



8 April 2020

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 FURTHER QUERY LETTER OF 27 March 2020**

We refer to NetLinkz Limited's (**Company** or **NET**) response to the ASX aware letter of 5 March 2020 which was released on the ASX Market Announcements Platform on 13 March 2020 (**Response**) and the subsequent letter of further queries received from ASX on 27 March 2020 (**Further Query Letter**).

The Company provides response to the questions raised in the Further Query Letter below.

Unless otherwise defined in this letter, capitalised terms in this letter have the same meaning as is given to them in the Further Query Letter.

#### **Transaction Questions**

- 1. The answer to question 2 in the Response implies that NET has ownership of the WFOE as it states:**

***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).***

**It also states:**

***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.***



**In light of the above information, please respond to each of the following questions:**

**1.1. Please confirm that NET wholly owns AoFa Software Engineering (Shanghai) Co. Ltd (the 'WFOE').**

The WFOE was not a wholly owned subsidiary of NET for the purposes of NET's accounts for the half year ending 31 December 2019. Until completion of the Transaction (being the purchase of the issued capital in the WFOE), NET was not a shareholder of the WFOE and had no rights or entitlements in the WFOE including any right to receive revenue from the WFOE.

The Transaction completed on 30 March 2020, at which time the acquisition price was finalised and the relevant share transfers were executed and lodged for processing. Clyde and Co. Lawyers in Shanghai, China are assisting NET with lodgement of the share transfer documents with the Administration for Market Regulation Authority in Shanghai. NET has been advised that there are no further conditions to the transfer being processed and this is expected to be processed in 3 weeks.

Upon processing of the share transfer forms in Shanghai, China, NET will become the legal owner of all of the issued capital of WFOE. It is not expected that there will be any change to the business model or operations of WFOE other than it will allow dividends to be paid directly to NET rather than through the reseller. Until such time, the current owners of WFOE hold those shares on trust for NET. The final acquisition price for the Transaction was A\$2,587,000, being an amount equal to the refundable payment made to the Hong Kong based reseller which was referenced in the half year 30 December 2019 accounts (i.e. no additional payment is to be made to the reseller). There are no further payments or security issues associated with the Transaction.

**1.2. If the answer to question 1.1 is 'yes', please explain why the final price for the transfer of the WFOE has not been determined.**

See response to question 1.1.

**1.3. Please provide an update on the negotiations regarding the final price for the WFOE and the expected timing for a conclusion to be reached on the price.**

See response to question 1.1.



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

**Please break down in further detail why this means that the Transaction is not material. As part of this answer, given that the final price for the acquisition of the WFOE is currently unknown, please elaborate on the basis for NET's view, as set out in the Response, that the Transaction was not information that a reasonable person would expect to have a material effect on the price or value of its securities (particularly in light of NET's net asset position at 31 December 2019).**

NET's previous sales into China were conducted through a Hong Kong reseller. Following the announcement of the agreement with iSoftStone for iSoftStone to market and develop its products in China, NET has intended to move away from using the Hong Kong reseller for sales and distribution in China to sale and distributions in China being the responsibility of the joint venture with iSoftStone. In order to facilitate the repatriation of revenue generated from the joint venture with iSoftStone in China to NET, it was required to establish and register a wholly owned foreign entity which is a costly and time-consuming process. The Transaction and acquisition of the WFOE was an efficient mechanism for NET to obtain ownership of a wholly owned foreign entity in China for the iSoftStone joint venture without having to expend considerable time and expenses of doing so itself. The NET board does not consider that the WFOE acquisition is information that a reasonable person would expect to have a material effect on the price or value of its securities for the following reasons:

- The WFOE acquisition was simply the acquisition of a structure to allow the repatriation of revenue generated from iLinkAll and it was an expense NET would have incurred if it had undertaken the exercise itself. Therefore, NET does not consider that the Transaction is of any qualitative interest to investors.
- Given the nature of its business, as is the case with many technology companies, NET does not consider that its net asset position is a key factor which would or would be likely to, influence persons who commonly invest in its securities in deciding whether to acquire or dispose of those securities. Rather, NET considers the key drivers of the price and value of its securities to be its products / technology, the competitive advantage its technology provides, and its access to the huge Chinese market (having completed a pilot of the VIN product with China Telecom which is one of only three telecommunication companies for the whole of China) and associated revenue potential.
- The agreed purchase price for the Transaction was intended to reimburse the Hong Kong reseller for its establishment of the WFOE and its investment into product development of the VIN product as well as the sales and distribution of NET's



products in China for over 12 months, which at the time of commencing negotiations was approximately A\$2,587,000. On the basis that the final purchase price for the acquisition of the WFOE was based on a reimbursement of costs, NET was confident that the final price would not increase materially from the initial estimated amount of A\$2,587,000 which has been confirmed based on this being the agreed final acquisition price with the Hong Kong reseller – see response to question 1.1

- At the time of providing the A\$2,587,000 advance payment / deposit in relation to the Transaction, NET's market capitalisation was approximately \$150 million. NET considers that given the size of its market capitalisation, its ability to raise capital and the nature of the Transaction's substance, the Transaction was and is not price sensitive.

### **Qualified Conclusion Questions**

**In light of the information contained in the Full Year Accounts and the Half Year Accounts and the application of the Listing Rules stated above, please respond to each of the following questions:**

**3. Is NET able to confirm that in the Directors' Opinion the Full Year Accounts and Half Year Accounts:**

- 3.1 comply with the relevant Accounting Standards; and**
- 3.2 give a true and fair view of NET's financial performance and position?**

Confirmed.

**4. Please explain the basis for and the factors considered by the Directors to satisfy themselves that the other receivables amounting to \$2,587,000 and disclosed in Note 5 to the Half Year Accounts and Note 8 to the Full Year Accounts will be recovered in a timely manner?**

As at 31 December 2019, in the Half Year Accounts, the A\$2,587,000 receivable balance was part of a broader transaction and once the Transaction completed the board was satisfied that it would convert into an investment or business combination that would generate sufficient cashflows to be stated at full value. Additionally, if the negotiations with the Hong Kong reseller had broken down, the Hong Kong reseller had agreed to repay the monies paid by NET.

**5. What steps has NET taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?**



Now that the Transaction has completed, NET will remove the balance of A\$2,587,000 as a receivable, which was the subject of the qualification, and reflect it as a business combination in the financial statements. NET has no reason to believe it will not be able to obtain unqualified financial statements in the future.

**6. What steps does NET intend to take to obtain an unqualified audit opinion with regards to its future financial statements?**

NET has engaged the Company's auditors subsequent to the completion of the Half Year Accounts and will continue to engage them during and at the completion of each audit period going forward to ensure its future financial statements are unqualified. Also see response to question 5.

NET expects to receive a return on its WFOE investment on the basis that NET is no longer paying any royalty to the Hong Kong reseller for sales of NET's products in China and will now be receiving the revenue from China through the WFOE directly.

**7. In relation to the Half and Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ASX's Corporate Governance Principles and Recommendations, that in the opinion of the CFO and CEO, the financial records of NET 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 NET 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.

**8. If the answer to Question 7 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of NET's Corporate Governance Disclosure?**

Not Applicable.

**9. What enquiries did the Board make of management to satisfy itself that the financial records of NET 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 NET?**

The Company is provided with monthly financial management reports prepared by its Chief Operating Officer, Jim Perketes, in conjunction with external accounting firm, Award Accounting. These monthly management reports are tabled and discussed at weekly management meetings and provided for directors and Chief Financial Officer Amanda Ward to review.



**10. Commenting specifically on the qualified conclusion, does the board consider that NET has a sound system of risk management and internal control which is operating effectively?**

Yes. The qualified conclusion is no reflection of NET's risk management or internal controls, which NET believes are effective and in good order. The qualified conclusion was only in relation to the auditor's view of the recoverability of the A\$2,587,000 receivable at time of the issue of the 31 December 2019 Half Year Accounts. The delay in the completion of the Transaction meant that the receivable was not converted to an investment or business combination at that time.

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

NET confirms it is complying with the Listing Rules and in particular Listing Rule 3.1.

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

This response has been authorised and approved by NET's Board.

Yours sincerely

Robert Lees  
Company Secretary  
Netlinkz Limited



27 March 2020

Mr Robert Lees  
Company Secretary  
Netlinkz Limited  
Suite 11, 50 Stanley Street  
DARLINGHURST NSW 2010  
By email: robert@coysec.net.au

Dear Mr Lees

**Netlinkz Limited ('NET'): Further Query Letter**

ASX refers to the following:

- A. The ASX query letter dated 5 March 2020 ("Query Letter") and NET's response lodged on the ASX Market Announcements Platform ("MAP") and released at 4.29 pm WST on 13 March 2020 ("Response"), and in particular, NET's response to questions 1 and 2 set out below.

**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).*

*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.*

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*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.*

- B. Unless otherwise defined in this letter, capitalised terms in this letter have the same meaning as is given to them in the Query Letter.
- C. The qualified conclusion and basis for qualified conclusion in the Independent Auditor's Review Report attached to the Half Year Accounts (as referred to in section A of the Query Letter) ("Qualified Conclusion").
- D. NET's Corporate Governance Statement for 2019 lodged on the MAP on 30 August 2019 which provides confirmation that NET complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations 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 CFO 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."*

- E. Listing Rule 19.11A which states (excluding notes):

*19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.*

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.*
- (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.*
- (c) If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).*
- (e) If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*
- (f) If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

## **Request for Information**

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

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### **Transaction**

1. The answer to question 2 in the Response (set out above) implies that NET has ownership of the WFOE as it states:

*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).*

It also states:

*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.*

In light of the above information, please respond to each of the following questions:

- 1.1 Please confirm that NET wholly owns AoFa Software Engineering (Shanghai) Co. Ltd (the 'WFOE').
- 1.2 If the answer to question 1.1 is 'yes', please explain why the final price for the transfer of the WFOE has not been determined.
- 1.3 Please provide an update on the negotiations regarding the final price for the WFOE and the expected timing for a conclusion to be reached on the price.
2. The Response states that the Transaction is not material as NET is moving its sales and distribution in China to iLinkAll and that iLinkAll is responsible for all sales and distribution of Netlinkz products in China including the supervision of JAST Limited.

Please break down in further detail why this means that the Transaction is not material. As part of this answer, given that the final price for the acquisition of the WFOE is currently unknown, please elaborate on the basis for NET's view, as set out in the Response, that the Transaction was not information that a reasonable person would expect to have a material effect on the price or value of its securities (particularly in light of NET's net asset position at 31 December 2019).

### **Qualified Conclusion**

In light of the information contained in the Full Year Accounts and the Half Year Accounts and the application of the Listing Rules stated above, please respond to each of the following questions:

3. Is NET able to confirm that in the Directors' Opinion the Full Year Accounts and Half Year Accounts:
  - 3.1 comply with the relevant Accounting Standards; and
  - 3.2 give a true and fair view of NET's financial performance and position?
4. Please explain the basis for and the factors considered by the Directors to satisfy themselves that the other receivables amounting to \$2,587,000 and disclosed in Note 5 to the Half Year Accounts and Note 8 to the Full Year Accounts will be recovered in a timely manner?
5. What steps has NET taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?
6. What steps does NET intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
7. In relation to the Half and Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of ASX's Corporate Governance Principles and Recommendations, that in the opinion

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of the CFO and CEO, the financial records of NET 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 NET and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

8. If the answer to Question 7 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of NET's Corporate Governance Disclosure?
9. What enquiries did the Board make of management to satisfy itself that the financial records of NET 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 NET?
10. Commenting specifically on the qualified conclusion, does the board consider that NET has a sound system of risk management and internal control which is operating effectively?
11. Please confirm that NET is complying with the Listing Rules and, in particular, Listing Rule 3.1.
12. Please confirm that NET'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 NET 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 AWST Thursday, 2 April 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](mailto: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**

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 faithfully

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**Vanessa Nevjestic**  
Adviser, Listings Compliance (Perth)