

13 August 2016

Ms Andia Petropoulos  
Adviser, Listings Compliance (Sydney)  
ASX Compliance Pty Limited  
20 Bridge Street  
SYDNEY NSW 2000

**By Email: [Andia.Petropoulos@asx.com.au](mailto:Andia.Petropoulos@asx.com.au)**

Dear Ms Petropoulos,

**Inventis Limited ("the Company") – Financial Condition Query**

Reference is made to your letter dated 9 August 2016 with regard to the above.

**Responses to the Queries:**

**Query 1. Basis of Key assumptions**

**Response 1.1:** The Company's revenue growth of 26.5% for the year ended 30 June 2017 is based on the following:

1. The Budget forecasts as provided by the Executive Team;
2. The "Advance" supply agreement status with a Department of NSW Government which has in their budget large refurbishment plans for next three years;
3. The Sales Team Budgets as agreed to by individual Business Development Managers;
4. The headcount in the Sales Team being comparable to the Sales Team in employment in 2007-2008, which has doubled;
5. Streamlining, cross training and educating the Sales Team to sell both Furniture and Technology Products nationally;
6. The Confirmed orders in hand; as well as
7. Preliminary responses to the release of a new patented chair technology being launched.

**Response 1.2:** The Average revenue growth rate per annum 2018-2020 is based on the following:

1. The Company is now poised to concentrate on sales after an extensive restructuring;
2. All legacy issues have been resolved;

3. The motivational incentives extended to the Sales Team; and
4. The market share based on historical facts when a patented product is commercialised.

### Query 2. Independent Advice on Impairment model

**Response:** Impairment modelling is developed using judgements and estimates of future events, the Directors reviewed the modelling, conducted further investigations and obtained independent advice on whether the impairment model and inputs used by the Company were reasonable.

The independent advice received on the above was that the Company's impairment model inputs and the one-off effects were "reasonable".

The unaudited results of the Company for the year ended 30 June 2016 show:

Details	Budget	Actual
Revenue	\$12.3 m	\$11.8 m
EBITDA	\$0.3 m	\$0.4 m

### Query 3. Going Concern

**Response:** The Directors have ensured the Company has Long Term Loan Agreements and Factoring Services in place in addition to Sales Growth, which will provide Cash flow for sustaining the business for next 12 months. In addition to new finance facilities, the following steps were taken in 2016 and were announced to the market in accordance with ASX Listing Rule 3.1:

1. **11 September 2015 – Recent Initiatives and waiver of Director's fees**, which highlighted
  - a. Achievement of ISO14001 accreditation in addition to GECA, AFRDI and C-tick certifications for our products.
  - b. The Company has been successful in securing "Advance" supply agreement status with a Department of NSW Government which will allow the Company to supply into large Government projects and planned refurbishment initiatives.
  - c. Demonstration of commitment to the business the Directors have all agreed to forgo their Directors' Fees for the period from 1 July 2015 to 31 December 2015 to assist the Company and further enhance its successful transition to profitability.
  - d. Decision to commence recruitment of a full time CEO to replace Mr Tony Noun, who has assisted the Company greatly during recent transition, acting as both Chairman and CEO. It was anticipated that the selection process will be finalised early in the next calendar year and the pro-active initiatives of the Directors will assist the Company further in the near future.
  - e. Acknowledgement of Tony Noun's efforts and contribution in the restructure program was announced to the Market.
  - f. Expected solid turn-around in performance for the coming 12 months based on the restructuring undertaken by the Company, which included major cost reduction initiatives, along with appropriate Capital restructuring and new developments in product technology and design.

- g. The Company has registered an application for a new worldwide patent and local design registration submissions are pending for the Company's unique ergonomic seating products. This was also announced to the Market.
2. **30 October 2015: Year to date results and Clarification of previous announcement**, whereby,
- a. The Company's performance for the quarter ended 30 September 2015 (unaudited) was advised to the shareholders – the result was revenue of \$3.6m which was \$0.2m above forecast. Importantly, net profit before tax is \$0.35m above budget and \$0.6m better than the same period last year.
  - b. It was confirmed that Tony Noun will continue as a Non-Executive Chairman of the Company in the new Calendar year after appointment of new CEO.
3. **25 January 2016: Appointment of the New General Manager**, whereby the following was advised to the market,
- a. The appointment of Mr Garry Valenzisi to the position of General Manager of the Company;
  - b. The key executive appointment marks the next stage of the Inventis Limited strategy towards reinvigorating the Company and enhancing its position as a market leader in creating inspired designs and innovative products in Ergonomic seating, Electronics and Rugged Computer Solutions; and
  - c. Over the past two years, the Company had consolidated the organisation providing a management structure that allows the Company to respond to market and customer demands in a swift and informed manner.
4. **1 March 2016 – Statutory Reporting of 4D-Half Year ending 31 December 2015**, whereby the Company advised its shareholders:
- a. The difference of opinion between the Company and its auditors at the time as to the valuation model to be used for the impairment of “non-tangible” assets;
  - b. The auditors at the time indicated that they will qualify the accounts, as presented, if the Company does not impair non-cash assets and inventory provisions write back;
  - c. The Company does not agree with the model inputs being used by the auditors at the time and has sought independent advice as to the efficacy of the models used by the Company;
  - d. In essence, accepting the Company's modelling, no impairment is required and the results to 31 December 2015 may be summarised as follows: Revenue of \$6.0m, NPAT of \$0.06m and a Net Asset position of \$0.66m;
  - e. Applying the auditor's at the time proposed modelling, the potential total non-cash impairment could be in order of \$3.06m. Thus, NPAT would be reduced to a loss of \$2.81m and new equity impacted accordingly; and
  - f. The Company's Board is seeking independent advice in the best interest of shareholders to ascertain information relating to AASB 136 impairment testing and AASB 134 interim financial reporting, to better deal and review matters relating to the adequate treatment of non-cash items relating to the adequacy of the variables used in complex subjective impairment model calculation testing and other non-cash items.
5. **3 March 2016 – Statutory Reporting of 4D – Half year ending 31 December 2015 – Update**, whereby the Company advised its shareholders and the market:

- a. In line with the independent advice, the Company's Board concluded that the Company's overall model inputs used are reasonable; and
  - b. As at 2 March 2016, factory work orders for components used in the write back of provisions have been raised. This confirms the Board's position on the adequacy of the relevant stock provision write backs. Information in relation to stock provisions was also provided to the auditors for their consideration.
6. **7 March 2016 – Appendix 4D** – despite providing all information and evidence to the auditors at the time, for the basis of the Impairment Model of the Company as well as basis of Independent advice, the former Auditor chose to adopt its own objective view on the impairment model inputs based on previous year revenue achievement and provided a qualified opinion for the review of half year financials.
7. **10 May 2016 – Update** – whereby the Company advised that:
  - a. Subsequent to the completion of the Company's strategic restructure program, which culminated in the appointment of Mr Garry Valenzisi to the position of General Manager, the Company is undertaking a review of Accounting, Audit and Insurance costs;
  - b. Preliminary indications are that we will be able to reduce our Accounting and Audit services by more than 50% and our insurance premiums substantially; and
  - c. We are pleased to announce that the first element, accounting services, has concluded with the appointment of Mr Gary Peroy, Managing Director of Peroys Accountants, Sydney, as the Company's new Tax Agent and Advisor.
8. **22 June 2016: Letter to Shareholders**, whereby, the Company advised:
  - a. Receiving notice of intention to remove the auditors under section 329 of the Corporations Act, 2001;
  - b. Receiving the notice of nomination of an auditor under section 328B of the Corporations Act, 2001;
  - c. Receipt of request to hold an Extra-Ordinary General Meeting ("EGM") from a shareholder who holds more than 5% of the shares of the Company; and
  - d. The Board of Directors have resolved under Section 249D of the Corporations Act to hold an EGM.
9. **23 June 2016 – Change in Share Registry**, whereby Advice of new Share registry was provided to the market. The share registry review of services was also part of the service cost review.

#### Query 4. Requirements of Listing Rule 12.2

**Response:** In the opinion of Directors, yes the financial condition of the Company would be sufficient to warrant continued quotation of its securities and listing on ASX.

#### Query 5. If Yes, the basis of forming of opinion in Query 4 above.

**Response:** The Directors have formed the opinion on the following basis:

1. The Balance Sheet as at 31 December 2015 showed Net Assets of \$657,406;

2. Current Ratio is at 0.975;
3. There is a Loan facility of \$5.0m in place of which \$3.5m had been activated;
4. There is a Factoring Facility in place totalling \$4.0m of which \$1.2m had been utilised therefore providing additional head room for growth;
5. Confirmed orders in hand;
6. The Company's Audit and Risk Management Committee is overseeing the monthly progress to targets;
7. The Company restructured and consolidated its divisions by cutting an estimated \$1.2m worth of ongoing expenses excluding the savings from the discontinued operations;
8. The Company reviewed its service suppliers based on the restructured entity and has now reduced its service suppliers expenses like Accounting, Audit, Share Registry and Insurance by \$ 0.13m from \$ 0.32m incurred in 2015 financial year to \$ 0.20m in 2016 and which will be further decreased to \$0.13m in 2017 financial year (being the full year with the full benefits of such reductions);
9. New finance facilities are in place providing the Company with finance facility up to \$ 6.0m replacing the loan facility noted in point 3 above;
10. The Company has proactively met all its ongoing arrangements with its creditors;
11. The Cash-flow has been boosted by the management teams improved Days Outstanding collections; and
12. The Company expects a one-off positive effect in the 2017 financial year from an insurance claim arising from the flooding of the former premises at Auburn in Sydney. The General Manager has confirmed that the Insurance Company has registered the Claim and:
  - a. Claim is for a value of \$660,000 which includes Business Interruption \$625,000 + Inventory \$35,000;
  - b. While the Company lodged the Claim with its Brokers prior to half year end, the financial specifics of the Claim was lodged on 17th May, 2016;
  - c. A request for out of pocket expenses, valued circa \$340,000 is expected to be decided by mid-September, 2016 and to be reimbursed within a period of 14-days from the date of decision. The remainder of our claim may be considered / negotiated thereafter;
  - d. Insurer has accepted the claim by reserving \$64,000 at this point; and
  - e. The potential outcome of the claim has not been taken into account in our 2017 Budget forecasts.

At this stage there is no further information which the Company is required to disclose under Listing Rule 3.1.

**Query 6. If No, the basis of forming of opinion in Query 4 above**

**Response:** Not Applicable.

**Query 7. Confirmation of compliance with Listing Rules 3.1 and 12.2.**

**Response:** We confirm that:

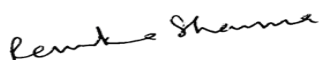
1. The Company has provided all information to its shareholders on a timely basis as per ASX Listing Rule 3.1; and
2. The Company, in the opinion of the Directors, is in an appropriate financial condition and the Directors warrant that it is sufficient to warrant continued quotation of its securities and listing on ASX.

Also it should be noted that:

1. The Qualified Opinion of the auditors at the time is based on a half-year review and not after a full year audit.
2. The Qualified Opinion of the auditors at the time is founded on assumptions not supported by the Company.
3. It is the opinion of the Company that the auditors at the time heavily discounted or chose not to take into account information concerning a one-off loss due to a flooding and a relocation of a division of the Company from Auburn, Sydney premises to new premises at Eastern Creek. The flooding at the Auburn, Sydney premises, which resulted in stock losses and business disruption was considered by the Company to be a one-off impact issue. This is the subject of an insurance claim which was filed by the Company before the end of the reporting period.
4. Full information concerning the disruption and the insurance claim was provided to the auditors at the time and has been provided to the current auditors.
5. The Company is currently being audited for the full financial year. The current auditors have not made the Company's Audit Committee aware of any concerns.
6. The auditors at the time, in their basis for a qualified conclusion, took a view as to certain of the inputs, forecasts and assumptions. The Company did not agree with their view.

If you have any queries, please do not hesitate to contact me.

Yours faithfully,



Renuka Sharma  
**Company Secretary**



9 August 2016

Renuka Sharma  
Company Secretary  
Inventis Limited  
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1-5 Butu Wargun Dr  
Pemulwuy NSW 2145

By email: [renukas@inventis.com.au](mailto:renukas@inventis.com.au)

Dear Ms Sharma

**Inventis Limited (the “Company”) – Financial Condition Query**

ASX Limited (“ASX”) refers to the following;

1. The announcement entitled “Letter to Shareholders” lodged on the ASX Market Announcements Platform on 22 June 2016 regarding the notice of intention to move a resolution to remove the Company’s previous auditors, KPMG, under section 329 of the *Corporations Act 2001* (Cth);
2. The announcement entitled “Notice of Extraordinary General Meeting” lodged on the ASX Market Announcements Platform on 24 June 2016 which contained a resolution to remove KPMG as the Company’s auditor and a resolution to appoint BDO as the Company’s auditor;
3. The announcement entitled “Results of Extraordinary General Meeting” lodged on the ASX Market Announcements Platform on 29 July 2016 announcing the removal of KPMG and the appointment of BDO as auditor of the Company;
4. The Company’s financial report for the half year ended 31 December 2015, lodged on the ASX Market Announcements Platform on 7 March 2016 (the “2015 Half Year Financial Report”) which contained a qualified conclusion in the auditor’s review report on the basis of the following information:
  - KPMG had examined the information provided to it by management regarding management’s assessment of the recoverable amount of assets, and disagreed with certain inputs, forecasts and assumptions utilised in its calculation of the recoverable amount. If the inputs, forecasts and assumptions that KPMG believe are appropriate had been used by management, then an impairment to the carrying amount of one cash generating unit of \$2,875,364 would have been recognised. As a result of this impairment, intangible assets would decrease by \$2,620,258, property, plant and equipment would decrease by \$255,106, net assets would decrease by \$2,875,364 and profit for the period and earnings per share would decrease by \$2,875,364 and 0.48 cents per share respectively for the period ended 31 December 2015.



- KPMG also noted that the Company's ability to continue as a going concern, when the basis for the qualified conclusion is taken into consideration, where the half-year profit would be revised to be a loss of \$2,813,457 and net assets would be revised to be net liabilities of \$2,217,958. KPMG also notes that there is a material uncertainty that the Company will operate profitable, have access to adequate financing facilities and generate adequate cash from operations that cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.
- 5. The 2015 Half Year Financial Report also disclosed that revenue from continuing operations decreased from \$6,723,914 for the 2014 half year to \$6,002,255 for the half year ended 31 December 2015 (10.7%) ("10.7% Half Year Revenue Decrease");
- 6. The announcement entitled "Statutory Reporting of 4D – Half year ending 31 December 2015" lodged on the ASX Markets Announcement Platform on 1 March 2016 where the Company stated it disagreed with the valuation model used by KPMG and was seeking independent advice in the best interest of shareholders to ascertain information relating to AASB 136 impairment testing and AASB 134 interim financial reporting ("Review of Impairment Valuation Model Announcement"); and
- 7. The announcement entitled "Annual Report to Shareholders" lodged on the ASX Market Announcement Platform on 1 October 2015 which disclosed that the Company's revenue from continuing operations decreased from \$14,106,181 in financial year 2014 to \$12,537,202 (11.1%) ("11.1% Full Year Revenue Decrease").

### ***Relevant listing rules and guidance***

ASX also refers to the following:

- Listing rule 3.1, which requires an entity, once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information.
- Listing rule 12.2, which states that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.
- Listing rule 19.11A, which requires accounts given to ASX under the requirements of the listing rules, to be prepared to Australian accounting standards and if the entity is a foreign entity, the accounts may be prepared to other standards agreed by ASX.
- Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

*3.1A.1 A reasonable person would not expect the information to be disclosed.*

*3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential.*

*3.1A.3 One or more of the following applies.*



- *It would be a breach of a law to disclose the information.*
- *The information concerns an incomplete proposal or negotiation.*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
- *The information is generated for the internal management purposes of the entity.*
- *The information is a trade secret.”*

### **Questions for response**

In light of the information contained in the 2015 Half Year Financial Report, and referring to the listing rules above, we ask that you answer the following questions in a format suitable for release to the market in accordance with Listing Rule 18.7A.

1. Given that the qualified conclusion relates to the auditor's disagreement with the Company's assessment of the recoverable amount of assets and certain inputs, forecasts and assumptions utilised in the Company's calculation of the recoverable amount, please explain the basis for the Company's difference of opinion as to the validity of the following key assumptions used by the Company in preparing its impairment calculations as disclosed in Note 9 to the 2015 Half Year Financial Report:
  - 1.1 *the 26.5% 'Revenue growth in approved forecast for year ended 30 June 2017'; and*
  - 1.2 *the 5.5% 'Annual average revenue growth rate per annum 2018-2020';*in circumstances where the Company has recorded a 10.7% Half Year Revenue Decrease and a 11.1% Full Year Revenue Decrease.
2. The Review of Impairment Valuation Model Announcement notes that the Company sought independent advice as to the efficacy of the impairment testing valuation model used by the Company. Please explain what advice the Company received from the independent expert.
3. Given the significant uncertainty regarding continuation as a going concern, what steps does the Company intend to take to:
  - (a) avoid the significant uncertainty leading to an adverse or otherwise qualified audit opinion in future periods; and
  - (b) remain a going concern for the next financial period, meeting the requirements of listing rules 12.1, 12.2 and 12.5?

4. Is the Company of the view that the financial condition of the Company would be sufficient to warrant continued quotation of its securities and listing on ASX in accordance with the requirements of listing rule 12.2?
5. If the answer to question 4 is “Yes”, please explain the basis on which the Company has formed the conclusion that the financial condition of the Company is sufficient to warrant continued quotation of its securities and listing on ASX in accordance with the requirements of listing rules 12.2. Specifically, the Company should submit the reasons (including any previous disclosures made to the market) it considers relevant given the matters outlined in the Auditor’s Review Report resulting in the qualified conclusion.
6. If the answer to question 4 is “No”, please explain what steps the Company has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2.
7. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rules 3.1 and 12.2.

#### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 5.00 pm. AEST on Monday, 15 August 2016**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Entity’s securities under Listing Rule 17.3. Your response should be sent to me by return e-mail. It should not be sent to the Market Announcements Office.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company’s response to the market. Accordingly, please prepare your response in a form suitable for release to the market.

If you have any queries regarding any of the above, please call me.

Yours sincerely,

*[sent electronically without signature]*

Andia Petropoulos

**Adviser, Listings Compliance (Sydney)**