

25 January 2021

Belinda Giles
ASX Listings Compliance (Perth)
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6000

By email

Dear Ms Giles,

Response to ASX Query Letter

YPB Group Limited (ASX:YPB) (**YPB** or the **Company**) refers to your letter dated 19 January 2021 (**Letter**). Set out below are the Company's responses against each query in the Letter.

Zhongneng CIC

1. Please provide details regarding how and when YPB was introduced to Zhongneng CIC?

Zhongneng CIC International Import and Export Trade Co. (**Zhongneng CIC**), Ltd was introduced to the Company in November 2019. The introduction was made by Ms Kelly Wang who is one of the Company's business development managers in China and knew senior executives of Zhongneng CIC. It was through Ms Kelly Wang's contacts at Zhongneng CIC that she reached out to Zhongneng CIC and provided them with a presentation to introduce the Company's anti-counterfeit technology to Zhongneng CIC. Zhongneng CIC advised the Company that they wanted to expand the use of anti-counterfeit technology in the China market to fight against counterfeit products and were interested in adopting the Company's patented tracer technology to the China market, in particular to industries such as the pharmaceutical, tobacco and liquor industries due to the significant counterfeit issues faced by those industries.

2. Please provide a summary of the due diligence process undertaken by YPB in relation to Zhongneng CIC's financial and other capacity to perform its obligations in relation to the Zhongneng Agreement.

Before entering into the Zhongneng Agreement, the Company's due diligence process involved the Company's most senior China executive, Mr Wesley Wang, performing public agency searches on Zhongneng CIC from TianYanCha (a Chinese credit reporting agency) and the Chinese official government company registry named National Enterprise Credit Information Publicity System (国家企业信用信息公示系统), with both sources indicating that Zhongneng CIC was established on 21 December 2017, has a registered capital of 100 Million Yuan (approximately A\$20 million), has no adverse credit findings, no untrustworthy findings, and no legal proceedings. These are the Chinese equivalent to credit searches and ASIC searches in Australia. Based on these publicly available records, the relationship between the Company's business development manager with

Zhongneng CIC executives, meetings between Mr Wesley Wang and Zhongneng CIC executives and Zhongneng's expressed business plan, the Company was satisfied with its due diligence on Zhongneng CIC as a counterparty and entered into the Zhongneng Agreement with Zhongneng CIC on a "take or pay" basis with minimum purchases per annum of circa A\$200,000 over a three year term.

3. Please provide a summary of the termination provisions, if any, in the Zhongneng Agreement.

The agreement includes the following key termination provisions:

- Zhongneng may terminate the contract if, for reasons other than force majeure, delivery under the agreement is delayed by more than 10 weeks after the stipulated delivery date.
- The Company may terminate the contract if, for reasons other than force majeure, payment under the agreement is delayed by more than 10 weeks after the stipulated delivery date.

4. Please confirm whether the Initial Payment has yet been paid.

The Initial Payment under the Zhongneng Agreement has been received.

Legitifli Master Services Agreement and Wireless Applications Pty Ltd

5. Please provide details regarding how and when YPB was introduced to Wireless Applications Pty Ltd ('WAPL')?

WAPL is an Australian-based award-winning wireless software applications and services company founded by Dr Clarence Tan in 2002, who holds a PhD in artificial intelligence applications in finance and is a technology entrepreneur. The Chairman of the Company, Mr John Houston previously lived on the Gold Coast where Dr Tan and Mr Houston both lived in 2017. Mr Houston has had a long history in Mobile Telecoms and had been the Chief Operating Officer of Orange in Thailand in the early 2000's. Dr Tan has been active in Telecoms and Technology and is renowned for WAPL holding 2 patents for SMS Applications and being both a Microsoft Certified Partner and a Sun Microsystems iForce Partner. Dr Tan is also the founder of a Thailand based technology business "GOGOTECH" (gogotech.co) which provides mobility to handicapped people. It was through these mutual interests that Mr Houston met Dr Tan in 2017. Dr. Tan has since shown a keen interest in YPB's technology developments, including the Company's MotifMicro technology, and recognised the potential to utilise the Company's MotifMicro technology in WAPL's latest venture into the sneaker resale market. The project was first discussed with the Company around June 2020 when WAPL proposed to the Company that it wished to enter into the sneaker and streetwear resale market in the USA on the basis of authentication technology. Due to the Company's long relationship with Dr Tan, the size and potential of the US market and the opportunity to deploy YPB's groundbreaking MotifMicro technology, and the A\$1m revenue over 5 years offered, the Company entered into the Master Services Agreement.

6. Please confirm the date that the Legitifli Master Services Agreement was executed by both parties.

The WAPL agreement was executed on 13 January 2021.

7. Please provide a summary of the due diligence process undertaken by YPB in relation to WAPL's financial and other capacity to perform its obligations in relation to the Legitifli Master Services Agreement. In particular, with respect to:

7.1. WAPL's ability to meet the minimum financial commitments under the agreement given the recent establishment of the business 'Legitifli';

The Company's Chairman has known Dr Tan since at least 2017 and had regard to the outstanding credentials of Dr Tan and his founding of WAPL and the Legitifli business. During the negotiation of the Legitifli Master Services Agreement with WAPL, the Company undertook due diligence into the WAPL's Legitifli business, WAPL's financial capacity and key stakeholders of the Legitifli project which involved discussions with the business teams of Legitifli, Legitifli's partners both in Australia and USA and online searches of the streetwear industry as part of its due diligence of the Legitifli business. It was made clear to the Company during many meetings and discussions with Legitifli, WAPL, and The Magnolia Park executives, that the business of Legitifli would be well funded.

Based on the industry reputation of Dr Tan and his previous business ventures, the due diligence investigations conducted by the Company as described above, the size of the market and structure of the Legitifli Master Services Agreement which provided for the minimum product value increasing in each subsequent year as the Legitifli business developed, the Company is satisfied that WAPL, with the support of Dr Tan, has the financial capacity to comply with its minimum financial commitments under the agreement as its business grows.

7.2. WAPL's focus on and reputation in the USA reseller market for sportswear apparel, sneakers, streetwear, accessories and collectables given it is an Australian proprietary company; and

The Company's due diligence process prior to signing the Legitifli Master Services Agreement involved YPB's management having calls with The Magnolia Park group to discuss and validate WAPL's reputation as a reseller in the USA market. This partner and their CEO Mr Michael Mikiwar Guerra is a subject matter expert in the reselling of sneakers, streetwear and collectables, which is a rapidly growing industry globally. The Magnolia Park has both online and physical stores presence in the USA.

7.3. The nature and details of the joint venture agreement between WAPL and The Magnolia Park.

Other than WAPL confirming that there is a joint venture agreement between WAPL and The Magnolia Park as part of the Company's due diligence process, the Company is not aware of the specific details of the joint venture agreement between WAPL and The Magnolia Park.

8. Please provide a summary of the termination provisions, if any, in the Legitifli Master Services Agreement.

The agreement includes the following key termination provisions:

- Either party may terminate this Agreement with immediate effect by giving written notice to the other if:

- a) the other party commits a material breach of any term of the Agreement and the breach is not remediable;
 - b) the licensee is unable achieve commercial success with the launch of the treated product within the first year provided that is not related to the performance of, or caused by, the YPB's products;
 - c) the other party commits a material breach of any term of the Agreement and (if such a breach is remediable) fails to remedy that breach within 30 days after being notified in writing to do so; or
 - d) an adverse event happens to the other party.
- The licensee may terminate the agreement by giving YPB 3 months written notice if:
 - a) the licensee achieves the minimum order quantity requirement for year 1; and
 - b) YPB has not given the licensee notice extending the licence to include YPB MotifMicro tracer on or before the date that occurs 90 days after the end of Year 1.

9. Please provide YPB's source reference for the statement in the MSA Announcement that 'sneakers alone estimated to have over US\$6bn p.a. value' in relation to the sportswear and streetwear reseller market.

The Company obtained this information based on an article titled "The global sneaker resale market could reach \$30 billion by 2030" dated 22 July 2020 written by Reggie Wade, a writer for Yahoo Finance which stated that the sneaker resale market could reach \$30 billion by 2030¹.

10. Please provide further details regarding the nature and scope of Legitifli's 'target reseller segment in the territories of the USA, Canada and Australia' (referred to in the MSA Announcement) in which it has exclusivity to promote and sell YPB's product authentication and consumer engagement solutions, pursuant to the Legitifli Master Services Agreement.

The Master Services Agreement stipulates that WAPL has exclusivity of the "Authorised Products" defined as "genuine sports apparel, sneakers, streetwear, collectables, and sports collectables offered for re-sale in the Permitted Market" for the territories of Australia, USA and Canada.

The Company understands that initial orders will be fulfilled through The Magnolia Park stores. The Company is advised that Legitifli is in discussion with merchandisers and US-based retailers who it aims to partner with.

As noted above, for WAPL to maintain exclusivity during the Initial Term of the MSA, minimum quantities of YPB product must be ordered in each of the periods in the initial 5-year term. The minimum product value in the first year is less than the subsequent periods. The Company believes that this structure affords WAPL the ability to meet the financial commitments under the agreement as its business grows.

General

¹ https://au.news.yahoo.com/global-sneaker-resale-market-could-reach-30-billion-by-2030-cowen-191003371.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAERK3l6qyhfMKvg5EAc2v1qb6Yv_OkVn0ReEmQwOp4GBq_YK_AuXmSwVTcBocXCxbTwxKag_kQIYUfy6wm0iVDc80vA_7ULsSxF5zMPqGwer-2leyxbBoD8RK9eB_6fqI4FJji3dlI2V-1fBKLWUurczR4doLf_mp12B5vm0Jn3

11. Please confirm that YPB is complying with the Listing Rules and, in particular, Listing Rule 3.1.

YPB confirms that it is in compliance with the Listing Rules, in particular Listing Rule 3.1.

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

YPB confirms that the response in this letter has been authorised and approved by officers of YPB that have been delegated authority from the Board to respond to ASX disclosure matters.

Regards,

Sebastian Andre
Company Secretary
YPB Group Limited



19 January 2021

Reference: 29541

Mr Sebastian Andre
Company Secretary
YPB Group Limited

By email

Dear Mr Andre

YPB Group Limited ('YPB'): Query Letter

ASX refers to the following:

- A. YPB's announcement titled "YPB Secures \$600,000 Take or Pay Contract in China", lodged on the ASX Market Announcements Platform ('MAP') on 12 January 2021, which disclosed information including, but not limited to, the following:
- (i) YPB has entered into an agreement with China's Zhongneng CIC International Import and Export Trade Co., Ltd ('Zhongneng CIC') for a term of three years, pursuant to which Zhongneng CIC will deploy YPB's T2 Tracer-scanner product into anti-tamper and anti-counterfeiting packaging for its customers in the tobacco, liquor and pharmaceutical industries ('Zhongneng Agreement');
 - (ii) the agreement is a 'take or pay' contract with a minimum order quantity of approximately \$200,000 per year for three years, which represents the highest minimum annual value contract YPB had secured in China to date;
 - (iii) Zhongneng CIC is headquartered in Beijing and is a large and diversified company with operations in importing/exporting and trading, energy, tourism, finance, chemicals, media and technology; and
 - (iv) in addition to the approximately A\$200,000 per year to be paid to YPB, Zhongneng CIC will pay YPB China A\$20,000 10 days after contract execution ('Initial Payment').
- B. YPB's announcement titled "First Monetisation of MotifMicro with A\$1m MSA secured" lodged on MAP on 14 January 2021 ('MSA Announcement'), which disclosed information including, but not limited to, the following:
- (i) YPB has entered into a master services agreement with Legitifli for a term of five years, pursuant to which Legitifli will have exclusivity to promote and sell YPB's product authentication and consumer engagement solutions (being the MotifMicro1 technology, 'MM1') in its target reseller segment in USA, Canada and Australia ('Legitifli Master Services Agreement');
 - (ii) more particularly, Legitifli will begin implementing MM1 with its joint venture partner, The Magnolia Park (a specialist sneaker and accessories retailer based in Los Angeles), in early 2021 and in two phases:
 - (1) phase 1 – YPB will provide Legitifli and The Magnolia Park with a co-branded, anti-tamper and anti-counterfeit label embedded with tracer technology; and
 - (2) phase 2 – MM1 technology will roll out as soon as YPB releases the consumer app and, simultaneously, The Magnolia Park will adopt YPB's consumer engagement SaaS solution, CONNECT;

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- (iii) there is a minimum contract value of over \$1m during the five year term via progressive annual increases in minimum order quantities (year one \$33,000, year two \$115,000, year three \$165,000, year four \$264,000 and year 5 \$528,000); and
 - (iv) Legitifli is a product authentication solutions distributor focused on the USA reseller market for sportswear apparel, sneakers, streetwear, accessories and collectables, with the sneaker reseller market estimated to have over US\$6bn p.a. value.
- C. Listed@ASX Compliance Update 7/16 (25 July 2016) which requires that, where an entity announces a material transaction and there is little or no information regarding a counterparty in the public domain, the announcement should also include a summary of the due diligence undertaken by the listed entity on their financial and other capacity to perform their obligations in relation to the transaction.
- D. 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.

In addition to the matters set out above, ASX understands that:

- E. the business name 'Legitifli' was registered with ASIC on 9 December 2020 and is held by Wireless Applications Pty Ltd; and
- F. Wireless Applications Pty Ltd is the Australian company which contracted with YPB to form the Legitifli Master Services Agreement.

Request for information

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

Zhongneng CIC

1. Please provide details regarding how and when YPB was introduced to Zhongneng CIC?
2. Please provide a summary of the due diligence process undertaken by YPB in relation to Zhongneng CIC's financial and other capacity to perform its obligations in relation to the Zhongneng Agreement.
3. Please provide a summary of the termination provisions, if any, in the Zhongneng Agreement.
4. Please confirm whether the Initial Payment has yet been paid.

Legitifli Master Services Agreement and Wireless Applications Pty Ltd

5. Please provide details regarding how and when YPB was introduced to Wireless Applications Pty Ltd ('WAPL')?
6. Please confirm the date that the Legitifli Master Services Agreement was executed by both parties.
7. Please provide a summary of the due diligence process undertaken by YPB in relation to WAPL's financial and other capacity to perform its obligations in relation to the Legitifli Master Services Agreement. In particular, with respect to:
 - 7.1 WAPL's ability to meet the minimum financial commitments under the agreement given the recent establishment of the business 'Legitifli';
 - 7.2 WAPL's focus on and reputation in the USA reseller market for sportswear apparel, sneakers, streetwear, accessories and collectables given it is an Australian proprietary company; and
 - 7.3 the nature and details of the joint venture agreement between WAPL and The Magnolia Park.
8. Please provide a summary of the termination provisions, if any, in the Legitifli Master Services Agreement.

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9. Please provide YPB's source reference for the statement in the MSA Announcement that '*sneakers alone estimated to have over US\$6bn p.a. value*' in relation to the sportswear and streetwear reseller market.
 10. Please provide further details regarding the nature and scope of Legitifli's '*target reseller segment in the territories of the USA, Canada and Australia*' (referred to in the MSA Announcement) in which it has exclusivity to promote and sell YPB's product authentication and consumer engagement solutions, pursuant to the Legitifli Master Services Agreement.

General

11. Please confirm that YPB is complying with the Listing Rules and, in particular, Listing Rule 3.1.
12. Please confirm that YPB'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 YPB 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 **5:00 PM AWST Friday, 22 January 2021**. 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, YPB'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 YPB to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@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.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in YPB's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

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

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to YPB'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 YPB'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.

Yours faithfully

Belinda Giles

Adviser, Listings Compliance (Perth)