial statements have been prepared on the going concern basis which assumes the Group will have sufficient cash to pay its debts as and when they become payable for a period of at least 12 months from the date the financial report was authorised for issue.

For the period ended 31 December 2018, the Group recorded a net loss after tax of $2.655 million. The Group has a net asset position of $19.906 million at reporting date inclusive of cash reserves of $3.094 million with no external debt or borrowings.

The Group has prepared a cash flow forecast based on a detailed revenue and expenditure forecast which indicates that the Group will be able to meet its forecast net outgoings over the coming 12 months. This forecast assumes that the Group will generate improved net cash flow by increasing revenue over that period. In the event that the Group cannot achieve the cash flow forecast, the Group will consider raising funds through other sources including debt or equity capital if or when required.

For the half year end 31 December 2018, the Group breached a capital ratio covenant in respect of its undrawn overdraft credit facility and remains in breach. Westpac Banking Group requires the breach to be remedied by 30 June 2019.

The directors are confident that the Group will have sufficient funding to meet its minimum expenditure commitments and support its planned level of expenditures, and therefore that it is appropriate to prepare the financial statements on the going concern basis. Accordingly, the financial report has been prepared on a going concern basis.

(c) Changes to the Group's accounting policies

AASB 15 *Revenue from Contracts with Customers*

AASB 15 supersedes AASB 11 *Construction Contracts*, AASB 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 using a modified retrospective method. Management performed an extensive review of customer contracts and determined that there were no material changes to revenue recognised in prior periods, nor does it impact the current accounting policies in place. A summary of the new accounting policies is discussed below.

The Group has two divisions – Technology and Services, with the following main revenue streams

- Technology:
  - design and manufacture of fibre optic intrusion detection systems (FFT- Perimeter Security Products),
  - design and manufacture of electro-mechanical locks, biometrics and card access controls (BQT Product),
- Services:
  - secure international logistics and storage for high value assets, and risk consultancy services (Logistics or AVA Global).

Key judgements and assumptions involved in the assessment of revenue recognition were based on the different performance obligations in bundled contracts and the associated revenue to those different performance obligations based on the relative stand-alone selling price for each performance obligation. Management also considered the impact of rebates which would give rise to variable consideration.

i. Sales of Goods

Access Controls Product

The Group's contracts with customers for the sale of equipment is one performance obligation. Revenue from sale of equipment is recognised at the point in time when control of the equipment is transferred to the customer, generally on delivery.

Perimeter Security Product

Some contracts have multiple elements, such as hardware, software and rendered services.

When there is more than one performance obligation in the contract, revenue is allocated to each performance obligation on the basis of relative standalone selling prices. Revenue from the sale of the equipment is recognised at a point in time, upon delivery. Revenue from rendered services including installation services and extended warranties are recognised over time, as described below.

i.1. Variable consideration

Certain distribution agreements include volume rebates which give rise to variable consideration. Rebates are offset against amounts payable by the customer on subsequent purchases. To estimate the variable consideration to which it will be entitled, the Group applied the ‘most likely amount method’ for contracts with a single volume threshold and the ‘expected value method’ for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract.

i.2. Warranty provisions

The Group generally provides warranties for general repairs of defects that existed at the time of sale, as required by law. As such, most warranties are assurance-type warranties, which the Company accounts for under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

However, in some contracts, the Group provides extended warranties. These warranties are service-type warranties and, therefore, are accounted for as a separate performance obligation to which the Group allocates a portion of the revenue based on the relative standalone selling price. Revenue is subsequently recognised over time based on the time elapsed.

ii. Rendering of services

Perimeter Security Product

The Group’s Perimeter Security product division provides installation services. These services are sold either separately or bundled together with the sale of equipment to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the Perimeter security product. There are two performance obligations in a contract for bundled sales of equipment and installation services, because the Group promises to transfer equipment and provide installation services are capable of being distinct and separately identifiable.

Revenue from installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

International Valuable Logistics

The international logistics business enters contracts with its customers to transport or store high-risk valuables, precious metals and currency, and selects sub-contractors to transport the goods. In these contracts, the Group is primarily responsible for fulfilling the promise to provide the logistics and storage services, each of these services are separate performance obligations.

Management considered the application of principal versus agent on adoption to AASB 15 and determined that the Group is the principal as it controls the service. As such revenue is recorded gross in the income statement.

Under AASB 15, the logistics services are required to recognise revenue over time as the customer simultaneously receives and consumes the benefit as the entity performs the service (i.e. another entity would not need to re-perform the service, for example distance already travelled). Previously revenue was recognised under AASB 118 *Revenue* on delivery of the products, this did not result in a material adjustment on transition.

Contract balances

The timing of revenue recognition may differ from the contract payment schedule, resulting in revenue that has been earned but not billed. These amounts are included in contract assets. Amounts billed in accordance with contracts with customers, but not yet earned, are recorded as deferred revenue (contract liabilities). Contract liabilities are recognised as revenue when the Group performs under the contract.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group currently does not hedge any transactions.

The Group has applied AASB 9 retrospectively, with the initial application date of 1 July 2018 and no changes in comparatives.

Adoption of AASB 9 has resulted in no adjustment to the financial statements at 1 July 2018.
Classification and measurement.

The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.
The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within the Group's business model with the objective to hold the financial assets in order to collect contractual cash flows and, representing solely payments of principal and interest on specified dates. Subsequently these financial assets are carried at amortised cost using the effective interest rate method less any impairment losses calculated under the expected credit loss ("ECL") method outlined below. This category includes the Group's trade and other receivables.

The accounting for the Group's financial liabilities remains the same as it was under AASB 139.

Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking (ECL) approach.

AASB 9 requires the Group to record an allowance for ECLs for all receivables.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade receivables and contract assets, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of AASB 9 did not result in a material increase in impairment allowances of the Group's receivables.

(d) Rounding amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

(e) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of tangible and intangibles assets

The Group determines whether tangible and intangible assets are impaired at least on an annual basis by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity.

Goodwill and indefinite lived intangibles are tested for impairment on at least an annual basis. Impairment triggers include market capitalisation deficiency relative to net assets, declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment or future product expectations. If an indicator of impairment exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case it is tested as part of the cash generating unit (CGU) to which it belongs. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
An assessment is made each reporting period to determine whether there is an indicator of impairment.

Key assumptions and estimates

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations, unless there is evidence to support a higher fair value less cost of disposal.

The Group has four identifiable CGUs:

- Perimeter security
- Access control solutions – readers
- Access control solutions – locks
- International valuable logistics

All CGUs had indicators of impairment and hence were tested for impairment, using a value in use methodology. As the recoverable amount was higher than the carrying value of each CGU, no impairments were recognised for the period (2018: nil).

The key assumptions used in the 31 December 2018 impairment testing were consistent with the key assumptions used at 30 June 2018 which include future cash flows, revenue growth, gross margins and discount rates. The recoverable amount of each CGU is not highly sensitive to reasonably possible changes in key assumptions and no impairment was recognised at 31 December 2018.

The recoverable amount is not sensitive to reasonably possible changes in assumptions.

(ii) Capitalisation of development costs

Judgement is required where expenditure meets the definition of development.

(iii) Amortisation of intangible assets

Judgement is required to assess the useful economic life of intangible assets. Intangible assets, including capitalised development costs that have a finite life are amortised on a systematic basis over the expected life of the asset and cease at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

3. Related party transactions

The Consolidated entity purchased consulting services totalling $72,861 (HY2018: $Nil) from Pierce Group Asia Pte Ltd and its related entities ("Pierce"). Pierce is controlled by the Chairman and Non-executive Director, David Cronin. Accounts payable balance at 31 December 2018 totals $4,900. The terms of these arrangements were on an arm's length basis in the normal course of business.

With the exception of the above, there have been no other related party transactions other than those between the Company and its subsidiaries during the half year ended 31 December 2018.

4. Revenue and other income

	Consolidated	
	2018	2017
	$'000	$'000
Revenue from contracts with customers		
Revenue from sales of goods	**7,519**	7,806
Revenue from provision of services*	**9,170**	755
Total revenue from contracts with customers	**16,689**	8,561
Other income		
Interest	**11**	25
Gains on foreign exchange - realised	**-**	188
Other Income	**2**	22
Total other income	**13**	235
Total Revenues and other income	**16,702**	8,796

* Includes services revenues from Technology Division as well as Services Division.

5. Business combinations

Acquisition of MaxSec

On 29 November 2017, the Group had acquired 58% of the voting shares of MaxSec and gained control. The acquisition accounting is now final, and no changes were required relative to the provisional acquisition accounting disclosed within the 30 June 2018 financial statements.

In November 2018, the Company acquired the remaining shares in MaxSec through a compulsory acquisition taking total ownership to 100%, for a consideration of $1.240 million. As such, the non-controlling interest balance was $nil at 31 December 2018.

Goodwill

In November 2018, the goodwill allocation was completed, and the acquisition date fair value of the goodwill was allocated as follows:

Goodwill Allocation	**International Valuable Logistics**	**Access Control Solutions (including locks and readers)**	**Total**
At 1 July 2018	4,236	740	4,976
Impact of foreign currency	329	-	329
At 31 December 2018	**4,565**	**740**	**5,305**

As the International Valuable Logistics division is denominated in US dollars, the goodwill at acquisition allocated to that CGU has been recognised in US dollars and revalued at each reporting period with a corresponding adjustment to the Foreign Exchange Translation Reserve.

6. Dividends

There have been no dividends declared or paid during the half year ended 31 December 2018 (HY2018: $nil).

7. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors of Ava Group.

The Group's segments were based on three separately identifiable products.

The Group operates in perimeter security, access control solutions and international valuable logistics, which are its reportable segments. These divisions offer different products and services and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment:

Product type	Reportable segment	Operations
Technology	Perimeter Security	Global leader in fibre optic intrusion detection systems; perimeter intrusions, oil and gas pipeline third party interference and data network tapping and tampering
	Access Control Systems (Readers & Locks)	Providing secure, reliable smart card reader and card systems, biometric solutions, electric locking and access control products
Services	International Valuable Logistics	Global provider of secure international logistics of high-risk valuables, precious metals and currency

Management have considered the geographical entity-wide disclosures required as per AASB 8 *Operating Segments.*

Segment information for the reporting period is as follows:

31 Dec 2018	**Perimeter Security $'000**	**Access Control Solutions $'000**	**International Valuable Logistics $'000**	**Total segments**	**Eliminations $'000**	**Total $'000**
Revenue and other income						
External customers	5,406	2,810	8,473	16,689	-	16,689
Interest Income	10	1	-	11	-	11
Other income	2	-	-	2	-	2
Intersegment revenue	953	22	-	975	(975)	-
Segment revenue and other income	**6,371**	**2,833**	**8,473**	**17,677**	**(975)**	**16,702**
Depreciation and amortisation expenses	(354)	(311)	(253)	(918)	**-**	(918)
Finance costs	-	**-**	**-**	-	**-**	-
Income tax	-	**-**	**-**	-	**-**	-
EBITDA	**(1,216)**	**(431)**	**(101)**	**(1,748)**	**-**	**(1,748)**
Segment operating profit/(loss)	**(1,560)**	**(741)**	**(354)**	**(2,655)**	**-**	**(2,655)**

31 Dec 2017	Perimeter Security $'000	Access Control Solutions $'000	International Valuable Logistics $'000	Total segments	Eliminations $'000	Total $'000
Revenue and other income						
External customers	7,871	234	456	8,561	-	8,561
Interest Income	25	-	-	25	-	25
Other revenue	175	40	-	215	(5)	210
Intersegment revenue	181	-	-	181	(181)	-
Segment revenue and other income	**8,252**	**274**	**456**	**8,982**	**(186)**	**8,796**
Depreciation and amortisation expenses	(355)	(74)	(42)	(471)	**-**	(471)
Finance costs	(1)	**-**	**-**	(1)	**-**	(1)
Income Tax	1,067	**-**	**-**	1,067	**-**	1,067
EBITDA	**153**	**(377)**	**(282)**	(506)	**-**	**(506)**
Segment operating profit/(loss)	**889**	**(451)**	**(324)**	**114**	**-**	**114**

FY2018 comparative information has been adjusted to reflect the current classification of intangible assets and its associated amortisation following the completion of the acquisition accounting and allocation of goodwill. Inter-segment revenues are eliminated upon consolidation and reflected in the 'eliminations' column.

Geographic information

	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue		
Australia	1,226	549
APAC (excluding Australia)	1,056	889
MENA	1,069	1,092
Europe	4,297	823
United States of America	5,609	4,227
Rest of world	3,432	981
Total external revenue by region	**16,689**	**8,561**

Revenue from two customers amounted to $5,458,000 (HY2018: $nil) arising from sales in the International Valuable Logistics division.

Non-current operating assets	31 Dec 2018 $'000	30 Jun 2018 $'000
Australia	5,900	5,661
United Arab Emirates	6,114	5,935
Rest of world	1,055	1,003
Total non-current assets by region	**13,069**	**12,599**

Non-current assets for this purpose consist of property, plant and equipment and intangible assets.

Customer contracts of $913k (HY2018: $1,028k) have been excluded from the geographical split as the asset is composed to customers from Australia and a variety of geographical regions.
FY2018 comparative information has been adjusted to reflect the current classification of intangible assets following the completion of the acquisition accounting and allocation of goodwill.

8. Cash and cash equivalents

	Consolidated	
	31 Dec 2018	30 Jun 2018
	$'000	$'000
Cash at bank and on hand	**3,094**	5,910
	3,094	5,910

9. Contributed equity

	Consolidated	
	31 Dec 2018	30 Jun 2018
	$'000	$'000
(a) Ordinary shares		
Ordinary share capital, issued and fully paid	**55,112**	55,187
	55,112	55,187

	Number of shares	**$'000**
(b) Movement in ordinary shares on issue		
At 1 July 2018	211,094,439	55,187
Share buyback and cancellation*	(478,872)	(75)
At 31 December 2018	210,615,567	55,112
At 1 July 2017	124,028,440	44,183
Share issue	87,065,999	11,038
Share issue costs	-	(34)
At 30 June 2018	211,094,439	55,187

* On 15 November Ava cancelled 478,872 shares bought back at a total of $75,331 in conjunction with the On Market Buy Back as announced to shareholders on 17 July 2018.

10. Contingencies

There are no changes to the contingent liabilities disclosed in the 30 June 2018 financial statements.

11. Share-based payments

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Expense arising from equity-settled share-based payment transactions:		
Corporate services[(i)]	**30**	-
Acquisition of MaxSec	**-**	392
	30	392

[(i)] On 14 March 2018, the Company granted Canaccord Genunity (Australia) Limited 6,000,000 unlisted share options as payment for investor relation services provided for the MaxSec acquisition. The fair value was measured at a market price for those services.

The options have vested and have an expiry period of 3 years from issue date.
They are exercisable at the following prices:
1,500,000 @ $0.125 each
1,500,000 @ $0.15 each
3,000,000 @ $0.20 each

Share options held

	31 Dec 2018 Number	**31 Dec 2017 Number**
Outstanding at the beginning of the period	11,925,000	9,110,000
Granted during the period	-	5,250,000
Forfeited during the period	-	(2,875,000)
Outstanding and exercisable at the end of the period	11,925,000	11,485,000
Weighted average exercise price	$0.16	$0.41

12. Fair value of financial instruments

The carrying amounts and estimated fair values of the Group's financial instruments recognised in the financial statements and notes to the condensed financial report are materially the same.

13. Subsequent events

For the half year end 31 December 2018, the Group breached a capital ratio covenant in respect of its undrawn overdraft credit facility and remains in breach. Westpac Banking Group requires the breach to be remedied by 30 June 2019.

Other than the changes noted above there has been no matter or circumstance, which has arisen since 31 December 2018 that has significantly affected or may significantly affect:

a) the operations subsequent to 31 December 2018, of the consolidated entity, or
b) the results of those operations, or
c) the state of affairs, subsequent to 31 December 2018, of the consolidated entity.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) The directors declare that the financial statements and notes set out on pages 4 to 18 are in accordance with the *Corporations Act 2001 including*:

(i) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
(ii) Giving a true and fair view of the financial position of the consolidated entity as at 31 December 2018 and of its performance for the half-year ended on that date.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

David Cronin
Chairman
27 February 2019

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Independent Auditor's Review Report to the Members of Ava Risk Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Ava Risk Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and 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, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern with respect to the requirement to improve the Group's operating cash flow. These events or conditions indicate there is a material uncertainty, that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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, anything has come to our attention that causes us to 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 Group's consolidated financial position as at 31 December 2018 and its consolidated financial 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 the Group, 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.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Robert Dalton
Partner
Melbourne
27 February 2019