



19 April 2023

The Adviser, Listings Compliance - Companies  
Australian Securities Exchange  
ListingsComplianceSydney@asx.com.au

Attention: Karina So

Dear Karina

In response to your Query letter dated 14 April 2-23, please see set out below Aumake's response to your request for information.

1. **Please disclose all the one-off costs related to lease termination and staff redundancies incurred in the September 2022 and December 2022 quarters respectively.**

Details of one-off costs relating to lease terminations (surrender value for early exit) payments made in the September 2022 Quarter totaled \$400,000 and in the December 2022 Quarter totaled \$678,815.

Details of one-off costs relating to staff redundancy payments made in the September 2022 Quarter totaled \$38,722 and in the December 2022 Quarter totaled \$55,088.

2. **Please provide an estimate of AUK's revenues and net cash flows from its online operations for the quarter ending 31 March 2023.**

The estimated revenue and estimated net cash outflows from online operations for the March 2023 Quarter is approximately \$311,974 and \$299,768 respectively.

3. **Please provide an estimate of AUK's net cash flows from operating activities for the quarter ending 31 March 2023. Please detail any one-off costs related to store closures or employment redundancies, and if AUK expects further "one-off" costs.**

The total estimated net cash outflow from operating activities in the March 2023 Quarter is \$300k.

At present it is likely that the only one-off cost that will be reported in the March 2023 Quarter will be a lease termination payment of \$43,101. No staff redundancies were paid out in the March 2023 Quarter.

There are two store locations where Aumake has not yet finalised its discussions with the landlord and expects 'one-off' lease termination surrender payments to occur regarding each of these stores. Confidential negotiations regarding the final settlement payment for one of the stores is continuing and the second store the Company is making monthly instalment payments (\$12,500 per month) to pay off the rent liability (currently there is a liability of \$176,250 still repayable on that lease).

4. **At the date of this letter, and given AUK's current level of operations and net cash flows, does AUK expect to have sufficient funding to continue operating? Please provide the basis for this view.**

Aumake has taken steps to maintain its brand recognition amongst the Chinese community via its online ecommerce presence, has maintained relations with its key suppliers and travel agents, has restructured its business removing aspects causing cash outflows, and has cultivated relations with prospective investors with a view to rebuilding Aumake in anticipation of the return of Chinese tourists to Australia.

As at Thursday 13 April '23, Aumake has \$2,087,979 in available cash (having already received the \$1,051,720 from its strategic investor HK Huibeijia Brand Manage Co., Ltd). This capital injection of \$1,051,720 has been recorded as an Other Debtor until Shareholder approval is obtained on 19 May '23 when it will be recorded as "issued capital".

Aumake believes it has sufficient funding to continue operating (please also refer to section 5 below).

5. Does AUK consider that the financial condition of AUK is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, commenting specifically on the following:

There is no disguising the fact that Aumake has over the last three years been adversely materially impacted by the Covid-19 pandemic and the almost total demise of the Chinese tourist trade to Australia.

Over the last 12 months, Aumake's prospects have completely changed as a direct consequence of the many difficult decisions that have been made and implemented by the newly appointed Board of the Company. Specifically, the appointment of Stephen Harrison as independent non-executive Chair and Stratos Karousos as an independent non-executive director on 1 March 2022 have directly resulted in a positive turnaround of Company's prospects.

Key implemented changes include the following:

- closure of all unprofitable retail stores, including high profile outlets such as Gold Coast, Sydney, Melbourne, Cairns, and Auckland;
- termination of all non-essential staff;
- the implementation of Company-wide salary reductions and other cost reductions;
- termination of costly retail and office leases;
- closure of all unprofitable travel agency stores;
- enhancing and upgrading the Company's online ecommerce platform; and
- the conversion of \$1.47m of debt to equity.

As part of the debt to equity conversion, GAT Travel Agency (an existing key supplier and Travel Agent - who will become a substantial shareholder subject to shareholder approval) are looking to, following the return of Chinese tourism to Australia, re-commence commercial activities with Aumake and expect to drive future revenue growth.

With GAT Travel Agency and HK Huibeijia both becoming substantial shareholders, Aumake is expecting to grow its revenue and expand its product mix whilst creating a strategic ecosystem that coupled with its current cash reserves (of in excess of \$2m) and China's recent tariff reductions on many Australian products.

Aumake is further looking to reopen some branded Aumake physical stores, but intend to do so by an outsource model.

As announced in August 2022, Aumake is looking to release a new social online e-commerce platform with Entertainment Publications. That platform is now close to completion and will likely be launched by the end of Q3 this year.

Accordingly, Aumake considers that the financial condition of Aumake is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2.

5.1 AUK's net operating cash outflow of \$1,635,000 in the quarter ending September 2022 and \$875,000 in the quarter ending December 2022.

Aumake sells trusted Australian products, primarily to 'diagou' and Chinese tourists and as at 31 December 2019 recorded revenue of \$45.3 m from 14 store locations, a warehouse, and two office locations – all leased. When Chinese tourism came to an abrupt halt at the end of 2019 due to the worldwide Covid-19 pandemic, then Aumake's main source of revenue came to an end.

With no Chinese tourist and a lack of foot-traffic, Aumake closed its retail stores, surrendered leases, terminated staff, paid redundancies, reviewed and reduced operations, cut costs and preserved cash.

- September 2022 Quarter - Aumake negotiated the surrender of a number of leases, arranged \$400k in lease surrender payments, paid back rents and terminated a number of staff (including the payment of \$39k of redundancies). These costs will not be incurred in future quarters.
- December 2022 Quarter - Aumake continued the closure of stores (with all physical stores now closed), arranging \$679k in lease surrender payments, continued to restructure the business and wind-down operations and terminated a number of staff (including the payment of \$55k in redundancies). These costs will not be incurred in future quarters.

The closure of activities and downsizing are costly to implement, but most of these activities have now been

completed and paid for. Aumake now presents itself as a lean, funded and financially viable business, with newly invested strategic shareholders and markets for Aumake's premium Australian products.

**5.2 The closure of all AUK's physical stores and the corresponding decline in revenues from those store closures.**

The lack of Chinese tourism into Australia over the last three years meant that Aumake's stores were operating at a loss and needed to be closed. To remain open, without sufficient foot-traffic and revenue the stores were simply unprofitable and hence unviable.

Aumake has a strong brand amongst the Chinese community both here in Australia and abroad, allowing the online ecommerce platform to continue to generate revenue.

**5.3 AUK's total available funding at 31 December 2022 of \$875,000 with the additional funding announced in paragraph F unlikely to be available prior to May 2023.**

Aumake had \$875k in available cash as at 31 December 2022.

Aumake has a good record in raising capital given its strong brand, number of shareholders and following amongst the Chinese community (both here in Australia and abroad) and in March 2023 raised an additional \$704k, following the placement of 177m shares.

As announced to ASX on 29 March 2023, a further \$1,051,720 in funding will be available in May 2023 following the receipt of shareholder approval. Aumake advises it has received these funds from HK Huibeijia Brand Manage Co., Ltd. As a consequence, as at Thursday 13 April 2023 Aumake has \$2,087,979 in available cash.

Aumake is of the view that it has sufficient funding to continue operations.

**5.4 The material uncertainty regarding AUK's ability to continue as a going concern raised by AUK's auditors in the auditor's half-year review (paragraph C).**

The auditor's uncertainty regarding Aumake's going concern was based on (a) the Group incurring a loss of \$1,391,923 for the half-year ended 31 December 2022 and (b) the Group's current liabilities exceeding its current assets.

With regard to item (b) above, subsequent to 31 December 2022 Aumake reached agreement with GAT Travel Agency and Auexpress Global to convert \$1,469,218 of debt into equity. Had these two debt conversion transactions been completed prior to 31 Dec 2022, then the Groups current liabilities would not have exceeded the Group's current assets.

Furthermore, Aumake had received interest from numerous parties interested in making a strategic investment in Aumake, but at the time of signing the Appendix 4D Half-Yearly Report as at 31 December 2022, negotiations were still in-progress. Subsequent to the date of the half-year report, an additional \$704k placement was completed in March 2023 and an additional \$1.051m investment by HK Huibeijia was agreed in late March 2023 (with the funds being received in full in April 2023).

As a consequence of the recent progress, Aumake will record a positive Current Ratio (i.e. its current assets will exceed its current liabilities) and a positive net asset balance for the year ended 30 June 2023.

**6. Given all physical stores were closed, please explain whether AUK considered that there were changes in circumstances indicating the intangible assets as at 31 December 2022 might be impaired. If yes, the basis of the impairment test and the recoverable amount of intangible assets. If no, the reasons of why no impairment was indicated.**

No impairment of the intangible asset was deemed necessary as at 31 December 2022 as store closure does not mean that the value attributable to Travel Agency Relationships had been depleted.

Impairment was not deemed necessary as:

- (a) Aumake's Travel Agency Relationships extend throughout Australia and New Zealand and remain intact (despite the closure of Aumake retail stores). On this basis, on the return of Chinese tourism to Australia these retained relationships are expected to generate considerable value. This being evidenced by the proposed conversion into equity of the debt owed to GAT Travel Agency on the basis that both parties see continued growth and prosperity arising from this relationship following the return of Chinese tourism to Australia;
- (b) Although there has not been any revenue generated from the Travel Agent Relationships since the commencement of Covid, this does not mean that the value had been depleted, rather to the contrary,

the asset was and continues to exist, but is in a state of 'not currently available for use' but remains as a valuable future cash generating asset;

- (c) Aumake has kept and maintained communications lines with all of the applicable Travel Agents;
- (d) A number of Aumake competitors have gone into liquidation whilst others had severed relations with our Travel Agents. This circumstance bodes well for Aumake because when international travel resumes Aumake will be able to maximise the value of these Travel Agent Relationships by generating meaningful revenue, and
- (e) Aumake is a trusted and preferred partner of the Travel Agents.

**7. Please provide any other information that AUK considers may be relevant to ASX forming an opinion on whether AUK is complying with Listing Rule 12.2.**

All of the above.

**8. Do the directors of AUK consider that AUK is a going concern? Please provide the basis for this view.**

Yes, the Directors consider that Aumake is a going concern. As set out in the Appendix 4D Half-Yearly Report as at 31 December 2022 (reproduced below), the key risks facing Aumake and the Board's assessment of these risks is as follows:

(a) Covid-19 pandemic lockdowns	<p>The Australian Federal and State Governments introduced lockdowns throughout calendar year 2022 disrupting retail foot traffic activity. The on and off nature and uncertainty of these lockdowns was impossible to determine.</p> <p>The City of Sydney was particularly impacted by the lockdowns and lack of foot traffic, with Management deciding best to close all physical stores until Covid-19 subsides.</p> <p>The Company continued to transition to an ecommerce online influencer-based marketplace, reducing its reliant on bricks-and-mortar selling model.</p>
(b) Lack of Chinese tourist	<p>China has been in lockdown throughout the Covid-19 pandemic restricting its citizens from departing its sovereign territories for tourist activity. Aumake is heavily dependent on Chinese tourist and international Chinese students, both which have been missing throughout calendar year 2021 and 2022.</p> <p>Recent press releases in China are positive with China announcing relaxation of restrictions for travel within and outside of China as well as an encouragement that international students return to their overseas countries and return to physical locations to studies.</p>
(c) Capital Raising	<p>Aumake may find it difficult to raise additional capital.</p> <p>However, the Board is confident given Aumake's large shareholder base and its good-name brand within the Chinese community, that raising additional capital when required. History reveals that the Board managed to raise capital with \$500k raised in October 2021, \$2.2m raised in November 2021, and recently \$375k was raised in November 2022.</p>

Furthermore, the Board believes that Aumake is a going concern for the following reasons:

- in the last two months Aumake has raised \$1.76m in working capital;
- it will convert \$1.57m of debt to equity;
- it has developed a strong and trusted brand amongst the Chinese community, both here in Australia and abroad;
- it knows and understands how to sell and what to sell to the Chinese community;
- it has substantially reduced costs by the closure of physical stores and advanced its online ecommerce platform;
- has an experienced Board; and
- has continuing positive Travel Agents Relationships (as evident with GAT Travel Agency who will become a substantial shareholder following shareholder approval) that will generate future revenue growth once Chinese tourism re-commences.

9. ASX observes that the address of AUK's registered office is the same address as AUK's auditors (paragraph E). In light of this specifically, and the items mentioned in this letter generally, does AUK consider its structure and operations to be appropriate for a listed entity? Please provide the basis for this view.

Aumake sells trusted Australian products, primarily to 'diagou' and Chinese tourists but when the worldwide Covid-19 pandemic hit Australian soil, and since that time, there has been a complete lack of Chinese tourists for Aumake to sell to.

Putting this into perspective, Aumake's activities were dramatically impacted following the Chinese government ordering its citizens (i.e. Aumake's customers) not to travel to Australia.

Key negatively impacting events being as follows:

- Mid-January 2020 – Chinese Government halted outbound Chinese tourism<sup>1</sup>.
- 25 Jan 2020 – first case of novel coronavirus confirmed in Australia<sup>2</sup>.
- 2 March 2020 – first recorded death from Covid-19 from a nursing home in NSW.
- Mid-March 2020 – State-border restrictions in place.
- Late-March 2020 – all non-essential workers required to stay and work from home, with official announcement of the requirements around social distancing, self-isolation and quarantine.

Despite media outlet's recently saying that Chinese tourist are now able to travel, this has not yet eventuated.

In order to cut costs, Aumake dramatically reduced its personnel numbers (particularly in Sydney) and as such its expansive Head Office (which was also its registered office) became virtually empty. So, when the lease expired, it made no commercial sense but to vacate the premises. Accordingly, the Company's costly and expansive Head Office was vacated. Given that virtually all personnel had exited, the Company moved its registered address to Rothsays – our auditors.

Commercial imperatives gave the Board of Aumake no choice but to significantly cut costs and re-structure the Company's activities and operations. The required re-structuring and cost cutting are now essentially behind Aumake. The Company now has in excess of \$2m in the bank and is proactively looking to re-establish itself with GAT Travel Agency and HK Huibeijia both becoming substantial shareholders, Aumake has created a strategic ecosystem in which it expects to grow and prosper.

As such, Aumake considers that its structure and operations are appropriate for an ASX listed entity.

10. Please confirm that AUK is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.

Aumake confirms that it is complying with ASX Listing Rule 3.1 and that there is no information about Aumake's financial condition that should have been given to the ASX in accordance with ASX Listing Rule 3.1 that has not already been released to the market.

11. Please confirm that AUK'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 AUK with delegated authority from the board to respond to ASX on disclosure matters.

Aumake confirms that these responses to ASX's Query Letter dated 14 Apr 2023 have been authorised and approved by the Board of Aumake.

Michael Higginson  
Company Secretary

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<sup>1</sup> <https://www.smh.com.au/national/coronavirus-ban-puts-quarter-of-chinese-tourism-to-australia-at-risk-20200126-p53ut2.html>

<sup>2</sup> [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_departments/Parliamentary\\_Library/pubs/rp/rp2021/Chronologies/COVID-19StateTerritoryGovernmentAnnouncements](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2021/Chronologies/COVID-19StateTerritoryGovernmentAnnouncements)



14 April 2023

Reference: 72370

Mr Michael Higginson  
Company Secretary  
Aumake Limited  
C/- Rothsay  
Level 1, 6-10 O'Connell Street  
Sydney NSW 2000

By email

Dear Mr Higginson

**Aumake Limited ('AUK'): Appendix 4C Query**

ASX refers to the following:

- A. AUK's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report" for the quarter ending 31 December 2022 lodged on the ASX Market Announcements Platform ('MAP') on 31 January 2023 (the '**December Appendix 4C**'), which disclosed (relevantly, emphasis added):
- i. **"Closed all physical stores... Market City, Chatswood and Burwood were closed and the leases expired/surrendered..."**
  - ii. At item 1.9, that AUK had net cash outflows of \$875,000 for the quarter.
  - iii. At item 8.1, that AUK had \$875,000 of available funding at 31 December 2022.
  - iv. At item 8.5, that AUK had, at 31 December 2022, an estimated 1 quarter of funding available.
  - v. In response to the question in Item 8.6.1, as to whether AUK expected to continue to have the current level of net operating cash flows, AUK's disclosure that *"No – The Company has continued to implement significant cost saving measures, surrendering leased premises reducing rental costs and has made **one-off staff redundancy costs** which will are (sic) not likely to be incurred in future quarters."*
  - vi. In response to the question in Item 8.6.3, as to whether AUK expects to be able to continue its operations and the basis for which, AUK's disclosure that *"Aumake has closed all physical stores, has maintained its online operation and the Board is investigating options allowing it to upscale upon the return of Chinese tourism."*
- B. AUK's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report" for the quarter ending 30 September 2022 and lodged on MAP on 31 October 2022 (the '**September Appendix 4C**'), which disclosed (relevantly, emphasis added):
- i. *Aumake's plan is to close the Chatswood and Market City stores shortly and **only retain its Burwood Store.***
  - ii. In response to the question in Item 8.6.1, as to whether AUK expected to continue to have the current level of net operating cash flows, AUK's disclosure that *"No – the Company has implemented significant cost saving measures, including **one-off lease termination costs and staff redundancy costs.**"*
- C. The Independent Auditor's Review Report by AUK's auditors, Rothsay, included in AUK's Half-Year Accounts released on MAP on 28 February 2023 ('**2022 Half-Year Accounts**'), which disclosed:



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*"We draw attention to Note 1 in the financial report, which indicates that the Group incurred a loss of \$1,391,923 during the half-year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its total assets by \$1,435,559. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter."*

- D. The 2022 Half-Year Accounts disclosed intangible assets (being agency relationships at cost) of \$4,348,920 as at 31 December 2022, which accounted for 70.6% of total assets.
- E. AUK's announcement titled "Change of Registered Office" and released on MAP on 19 December 2022 which disclosed that its Registered Office was changed to (emphasis added):

*"C/- Rothsay, Level 1, 6-10 O'Connell Street, Sydney NSW 2000"*

- F. AUK's announcement titled "AUK to raise \$1,051,720 via strategic investor" released on MAP on 29 March 2023 which disclosed (relevantly, emphasis added):

*"[AUK] is pleased to announce that it has executed a binding subscription agreement with Hong Kong based e-commerce company HK Huibeijia Brand Manage Co., Ltd (HKH) to raise \$1,051,720... via the placement of 262,930,000 fully paid ordinary shares... HKH will hold a 19.999% interest in the issued capital of Aumake..."*

*The issue of the 262,930,000 Shares to HKH is **subject to and conditional upon the receipt of Aumake shareholder approval**, in accordance with Listing Rule 7.1...*

*The Company advises that shareholder approval for the issue of the 262,930,000 Shares to HKH will be **sought at a General Meeting to be held in May 2023.**"*

- G. Listing Rule 3.1, which requires a listed entity to immediately give ASX 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.
- H. Listing Rule 12.2, which states:
- "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."*
- I. Listing Rule 12.5, which states:
- "An entity's structure and operations must be appropriate for a listed entity."*
- J. Section 14 of Guidance Note 14, which states:
- "Any forward looking statements in an announcement... must be based on reasonable grounds or else by law they will be deemed to be misleading."*

### **Request for information**

Having regard to the above, ASX asks AUK to respond separately to each of the following questions and requests for information:

1. Please disclose all the one-off costs related to lease termination and staff redundancies incurred in the September 2022 and December 2022 quarters respectively.
2. Please provide an estimate of AUK's revenues and net cash flows from its online operations for the quarter ending 31 March 2023.

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3. Please provide an estimate of AUK's net cash flows from operating activities for the quarter ending 31 March 2023. Please detail any one-off costs related to store closures or employment redundancies, and if AUK expects further "one-off" costs.
  4. At the date of this letter, and given AUK's current level of operations and net cash flows, does AUK expect to have sufficient funding to continue operating? Please provide the basis for this view.
  5. Does AUK consider that the financial condition of AUK is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please explain the basis for this conclusion, commenting specifically on the following:
    - 5.1 AUK's net operating cash outflow of \$1,635,000 in the quarter ending September 2022 and \$875,000 in the quarter ending December 2022.
    - 5.2 The closure of all AUK's physical stores and the corresponding decline in revenues from those store closures.
    - 5.3 AUK's total available funding at 31 December 2022 of \$875,000 with the additional funding announced in paragraph F unlikely to be available prior to May 2023.
    - 5.4 The material uncertainty regarding AUK's ability to continue as a going concern raised by AUK's auditors in the auditor's half-year review (paragraph C).
  6. Given all physical stores were closed, please explain whether AUK considered that there were changes in circumstances indicating the intangible assets as at 31 December 2022 might be impaired. If yes, the basis of the impairment test and the recoverable amount of intangible assets. If no, the reasons of why no impairment was indicated.
  7. Please provide any other information that AUK considers may be relevant to ASX forming an opinion on whether AUK is complying with Listing Rule 12.2.
  8. Do the directors of AUK consider that AUK is a going concern? Please provide the basis for this view.
  9. ASX observes that the address of AUK's registered office is the same address as AUK's auditors (paragraph E). In light of this specifically, and the items mentioned in this letter generally, does AUK consider its structure and operations to be appropriate for a listed entity? Please provide the basis for this view.
  10. Please confirm that AUK is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.
  11. Please confirm that AUK'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 AUK 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 **9.00 AM AEST Wednesday, 19 April 2023**. 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, AUK'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 AUK to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsComplianceSydney@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office.



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## **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in AUK's securities under Listing Rule 17.3.

## **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to AUK'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 AUK'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**

Although ASX does not currently intend to release a copy of this letter, your reply and any other related correspondence between us to the market, we nonetheless reserve the right to do so 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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**Karina So**  
Adviser, Listings Compliance