



Market Announcement

13 March 2020

Attached for the information of the market is ASX's query letter to Netlinkz Limited (ASX:NET) dated 5 March 2020 and NET's response dated 6 March 2020.

ASX's enquiries are ongoing.



6 March 2020

Your reference: ODIN15019

Ms Vanessa Nevjestic
Adviser, Listings Compliance (Perth),
ASX Limited,
Level 40, Central Park,
152-158 St Georges Terrace,
Perth WA 6000

By email: ListingsCompliancePerth@asx.com.au

Dear Ms Nevjestic

Response to ASX Query letter of 5 March 2020

In response to your questions:

1. Does NET consider the payment of \$2,587,000, and the transaction associated with it ("Transaction") (as referred to in NET's Half Year and Full Year Accounts (the "Information")) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

No

2. If the answer to question 1 is "no", please advise the basis for that view.

*The payment of \$2,587,000 was made to shareholders of Sprocket Hong Kong Limited (**Sprocket**). Sprocket was a shareholder in the Hong Kong based reseller that owned AoFa Software Engineering (Shanghai) Co. Ltd (**WFOE**).*

A WFOE (Wholly Foreign Owned Entity) is a limited liability company in China that is wholly owned by foreign investors. A WFOE is a necessary corporate structure in China to allow investment into a business in China and receipt of royalties and licence fees from the China business to foreign interests.

At the time of the payment, the WFOE was the party to the agreement with the China based selling and distribution agent - JAST Limited. JAST Limited is the China based agent in Wuxi, Jaingsui Province in China selling NET products. Its agency agreement is with the WFOE. The payment was towards a transaction to secure ownership of the WFOE by Netlinkz.

*Ownership of the WFOE by Netlinkz as owner of the IP was required by iSoftStone to allow Netlinkz to enter into the joint venture agreement with iSoftStone (the joint venture being disclosed to ASX on 11 July 2019, 5 December 2019 and 16 December 2019) and for NET to receive dividends directly from the joint venture company – Beijing iLinkAll Technology Co. Ltd (**iLinkAll**).*

NETLINKZ LIMITED | ACN: 141 509 426 | ASX:NET | www.netlinkz.com

{MJG\S1920303:1}

Suite 11 50 Stanley Street, Darlinghurst NSW 2010 Australia



The terms of the joint venture agreement were announced to the ASX on 11 July 2019. The WFOE owns 80% of iLinkALL. A company associated with iSoftStone owns 20% of iLinkAll.

The Transaction does not have a material impact on the revenue forecasts for NET for 2020 (disclosed to ASX on 16 December 2019).

The Transaction is not material as NET is moving its sales and distribution in China to iLinkAll. iLinkAll is responsible for all sales and distribution of Netlinkz products in China including the supervision of JAST Limited.

The final price for the transfer of the WFOE is still being negotiated. The negotiations are confidential are expected to complete in the next 4-6 weeks. If required by the ASX, NET will make an announcement on completion.

Funding for the WFOE's capital requirements for iLinkAll was completed by NET in January 2020 and was subject to an ASX Announcement on 24 December 2019.

3. When did NET first become aware of the Information?

May 2019

4. If the answer to question 1 is "yes" and NET first became aware of the Information before lodgement of the Full Year Accounts, did NET make any announcement prior to the relevant date which disclosed the Information?

Not applicable

If so, please provide details.

Not applicable

If not, please explain why this Information was not released to the market at an earlier time, commenting specifically on when you believe NET was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps NET took to ensure that the information was released promptly and without delay.

Not applicable

5. Please confirm when NET will be in a position to provide details regarding the Transaction (including, but not limited to when it was entered, what it relates to, why the prepayment of \$2,587,000 was made, how the prepayment was funded (including details of who provided the loan and their relationship to NET), why completion of the Transaction has not occurred and NET's rights to return of the prepayment amount if completion does not proceed).



See generally the answer in paragraph 2 above.

The prepayment was funded by a loan by Coleil Pty Limited – a private company which was not related to NET. Coleil Pty Limited’s directors and shareholders are James McGrane, Eileen O’Connor, Aiden O’Connor and Collette McGrane. Each Director has an equal interest. The loan was not announced to the ASX as it was not considered by the Company to be material.

If the Transaction did not complete the Hong Kong based reseller would have reacquired the WFOE.

The loan agreement with Coleil Pty Limited was for \$2.5m or any amount agreed between the lender and borrower with an option for the lender to convert its debt. Interest was payable on the loan amount at 10% per annum. The loan agreement was varied to permit the lender to advance a further \$2.5m. The loan agreement permitted the lender to nominate the recipient of the shares if the debt was converted into shares. The lender nominated Cojim Investments Pty Limited as trustee for the MGSF Superfund and OCSF as trustee for the OCSF Superfund to receive the shares on conversion of the debt.

Approval of shareholders for the issue of the shares to Cojim Investments Pty Limited as trustee for the MGSF Superfund and OCSF as trustee for the OCSF Superfund was sought in the Notice of Annual General Meeting (Resolutions 7 and 8) on 27 November 2019. The shareholders approved Resolutions 7 and 8 and the results of the AGM were announced to ASX on 27 November 2019.

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

Netlinkz is complying with the Listing Rules and in particular, Listing Rule 3.1.

7. Please confirm that NET’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 NET with delegated authority from the board to respond to ASX on disclosure matters.

These responses have been authorised and approved by an officer of Netlinkz with delegated authority from the Board to respond to ASX on disclosure matters.

Yours sincerely

Robert Lees
Company Secretary
Netlinkz Limited



5 March 2020

Reference: ODIN15019

Mr Robert Lees
Company Secretary
Suite 11, 50 Stanley Street
DARLINGHURST NSW 2010

By email: robert@coysec.net.au

Dear Mr Lees

Netlinkz Limited ('NET'): Query Letter

ASX refers to the following:

- A. NET's half year accounts for the half year ended 31 December 2019 released on the ASX Market Announcements Platform ('MAP') on 28 February 2020 ('Half Year Accounts'), which includes the following qualified conclusion in the Independent Auditor's Review Report:

"Qualified Conclusion

We have reviewed the half year financial report of Netlinkz Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, with the exception of the matter described in the Basis for qualified conclusion section, we have not become aware of any matter that makes us believe that the half year financial report of the Group is not in accordance with the Corporations Act 2001 including: (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half year ended on that date; and (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Basis for qualified conclusion

As disclosed in Note 5 to the financial report, the Directors state that the other receivables of \$2,587,000 will be recoverable as part of a commercial transaction which is yet to finalise. We were unable to perform sufficient appropriate review procedures to confirm the recoverability of this amount. Therefore, we were unable to obtain sufficient appropriate audit evidence about the carrying value of the other receivable as at 31 December 2019. Consequently, we were unable to determine whether any adjustments to the carrying value of the other receivables in the consolidated statement of financial position is necessary for the period ended 31 December 2019."

- B. Note 5 to the consolidated financial statements in the Half Year Accounts, which refers to the \$2,587,000 as an 'Other receivable' with the following footnote:

"The consideration paid on 9 May 2019 as part of a commercial transaction which is yet to finalise. The terms of the transaction are commercially sensitive, the details will be released to the market on completion of the transaction. The directors believe that the amounts are recoverable upon the completion of the transaction."

- C. The Company's net asset position at 31 December 2019, being \$3,254,873.

- D. Note 8 to the consolidated financial statements in NET's annual report for the year ended 30 June 2019 released on MAP on 29 August 2019 ('Full Year Accounts'), which includes the \$2,587,000 as an 'Other receivable', with the following note:

"Other receivable

This other receivable relates to the consideration paid on 9 May 2019 as part of a commercial transaction which is yet to finalise. The terms of the transaction are commercially sensitive, the details will be released to the market on completion of the transaction. The payment was funded by way of a loan to the Group. The carrying amount of the receivable is considered a reasonable approximation of fair value of this financial asset which will be refunded if the transaction does not go through."

- E. The consolidated statement of cash flows in the Full Year Accounts, which refers to the \$2,587,000 as a "Payment in advance for acquisition of an investment".
- F. 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.
- G. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity" and section 4.4 in Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information."

- H. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed."

- I. ASX's policy position on the concept of "confidentiality", which is detailed in section 5.8 of Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B. In particular, the Guidance Note states that:

"Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."

Request for Information

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

1. Does NET consider the payment of \$2,587,000, and the transaction associated with it ("Transaction") (as referred to in NET's Half Year and Full Year Accounts (the "Information")) to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is "no", please advise the basis for that view.
3. When did NET first become aware of the Information?
4. If the answer to question 1 is "yes" and NET first became aware of the Information before lodgement of the Full Year Accounts, did NET make any announcement prior to the relevant date which disclosed the Information? If so, please provide details. If not, please explain why this Information was not released to the market at an earlier time, commenting specifically on when you believe NET was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps NET took to ensure that the information was released promptly and without delay.
5. Please confirm when NET will be in a position to provide details regarding the Transaction (including, but not limited to when it was entered, what it relates to, why the prepayment of \$2,587,000 was made, how the prepayment was funded (including details of who provided the loan and their relationship to NET), why completion of the Transaction has not occurred and NET's rights to return of the prepayment amount if completion does not proceed).
6. Please confirm that NET is complying with the Listing Rules and, in particular, Listing Rule 3.1.
7. Please confirm that NET'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 NET with delegated authority from the board to respond to ASX on disclosure matters.

Once ASX has received and analysed the information above, it is likely to make further enquiries of NET.

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 AWST Monday, 9 March 2020**.

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

Your response should be sent to me by e-mail 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.

Listing Rules 3.1 and 3.1A

Listing Rule 3.1 requires a listed entity to give ASX immediately 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. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to NET'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 NET'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.

Enquiries

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

Yours sincerely

Vanessa Nevjestic
Adviser, Listings Compliance (Perth)