



4 October 2018

Cheng Tang
Senior Adviser, Listings Compliance (Melbourne)
Level 4, 525 Collins St
Melbourne VIC 3000

By email only: cheng.tang@asx.com.au

Dear Cheng

KNeoMedia Limited (the Company or KNM)

We refer to your letter to the Company dated 27 September 2018 regarding the Company's financial condition in light of the qualified opinion contained in the Independent Auditor's Report of the FY18 Annual Report.

We respond to each of your queries as follows (adopting your numbering):

1. Commenting specifically on the Qualified Opinion, can KNM confirm that in the Directors' opinion, the Annual Report:

(a) complies with the relevant Accounting Standards; and

Yes, and confirmed.

(b) give a true and fair view of the financial performance and financial position of KNM?

Yes, and confirmed.

2. The Qualified Opinion states that *"In the absence of any signed licence agreements or other documentation in relation to these licences, and in the absence of any significant payments received during the year, we were unable to obtain sufficient appropriate audit evidence about the occurrence of revenue and recoverability of trade receivables."*

Why is KNM unable to provide its auditors with signed licence agreements or other documentation in relation to these licences?

The Company supplies seat licences to a number of New York City schools and collects payments for those licences under an agreed billing collection system whereby:

- Upon invitation, the Company presents tender proposals to sell seat licences to schools. This tender process is facilitated by the New York City Department of Education (DOE), the school Principals and the Superintendent of the relevant local district.
- Following successful tender, the Company supplies seat licences to the schools in return for payments by the Superintendent and/ or schools out of their budget.
- The Company sends proforma invoices for the supplied seat licences to the principals of schools, who sign off on the invoices and submit them for approval for payment to the Company directly.

Notwithstanding that there are no formal written agreements in place supporting the above billing collection system, the Company and various relevant parties have traditionally operated under this system. The billing collection system has been practical and effective in enabling the Company to achieve its commercial objectives in the competitive US market. The Company notes that it has successfully collected payments (albeit delayed) totaling approximately \$200,000 in the past under this billing collection system.

Why have no significant payments been received during the year?

The Company has recently experienced slower than expected payment turnaround time due to recent budget constraints in the region the Company operates in. For instance, certain NY State and City budget cuts and re-allocations have delayed the ability of the Company to collect payments for the seat licences.

3. How has KNM satisfied itself that the balance of revenue and deferred revenue recorded in the financial statements for the period is accurate and will be received?

The Company currently records sales for seat licences which are sold on an annual basis and thus revenues are recognised over the term of the seat licence (generally 12 months) on a straight-line basis over the life of the seat licence.

The Company has satisfied itself that the balance of revenue and deferred revenue recorded in the financial statements for FY18 period is accurate on the basis that all invoices are supported by completion of milestones associated with the provision of seat licences underlying those invoices. The invoices or work performed by the Company have not been disputed.

As noted above, the Company has previously encountered delays in past payments. Notwithstanding these delays, the Company has successfully collected \$200,000 in payments under the billing collection system. On the basis of this precedent, the Company is reasonably satisfied that the balance of revenue and deferred revenue recorded in the financial statements for FY18 will be received.

4. How has KNM satisfied itself of the collectability of the trade receivables balance?

As noted above, the Company has reasonable grounds to believe that the trade receivables balance will be collectible, given its past experiences of delayed payments under the billing collection system.

5. What steps does KNM intend to take to obtain an unqualified audit/review report for future financial periods?

The Company intends to work with its auditor to obtain an unqualified audit/review report for future financial periods, by taking steps to implement the auditor's recommendations.

In particular, the Company is seeking to enter into a more formal written agreement with the NYC DOE, as appropriate evidence to support the occurrence of revenue and recoverability of outstanding debtors for future sales and licence renewals currently under negotiation with the DOE.

Further, the Company also continues to pursue sales in other school districts and regions, all of which will be under formal contractual arrangements.

In addition, the Company continues to have regular consultations with debtors, and will continue to use its best endeavours to reduce its aged debtor balance.

6. Does KNM consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please also explain the basis for this conclusion.

Yes. As demonstrated by the Company's announcements including its quarterly updates to the ASX, the Company has made significant progress including operational achievements through various partnerships and global expansion. See the following ASX announcements:

- **Progress Update (9 April 2018)**
- **Major US Content Sales Catalyst with NAACP Partnership (12 June 2018)**
- **KNeoWorld Expands into the United Kingdom (19 June 2018)**
- **KNeoMedia Significantly Strengthens US Sales Team (4 September 2018)**

7. Is KNM of the view that its financial condition would be sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2?

Yes, it is.

8. If the answer to question 7 is "yes", please explain the basis on which KNM has formed the conclusion that its financial condition is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2. Specifically, KNM should submit the reasons (including any previous disclosures made to the market) it considers relevant given the matters outlined in the Independent Auditor's Report resulting in the Qualified Opinion.

As at 30 June 2018, the Company holds \$2,713,642 in cash and cash equivalents, with total liabilities of \$392,637. The Company has adequate working capital to fund its operations and carry out its stated business objectives. Although the Company's objectives are to achieve higher revenue and positive operating cashflow, it believes that its current financial conditions are sufficient and adequate to warrant continued listing on ASX in accordance with listing rule 12.2. The Company notes that its ongoing financial viability is not solely dependent on the collection of the trade receivables, notwithstanding its belief that the trade receivables balance will be collectible.

9. If the answer to questions 6 or 7 is "no", please explain what steps KNM has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.

N/A.

10. Please confirm that KNM is in compliance with the Listing Rules and, in particular, Listing Rules 3.1, 12.1 and 12.2.

Yes, confirmed.

11. Please confirm that KNM's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of KNM with delegated authority from the board to respond to ASX on disclosure matters.

Yes, confirmed.

Yours sincerely

By order of the Board of KNeoMedia Limited

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

Sophie Karzis

Company Secretary

T: (03) 8622 3354

E: sk@ccounsel.com.au

27 September 2018

Ms Sophie Karzis

Company Secretary

By email: sk@ccounsel.com.au

Dear Ms Karzis

KNeoMedia Limited ("KNM"): Financial Condition Query

ASX Limited ("ASX") refers to the following:

- A. KNM's Annual Financial Report for the year ended 30 June 2018 lodged on the ASX Market Announcements Platform and released at 8:21 am on 26 September 2018 (the "Annual Report").
- B. The Independent Auditor's Report set out on pages 51 to 53 of the Annual Report which contains a qualified opinion (the "Qualified Opinion") stating the following:

"Basis for qualified opinion"

The Group has Revenue of \$520,452, Deferred Revenue of \$57,815 and Trade Receivables of \$506,180 as at 30 June 2018 relating to KNeoWorld Education, representing invoices raised in respect of licences sold to a number of New York schools. In the absence of any signed licence agreements or other documentation in relation to these licences, and in the absence of any significant payments received during the year, we were unable to obtain sufficient appropriate audit evidence about the occurrence of revenue or recoverability of trade receivables. Consequently, we were unable to determine whether any adjustments to these amounts were necessary."

Relevant listing rules and guidance

- 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.*

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- *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 Annual Report and having regard to the above, ASX asks KNM to respond separately to each of the following questions:

1. Commenting specifically on the Qualified Opinion, can KNM confirm that in the Directors’ opinion, the Annual Report:
 - (a) complies with the relevant Accounting Standards; and
 - (b) give a true and fair view of the financial performance and financial position of KNM?
2. The Qualified Opinion states that *“In the absence of any signed licence agreements or other documentation in relation to these licences, and in the absence of any significant payments received during the year, we were unable to obtain sufficient appropriate audit evidence about the occurrence of revenue and recoverability of trade receivables.”* Why is KNM unable to provide its auditors with signed licence agreements or other documentation in relation to these licences? Why have no significant payments been received during the year?
3. How has KNM satisfied itself that the balance of revenue and deferred revenue recorded in the financial statements for the period is accurate and will be received?
4. How has KNM satisfied itself of the collectability of the trade receivables balance?
5. What steps does KNM intend to take to obtain an unqualified audit/review report for future financial periods?
6. Does KNM consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please also explain the basis for this conclusion.
7. Is KNM of the view that its financial condition would be sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2?
8. If the answer to question 7 is “yes”, please explain the basis on which KNM has formed the conclusion that its financial condition is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2. Specifically, KNM should submit the reasons (including any previous disclosures made to the market) it considers relevant given the matters outlined in the Independent Auditor’s Report resulting in the Qualified Opinion.
9. If the answer to questions 6 or 7 is “no”, please explain what steps KNM has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.
10. Please confirm that KNM is in compliance with the Listing Rules and, in particular, Listing Rules 3.1, 12.1 and 12.2.
11. Please confirm that KNM’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of KNM with delegated authority from the board to respond to ASX on disclosure matters.

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 half an hour before the start of trading (ie before 9.30 a.m. AEST) on Thursday, 4 October 2018.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

[Sent electronically without signature]

Cheng Tang

Senior Adviser, Listings Compliance (Melbourne)