



16 October 2022

**BY EMAIL**

Ms Lisa Banh  
Senior Adviser, Listings Compliance (Sydney)  
Australian Securities Exchange

By Email: ListingsComplianceSydney@asx.com.au

Dear Ms. Banh

**1st Group Limited: Full-Year Report (Audited Financial Report) - Query**

The Company refers to your letter dated 12 October 2022 and responds to the questions asked of us in that letter as follows:

1. **Is 1ST able to confirm that in the Directors' Opinion the Annual Report:**
  - (a) **compl[ies] with the relevant Accounting Standards and Interpretations issued by the Australian Accounting Standard Board (AASB); and**
  - (b) **give[s] a true and fair view of 1ST's financial performance and position for the year ended and as at 30 June 2022?**

Yes, 1ST confirms that, in the Directors' opinion, the Company's report for the full year to 30 June 2022 complies with the relevant accounting standards and gives a true and fair view of 1ST's financial performance and position, to their best of their knowledge and belief.

2. **Given the qualified audit opinion is due to the significant uncertainty regarding Group's ability to continue as going concern, please explain the basis for and the factors considered by the Directors to satisfy themselves that the use of going concern assumption in the preparation of the consolidated financial statements of the Group is in accordance with Australian Accounting Standards.**

At the time of signing the Annual Report, the Directors were of the opinion that the Company's trading results would be materially in line with the levels assumed in the assessment of going concern, and to the extent of any underperformance, the company would be able to rely upon a number of measures (such as those outlined in Note 2 of the annual report), including:

- as a Company listed on Australian Securities Exchange, the Directors are confident the Group will have the ability to raise capital in the future, if required;
- the January 2021 agreement in relation to the Company's credit facility, noted in the Annual Report, extended the credit facility, and extended maturity dates for previously drawn amounts. In relation to that credit facility, Mr John Plummer has extended the timeframe for cash repayments arising from the January 2021 extension to 12 months beyond the signing date of the 30 June 2022 audit report;
- the Group intends to continue the long-time practice for Visionflex of borrowing funds in advance of the R&D tax credit to be claimed in the October following the end of FY23;



- the Group would continue to review its costs and take action where necessary to reduce those costs to reflect its anticipated revenues; and
- the Group is confident of securing additional credit lines on similar terms to the existing one as needed, should working capital shortfalls arise during the forecast period.

**3. Commenting specifically on the qualified opinion, does the Board consider that 1st has a sound system of risk management and internal control which is operating effectively?**

During the relevant reporting period the Directors paid close attention to and take comfort in the regular and thorough audits and reviews of 1ST's internal controls, finance department and risk management systems and consider that the Company's risk management and internal control systems are sound and are operating effectively. The Board, as outlined in the Corporate Governance Statement, has a combined committee to oversee audit and risk. The Audit and Risk Committee reviewed the risk management framework during the reporting period. Prior to approving the Annual Report, the directors received signed confirmation from the Company's CEO and CFO regarding the soundness of the Company's risk management and internal control systems, on which they relied.

On 17 June 2022 the Board appointed two new directors, Mr Brook Adcock and Mr John Nantes, at the time of completing the purchase of Visionflex. The Company has undertaken additional internal control reviews since their appointment and especially since the qualified audit opinion. Some additional actions completed since that time include:

- a change in executive management as disclosed to the market.
- an ongoing assessment of the revenue and cost synergies that may be extracted from the purchase of Visionflex.
- a review of forecasting, reporting and accounting oversight within the business.
- a requirement of management for more timely information for the Board to assess and question the business and any required actions.

1st Group's auditors, PKF, have confirmed to the Board that they have reviewed the policy and understood the risk management and internal controls of the Group.

**4. What evidence was provided to the Auditor to assess the Group's ability to continue as going concern?**

The Company provided detailed financial projections, specific going concern assessment considerations and supporting materials to the Auditor, in addition to the usual accounting and audit support information. The Directors also made representations that they had confidence in the Company's ability to continue as a going concern by utilising measures such as those included in the response to question 2 above.

**5. Please explain why the Auditor was not satisfied with the preparation of the consolidated financial statements on a going concern basis, which indicates continuity of business activities and the realisation of the assets and settlement of liabilities in the normal course of business? Your response should note any relevant assumptions and estimates to the future cashflow forecast model which led to the qualified opinion.**

We understand that, particularly given challenges in forecasting the operations of a business of the nature of 1st Group (and recognising previous misses in certain revenue and costs forecasts), the Auditors believed that the Company's sensitivity analyses should include a number of very aggressive scenarios. In some of those scenarios, we understand that the Auditor believed that additional capital may be required for the operations of the Company. We understand that the Auditor felt they were unable to obtain sufficient confirmed audit evidence that the Board would be able, if needed, to utilise the measures included in the response to question 2 above, in ensuring that the Group is able to continue as a going concern. In particular, as the Board had not – at the time of signing the accounts - commenced a capital raise process, or further increased



existing debt limits, the Auditor considered there was less evidence than had been available in previous years.

**6. It is noted that the Auditor's Reports attached to the Annual Reports for prior years, from [year] ended 30 June 2021 to 30 June 2018 included material uncertainty related to going concern. Please explain what factors resulted in the qualified audit opinion for the year ended 30 June 2022.**

We understand that similar considerations were in place in each of the previous periods, in relation to which the Auditors considered a material uncertainty emphasis of matter was the appropriate Audit Report approach.

However, as an example, during the audit of the 30 June 2021 Annual Report, there was a capital raise in progress via an entitlement offer and the auditor was able to satisfy themselves that it would provide sufficient funds to assist the Group to continue as a going concern.

For the year ended 30 June 2022, the Auditors advised that the absence of a specific capital raise, extended debt facility or appropriate letter of financial support was the determining factor in moving from an emphasis of matter to the qualified audit opinion.

**7. What steps has 1st taken since the release of the Annual Report to obtain an unmodified audit opinion with regards to its future financial statements?**

Since receiving a qualified audit opinion the Directors have undertaken a further review of the Company's operations and forecasts. As disclosed to the market, the Company has accepted the resignation of the previous CEO. Acting CEO Josh Munday was immediately tasked with reviewing and reporting an enhanced forecast, identifying low case scenarios, cost out programs, revenue confidence levels and capital requirements. Having taken a materially more conservative view of those forecasts in that review, and identifying potential areas of underperformance, the Company will rely upon a range of measures (including those outlined in Note 2 of the Annual Report), to address the issue previously raised by the Company's Auditor of material uncertainty regarding 1ST's going concern. These include:

- focusing more completely on those areas of the Company's business and operations which have the greatest potential for growth, including the potential for synergies between the recently acquired Visionflex business and the existing Company operations;
- where underperformance against the Company's projections arises, implement cost savings, the nature of which were previously shared with the Company's Auditor, to ensure that costs appropriately reflect revenues;
- if required, raising capital and utilising other measures as outlined in Note 2 to the Annual Report in relation to supporting the ability of the group to continue as a going concern; and
- over time, the Board will continue to address the capital structure of the Company and its balance sheet in relation to the convertible note (including, if needed, raising additional capital to support business expansion and related working capital requirements).

Directors have also met with PKF directly following the qualified opinion, seeking confirmation on the requirements to satisfy the removal of the qualified audit. The Directors are working towards what has been requested from PKF.

The Company has obtained confirmation from various parties of their intention to inject \$2.4m into the Company by way of the issue of convertible securities in the near term. The details of the arrangements are being finalised and will be announced to the market at the appropriate time. The Auditor had indicated that, once the funding is in place and appropriate supporting documentation is provided, they ought to be in a position to consider issuing a half-year unqualified review report with an emphasis of matter).



- 8. Does 1ST consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the 1ST's current business activities.**

Yes, 1ST considers the level of its operations sufficient to maintain ASX quotation of its securities as required under Listing Rule 12.1.

Over the past 12 months, 1ST's activities have performed at a level of growth consistent with previous years after adjusting for the adverse effects of Covid 19 lockdowns in VIC and NSW and the pharmacy customer cancellations noted in recent ASX announcements. In particular, cash receipts from customers (inclusive of GST) of \$6,016,644 in the year to 30 June 2022, increased by 7.6% compared to the year to 30 June 2021. The addition of the Visionflex business in the acquisition that completed in June 2022, is expected to further add to Company revenues and cash receipts in the current financial period.

- 9. Does 1ST consider that the financial condition of 1ST is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.**

Yes, 1ST considers the financial condition of 1ST is sufficient to maintain ASX quotation of its securities as required under Listing Rule 12.2.

The Company's audited accounts show that the 1ST's net current assets position was \$167,821, being the excess of current assets of \$4,116,194 over the current liabilities of \$3,948,373.

The audited accounts also show the cash and cash equivalents as at 30 June 2022 were \$2,007,121; and the Company continues to closely monitor its cash position.

- 10. If the answer to questions 8 or 9 is "No", please explain what steps 1st has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.**

Not applicable.

- 11. Please confirm that 1ST is complying with the Listing Rules and, in particular, Listing Rule 3.1**

1ST has complied and is complying with ASX's Listing Rules and, in particular with the ASX's continuous disclosure requirements (Listing Rule 3.1).

- 12. Please confirm that 1ST's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of 1ST with delegated authority from the board to respond to ASX on disclosure matters.**

1ST confirms that the responses to the questions above have been authorised and approved by the Board.



We trust these responses have addressed your concerns and are very happy to discuss with you any additional questions you may have, with a view to ensuring that the suspension of trading in the Company's securities may be lifted.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephe Wilks', with a long vertical line extending downwards from the end of the signature.

Stephe Wilks  
Chair  
1st Group Limited



12 October 2022

Reference: 61260

Ms Elizabeth Spooner  
Company Secretary  
Automatic Group

By email:

Dear Ms Spooner

**1st Group Limited ('1ST' or the 'Group'): Full-year report (audited financial report) - Query**

ASX refers to the following:

- A. 1ST's annual report for the year ended 30 June 2022 lodged with ASX Market Announcements Platform and released on 3 October 2022 ('Annual Report').
- B. ASX notes that the Independent Auditor's Report attached to the Annual Report ('Auditor's Report') contains a qualified opinion:

*"We draw attention to Note 2 to the Financial Report, which describes that the Group has reported a loss for the financial year ended 30 June 2022 of \$6,821,939, negative net assets position of \$3,889,135 and net operating cash outflow of \$2,796,956. The ability of the group to continue as a going concern is dependent on the Board achieving the assumptions and estimates noted in the future forecast cashflow model, raising of sufficient capital over the coming 12 months as and when required, and/or access to external funding. These conditions, along with other matters as set forth in Note 2, casts significant doubt on the group's ability to continue as a going concern. Therefore, the group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report"*

- C. Listing Rule 12.1 which states:

*12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing.*

- D. Listing Rule 12.2 which states:

*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.*

**Request for information**

In light of the information contained in the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

- 1. Is 1ST able to confirm that in the Directors' Opinion the Annual Report:
  - (a) comply with the Accounting Standards and Interpretations issued by the Australian Accounting Standard Board (AASB); and
  - (b) give a true and fair view of 1ST's financial performance and position for the year ended and as at 30 June 2022?

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2. Given the qualified audit opinion is due to the significant uncertainty regarding Group's ability to continue as going concern, please explain the basis for and the factors considered by the Directors to satisfy themselves that the use of going concern assumption in the preparation of the consolidated financial statements of the Group is in accordance with Australian Accounting Standards.
  3. Commenting specifically on the qualified opinion, does the Board consider that 1ST has a sound system of risk management and internal control which is operating effectively?
  4. What evidence was provided to the Auditor to assess the Group's ability to continue as going concern?
  5. Please explain why the Auditor was not satisfied with the preparation of the consolidated financial statements on a going concern basis, which indicates continuity of business activities and the realisation of the assets and settlement of liabilities in the normal course of business? Your response should note any relevant assumptions and estimates to the future cashflow forecast model which led to the qualified opinion.
  6. It is noted that the Auditor's Reports attached to the Annual Reports for prior years, from ended 30 June 2021 to 30 June 2018 included material uncertainty related to going concern. Please explain what factors resulted in the qualified audit opinion for the year ended 30 June 2022.
  7. What steps has 1ST taken since the release of the Annual Report to obtain an unmodified audit opinion with regards to its future financial statements?
  8. Does 1ST consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the 1ST's current business activities.
  9. Does 1ST consider that the financial condition of 1ST is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
  10. If the answer to questions 8 or 9 is "No", please explain what steps 1ST has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
  11. Please confirm that 1ST is complying with the Listing Rules and, in particular, Listing Rule 3.1.
  12. Please confirm that 1ST's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of 1ST 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 Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9.30 AM AEDT Monday, 17 October 2022**. 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, 1ST's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require 1ST to request a trading halt immediately.

Your response should be sent to me by e-mail at [ListingsComplianceSydney@asx.com.au](mailto:ListingsComplianceSydney@asx.com.au). 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.

#### **Suspension**

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ASX will consider reinstatement of 1ST's securities suspended from trading under Listing Rule 17.5 following receipt of consolidated financial statements with an Auditor's Report not qualified in respect of the Group's ability to continue as going concern.

**Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to 1ST's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that 1ST's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

**Release of correspondence between ASX and entity**

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

**Questions**

If you have any questions in relation to the above, please do not hesitate to contact me.

Regards

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**Lisa Banh**  
Senior Adviser, Listings Compliance (Sydney)