

18 December 2019

Mr Dale Allen
Principal Adviser, Listings Compliance (Perth)
Australian Securities Exchange
Level 40, Central Park 152-158 St George's Terrace Perth WA 6000

By email: listingscomplinceperth@asx.com.au

Dear Mr Allen,

We refer to your letter of 11th December 2019 requesting further information in relation to the financial condition of FE Investments Group Limited (**Company** or **FEIG**). The Company's new management team and board (announced on 24 September 2019) are focused on engaging positively with the market and providing information in a timely and appropriate manner.

By way of background, we note that FEIG, an ASX-listed public Australian company, owns 100% of FE Investment NZ (**FEI**) which in turn holds 98% of the FEIG Group's assets. FEI holds a non-bank deposit taking license (**NBDT License**) from the Reserve Bank of New Zealand RBNZ).

Please see below our responses to each question raised in your letter (adopting your numbering). We confirm that our responses are in a format suitable for release to the market under Listing Rule 18.7A.

- 1. Is the Company able to confirm that in the Directors' opinion, the Financial Report:**
- a) complies with the relevant Accounting Standards; and**
 - b) gives a true and fair view of the financial performance and financial position of the Company?**

Yes.

- 2. Given the Disclaimer relates to the Auditor's inability to obtain sufficient appropriate review evidence in relation to the following balances:**
- a) \$11m of Loans receivable balance from Tomizone;**
 - b) \$17m of Loans receivable from two hotel developments; and**
 - c) \$1m of Deferred Tax Assets,**
- what steps does the Company intend to take in future periods to ensure the Auditor is provided with sufficient appropriate audit evidence to form a view on these amounts?**

The Company has provided the Auditors with all information requested and available about the matters noted, including the following key information, which the Company considers is sufficient to conclude in relation to the balances noted above.

- a) The FEI Group is currently working with Tomizone in relation to a transaction that would result in the sale of this entity to the Company. Details of the proposed transaction are set out in

Tomizone's announcement to the market on 11 April 2019. The successful completion of the transaction is dependent on a number of factors including the ability of the Company to raise additional capital and shareholder approval for this, and approval of Tomizone bond holders to convert their debt into equity.

The Company considers the key contingency to be the requirement to raise an additional NZD\$7 million (approximately) to ensure that the RBNZ capital requirements are continued to be met both before and after the transaction. Without this capital, the Company will still be able to pay its debts as and when they fall due but could potentially breach the minimum capital ratio RBNZ required it to maintain as a condition of the NBDT License. Based on the Company's prior experience of raising capital (including the \$3.4m raise announced to the market on 30th October 2019 as part of its September 2019 Quarterly Commentary and Business update) the Company considers the capital raise to be a normal part of the Company's operating activities and its expectation that it will receive shareholder approval for the raise to be reasonable.

- b) The recoverability of the loans is dependent on the successful completion and realisation of the hotel developments that underly the loans. The Company has, and continues to, undertake detailed ongoing analysis of the status of the projects, and of their likely realisable amounts using valuation estimates based on cap rates from recent comparable sales and market analysis and other information from external parties. The cap rates used for these projects at the time of reporting the year to 31 March 2019 gave rise to a recoverable amount in excess of the value of the loans, and when this was reassessed at 30 September the cap rate was changed to reflect the latest market estimates. As a result of this, the Company reassessed the recoverable amounts of the loans to be \$4.3m for Hobson Street and impaired the loans to this amount.

The previous cap rates for Hobson street were 4.75% and Anzac A29 were 5.0%, and revised to 5.20% and 5.25% respectively, based on the analysis noted. A range of cap rates were considered, and the Company considers it has taken a prudent approach based on the evidence it has obtained, which the Company considers to be sufficient to make this judgement. The Company also commissioned an external expert valuation which was in progress at the date of the release of the results and is still being finalised.

- c) The deferred tax asset balances are recoverable based on the prudent expectation that results and developments which have been announced to the market in the past, and which have been carefully considered as part of the review for the 6 months to 30 September, are capable of being achieved. The Company is confident in its announcements and accordingly considers that the evidence it has in relation to the deferred tax assets is sufficient to support its conclusion that these are recoverable in the normal course of business.

The Company will continue to undertake detailed ongoing analysis of the status of the projects and provide the Auditor with all relevant information concerning any audit matters (including the matters noted) as it comes to hand, and the Company will continue to ensure that requests for further information by the Auditor are promptly met.

3. ***Please explain how the Directors satisfied themselves that the balances recorded for each of the \$11m of Loans Receivable from Tomizone, \$17m of Loans receivable from two hotel developments and \$1m of Deferred Tax Assets were disclosed in a manner which adheres to current Australian Accounting Standards?***

The half year financial report is, under accounting standards and the law, considered to be an extension of the information presented in the prior annual report and only changes to that are required to be disclosed. The previous annual report was not qualified, and therefore the information in that report was considered to be appropriate by the auditor. All changes to that information have been disclosed in the half year report.

The Company discussed and reviewed the disclosures with the Auditor, internally, and with an external financial reporting expert. The Company notes that there is no qualification or other observation by the Auditor that the disclosures relating to these matters are not sufficient, and the Auditor notes that they are disclaiming their opinion because of evidence in relation to the balances, not disclosures.

The Directors are therefore satisfied in relation to the disclosures around these balances.

4. *Given the Disclaimer also relates to the Auditor's inability to determine whether the going concern basis of preparation is appropriate, please explain how the Directors satisfied themselves that the going concern basis of preparation is appropriate and the Company's financial report adheres to the current Australian Accounting Standards?*

The Company has noted in its response to Question 2, above that it Considers that it has sufficient evidence in relation to the matters the auditor has drawn attention to in (a) (\$11m of Tomizone loans) and (b) (\$17m of Hotel project loans) of its Basis for Opinion paragraph of its report. Given that note (d) in the auditors Basis for Opinion paragraph relates specifically to those matters and no others, the Company therefore considers that it has sufficient evidence in relation to the going concern assumption being applied in the half year financial report.

Notwithstanding this, the Company notes the following.

The Company undertakes a detailed ongoing going concern analysis on a regular basis, which confirms the Directors' Conclusion that the financial reports have been properly presented on the going concern basis, and that any information in the future that may affect this will continue to be disclosed as required by Listing Rule 3.1.

At the half year, the Company considered in detail whether the half year financial statements as at 30 September 2019 should be prepared on the going concern basis. This analysis included the consideration of forecasts and assumptions to the end of calendar year 2020 (past 12 months from the date of signing the interim report) including the potential implications of matters such as:

- Delay's in the timing of expected capital raises.
- The timing and amounts recoverable in relation to property developments
- Timing and amounts of other projects
- Timing and amounts of other operating income and expenses
- RBNZ compliance requirements

5. *What steps does the Company intend to take to obtain unqualified audit/review reports for future financial periods?*

Please refer to our answer to Question 2, above.

The Company will continue to undertake its proactive and ongoing dialogue with the Auditor on a continuous basis in relation to the normal audit process and with respect to information which is relevant to the audit process, including but not limited to the matters noted in our response to Question 2 above.

This includes ensuring that all information requested by the Auditor is actioned and delivered in a timely fashion.

6. Does the Company 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 explain the basis for this conclusion.

Yes.

The company currently has 226m shares on issue held by over 778 shareholders with a current market capitalisation of \$13.6m trading at \$0.06 cents as at 6th December 2019.

To support the Company, it has the appropriate structure and operations starting with two Independent Boards

- FEIG – Board of the ASX listed entity and;
- FEI - Board of the subsidiary that is the responsible entity and holds the NBDT License from RBNZ.

Board Members – FEIG	Experience
Campbell Newman – Chairman	<ul style="list-style-type: none"> • Former Premier of Queensland, Chairman of Arcana Capital, a director and adviser to a number of start-ups and a regular commentator on Sky News Australia.
Paul Fox – Vice Chairman, Independent Director	<ul style="list-style-type: none"> • Managing director of Cooran Toohill Capital. Previous investment and advisory roles at AGL Energy, Southern Cross Ventures and the California Clean Energy Fund.
Jeff McKenzie, Independent Director, Head of Audit Committee	<ul style="list-style-type: none"> • Brings significant experience from roles with ANZ Banking Group over a 33year period and in CEO and advisory roles with companies throughout Australasia.
Cook Huang – Independent Director	<ul style="list-style-type: none"> • Has accumulated a wealth of experience across a range of industries in New Zealand in addition to his international business interests in China
Board Members – FEI	Experience
Andrew Schnauer – Chairman	<ul style="list-style-type: none"> • Owner of Schnauer Legal with over 20 years of extensive commercial, property and trust law
Marcus Ritchie – Group CEO	<ul style="list-style-type: none"> • Extensive experience in M&A financing in NYC, London and Australia. Most recently Director at ANZ and Vice President at Merrill Lynch
Jacob Ploeg – Independent Director	<ul style="list-style-type: none"> • Previously Senior Audit manager for 31 years with DFK Oswin Griffiths Carlton

Additionally, the Company has implemented appropriate governance measures, including formalised committees. For example:

Audit and Risk Management Committee that has oversight responsibilities as well as advising on all matters related to the financial accounting and reporting, internal control structure, external audit as well as the appropriate ethical standards for the management of the Company.

Trading Policy has been installed for all directors and employees which outlines the regulations and law and prohibits insider trading; and imposes restrictions on dealing in securities by key management personnel of FEIG and FEI. Under the policy, whenever a person has inside information which may affect

the price of value of securities, they must not: (a) deal in those securities; or (b) communicate that information to anyone else. This rule applies regardless of how the inside information was obtained.

Operations required - FEI currently has more than 17 full-time equivalent employees in order to provide the required core level of operations inclusive of managerial level staff which include the roles of CEO, CFO, COO, Head of Credit, Head of Legal, Compliance Officer and Head of Deposits, together with a Company Secretary responsible for ASX communications.

Importantly, FEI is also required appropriate governance structures and an appropriate risk management programme under its NBDT License which requires key management of credit, liquidity, market and operational risks and a minimum capital ratio (the level of capital in relation to the credit exposures), which is required to be included in licensed NBDT Licensee's trust deeds.

7. *Does the Company consider that the financial condition of the Company is sufficient to warrant continued quotation of its securities and its continued listing on ASX in accordance with the requirements of listing rule 12.2? In answering this question, please explain the basis for this conclusion.*

Yes. The Company forms this conclusion on the basis of the continuing growth in its operations and assets base, summarised as follows;

Income Statement (NZD 000's)	Half Year Sep 19	Half Year Sep 18	Full Year Mar 19
Group Revenue	6,409	7,808	15,606
Gross Profit	3,505	2,974	6,487
Gross Margin	55%	38%	42%
Total Overhead Expenses (excl. Tax Expense)	4,460	4,172	7,235
NPAT	(698)	(1,358)	67
Normalised NPAT	762	(1,124)	1,042

Balance Sheet (NZD 000's)	Half Year Sep 19	Half Year Sep 18	Full Year Mar 19
Cash	15,497	8,315	13,436
Total Deposits	64,204	55,565	61,064
Total Loans	64,632	58,601	60,884
Total Assets	84,828	68,621	78,180

- The Company has undertaken a going concern analysis which confirms the Directors' belief that the Company is on track to be profitable and assume the ongoing tax benefits. FEI's core business over the last 12 months has shown significant improvement.
- The Company generated a half year normalised profit before impairment charges and fair value adjustments of \$762,000, from a HY18 loss of \$1,124,000, which is a significant improvement of \$1,886,000 (+168%) on a comparable basis.
- The Company recently completed a A\$3.4m capital raise (announced to the market on 30th October 2019 as part of its September 2019 Quarterly Commentary and Business update). The funds will be used for additional lending growth and capital reserves.

8. *If the answer to Questions 6 or 7 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 rules 12.1 and 12.2.*

Not applicable.

9. *In relation to the Financial Report, did the Board receive the CEO and Head of Finance declaration, as described in section 4.2 of the Company's Corporate Governance Disclosure, that in the opinion of the CEO and Head of Finance, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?*

Yes, the declaration by the CEO, COO and CFO was provided to the Board on 6th December 2019.

The Company maintains and is continuously developing its systems of internal control, risk management and corporate governance. The Company is continuously looking at ways to improve these structures, and since the year end they have been strengthened by the appointment of additional independent directors, a new highly qualified CFO, head of credit and head of deposits

The Company discussed and reviewed the systems and controls, corporate governance and risk management processes, the results and the financial report with the auditors during the audit review. The Company notes that the disclaimer of opinion by the auditor related to matters noted in the Basis of Opinion paragraph of the audit report (refer answer 2 above) and does not mention;

- the underlying books and records of the Company
- the accounting standards applied, or
- The system of risk management and internal control

The Directors consider the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

10. *If the answer to Question 9 is "No", why did the Board not receive the CEO and Head of Finance declaration as described in section 4.2 of the Company's Corporate Governance Disclosure?*

Not applicable.

11. *What enquiries did the Board make of management to satisfy itself that the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company?*

The Board also meets with management (being the CEO, CFO and COO) each month to review and subsequently discuss a detailed financial report. The board reviews all financial information in depth with management including actuals against budget, six to 18-month forecasts, core RBNZ ratios, profitability, provisions (including loan categories), lending, capital position and in the boards view the company at all times remains a going concern.

The Board is provided with specific information on risk and compliance and internal controls by the compliance officer each month, to ensure all internal controls are in compliance.

Each of the processes set out above was followed with respect to the financial records and financial statements to ensure they comply with the accounting standards and that the financials represent at all times a true and fair view of the performance and financial position.

12. *Commenting specifically on the Disclaimer, does the Board consider the Company has a sound system of risk management and internal control which is operating effectively?*

The Company maintains and is continuously developing its systems internal control, risk management and corporate governance. The Company is continuously looking at ways to improve these structures, and since the year end they have been strengthened by the appointment of additional independent directors, a new highly qualified CFO, and internal Property analyst, and employed an internal legal counsel plus additional lending staff. The company has also updated its risk /policy manuals and implemented stricter lending and compliance guidelines.

The Disclaimer does not refer to a lack of internal controls and/or a weakness in any risk management system. The disclaimer of opinion by the auditor relates to matters noted in the Basis of Opinion paragraph of the audit report (refer to our response in Question 2 above) and does not mention;

- the underlying books and records of the Company
- the accounting standards applied, or
- The system of risk management and internal control.

Refer also to the further information presented in our response to Question 9.

The Directors consider the Company has a sound system of risk management and internal control which is operating effectively.

13. *Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.*

The Company confirms that it is complying with the Listing Rules, including Listing Rule 3.1 and that there is no information required to be disclosed to the ASX under that rule that has not already been released to the market.

14. *Please confirm that the Company'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 the Company with delegated authority from the board to respond to ASX on disclosure matters.*

The Company's responses to the questions above have been authorised and approved by the Board and are in accordance with the Company's continuous disclosure policy.

Yours sincerely



Eryn Kestel
Company secretary
FE Investment Group Limited



11 December 2019

Ms Eryn Kestel
Company Secretary
FE Investments Group Limited

By email: eryn@kestelcorp8.com.au

Dear Ms Kestel

FE Investments Group Limited (the “Company”) – Financial Condition Query

ASX Limited (“ASX”) refer to the following:

1. The Company’s Half Year Financial Report for the period ended 30 September 2019 lodged with the ASX on 6 December 2019 (“Financial Report”) which included an Independent Auditor’s Review Report from William Buck on pages 41 to 43 (“Auditor’s Report”).
2. The Disclaimer of Conclusion in the Auditor’s Report (page 41) which reads as follows (“Disclaimer”):

“Disclaimer of Conclusion

We have reviewed the accompanying half-year financial report of FE Investments Group Limited (the Company) and the entities it controlled at the half-year’s end or from time to time during the half year (the consolidated entity), which comprises the consolidated condensed statement of financial position as at 30 September 2019, the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed 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 director’s declaration.

Based on our review, which is not an audit, we do not express a conclusion on the accompanying half year financial report of the consolidated entity. Because of the significance of the matters described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate review evidence to provide a basis for review conclusion on this half year financial report.

Basis for Disclaimer of Conclusion

The half-year financial report includes three material balances for which we have been unable to obtain sufficient appropriate review evidence. These balances are:

- *\$11m Loans receivable from Tomizone*
 - *\$17m Loans receivable from two hotel developments*
 - *\$1m of Deferred Tax Asset*
- a) *As stated in Note 10, the consolidated entity has \$11m of loans receivable from Tomizone and related entities and is working on a transaction which could result in the sale of this asset to the company. This successful completion of this arrangement is dependent upon a number of factors including the ability of both Tomizone and the company to raise additional capital. As the outcome of this transaction is based on future events, we were unable to obtain sufficient appropriate review evidence on this matter.*
 - b) *As stated in Note 4, the consolidated entity has \$17m of loans receivable from two hotel developments in central Auckland. The ultimate collection of these receivables is dependent upon the successful completion of these project on a timely basis and their sell down to investors. There are a number of significant*

uncertainties related to these projects, and we were unable to obtain sufficient appropriate review evidence on this matter.

- c) *As stated in Note 13, the consolidated entity has a Deferred Tax Asset of \$1m. The recoverability of this asset is dependent on the consolidated entity earning taxable profits in the future, and shareholder continuity is maintained. Due to the two uncertainties related to the matters (a) and (b) above, we were unable to obtain sufficient appropriate review evidence on this matter.*
- d) *We draw attention to Note 13 in the financial statements, which discloses conditions that indicate the existence of material uncertainties, relating to matters (a) and (b) above, surrounding the continuing use of the going concern assumption in the preparation of the half-year financial report.*

We consider the impact of the above matters to be material and pervasive to the half-year financial report of the consolidated entity."

- 3. The Company's 2019 Corporate Governance Disclosure lodged with the ASX on 12 June 2019 ("Corporate Governance Disclosure") which, on page 11, provides confirmation that the Company complies with the Corporate Governance Principles and Recommendation (3rd Edition) 4.2 which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and Head of Finance a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

- 4. ASX Listing Rules 12.1, 12.2 and 19.11A:

Financial condition

- Listing Rule 12.1 *The level of any entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 12.2 *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 *If a listing rule requires an entity to give ASX accounts, the following rules apply*
...
(b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.

Questions for response

In light of the Auditor's Report, the Disclaimer, the information contained in the Financial Report, Corporate Governance Disclosure, and the application of the listing rules stated above, please respond to each of the following questions:

- 1. Is the Company able to confirm that in the Directors' opinion, the Financial Report:
 - (a) complies with the relevant Accounting Standards; and
 - (b) gives a true and fair view of the financial performance and financial position of the Company?
- 2. Given the Disclaimer relates to the Auditor's inability to obtain sufficient appropriate review evidence in relation to the following balances:

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- a. \$11m of Loans receivable balance from Tomizone;
 - b. \$17m of Loans receivable from two hotel developments; and
 - c. \$1m of Deferred Tax Assets,

what steps does the Company intend to take in future periods to ensure the Auditor is provided with sufficient appropriate audit evidence to form a view on these amounts?

3. Please explain how the Directors satisfied themselves that the balances recorded for each of the \$11m of Loans Receivable from Tomizone, \$17m of Loans receivable from two hotel developments and \$1m of Deferred Tax Assets were disclosed in a manner which adheres to current Australian Accounting Standards?
4. Given the Disclaimer also relates to the Auditor's inability to determine whether the going concern basis of preparation is appropriate, please explain how the Directors satisfied themselves that the going concern basis of preparation is appropriate and the Company's financial report adheres to the current Australian Accounting Standards?
5. What steps does the Company intend to take to obtain unqualified audit/review reports for future financial periods?
6. Does the Company 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 explain the basis for this conclusion.
7. Does the Company consider that the financial condition of the Company is sufficient to warrant continued quotation of its securities and its continued listing on ASX in accordance with the requirements of listing rule 12.2? In answering this question, please explain the basis for this conclusion.
8. If the answer to Questions 6 or 7 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 rules 12.1 and 12.2.
9. In relation to the Financial Report, did the Board receive the CEO and Head of Finance declaration, as described in section 4.2 of the Company's Corporate Governance Disclosure, that in the opinion of the CEO and Head of Finance, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
10. If the answer to Question 9 is "No", why did the Board not receive the CEO and Head of Finance declaration as described in section 4.2 of the Company's Corporate Governance Disclosure?
11. What enquiries did the Board make of management to satisfy itself that the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company?
12. Commenting specifically on the Disclaimer, does the Board consider the Company has a sound system of risk management and internal control which is operating effectively?
13. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.
14. Please confirm that the Company'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 the Company with delegated authority from the board to respond to ASX on disclosure matters.

Please note ASX reserves its right under listing rule 18.7A to release this letter and the Company's response to the market. Accordingly, the Company's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event by 9:00am WST, Wednesday 18 December 2019.

Any response should be sent to ListingsCompliancePerth@asx.com.au. It should not be sent to the ASX Market Announcements Office.

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

Yours sincerely

Dale Allen
Principal Adviser, Listings Compliance (Perth)