



**Kemao Industries Limited**

ACN 625 928 216 | NSX Code: KEM

## **REPLACEMENT PROSPECTUS**

This replacement prospectus is issued:

- (a) for an offer of 1,000,000 Shares at an issue price of \$0.50 per Share to raise \$500,000;
- (b) in connection with the Company's application for admission to the official list of, and the quotation of its Shares on NSX; and
- (c) to facilitate the on-sale and secondary trading of shares previously issued by the Company without a disclosure document.

This is an important document that should be read in its entirety. If you do not understand it or have any question on its contents, you should consult your professional adviser immediately. An investment in the shares of Kemao Industries Limited should be considered speculative.

## IMPORTANT NOTICE

### Information

This is a replacement prospectus for Kemao Industries Limited dated 12 April 2019 and was lodged with ASIC on that date. This prospectus replaces a prospectus dated and lodged with ASIC on 5 April 2019 (**Replaced Prospectus**).

The material differences between the Replaced Prospectus and this prospectus are as follows:

- Additional disclosure on Kemao China's use of company seals in section 9.11;
- Additional risk disclosure on the misuse of Kemao China's company seals in section 7.1(s); and
- Additional disclosure on the compliance with capital preservation requirements in section 7.1(t).

No securities will be issued on the basis of this prospectus later than 13 months after the Lodgement Date.

Application was made for listing of the Company's securities to NSX on 8 April 2019. The fact that NSX may list the securities of the Company is not to be taken in any way as an indication of the merits of the Company or its Shares.

NSX takes no responsibility for the contents of this prospectus, makes no representations as to its accuracy or completeness and expressly disclaims any liabilities whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this prospectus. ASIC takes no responsibility for the contents of this prospectus.

### Investment decisions

This prospectus does not provide investment advice and has been prepared without taking account of your financial objectives, financial situation or particular needs (including financial or taxation issues). You should seek professional investment advice before subscribing for Shares under this prospectus.

### Exposure Period

Pursuant to the Corporations Act, the Replaced Prospectus was, and this prospectus is subject to an exposure period of seven days from the Lodgement Date, which may be extended by ASIC for a further period of seven days. This period (and extension, if any) is referred to in this prospectus as the "Exposure Period".

The Exposure Period enables this prospectus to be

examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this prospectus.

### Supplementary disclosure

The Company will issue a supplementary or replacement prospectus if it becomes aware of any of the following between the Lodgement Date and the date on which the Company's securities are officially quoted on NSX:

- a material statement in this prospectus is misleading or deceptive;
- there is a material omission from this prospectus;
- there has been a significant change affecting a matter included in this prospectus; or
- a significant new circumstance has arisen and it would have been required to be included in this prospectus.

### Restriction on distribution

No person may offer, sell or deliver Shares or distribute any documents (including this prospectus) to any person outside Australia, except in accordance with the legal requirements of the relevant jurisdiction.

### Forward looking statements

This prospectus contains certain forward-looking statements concerning the Company's business operations, financial performance and condition as well the Company's plans, objectives and expectations for its business, operations, financial performance and condition. Any statements contained in this prospectus that are not of historical facts may be deemed to be forward-looking statements.

These forward-looking statements are based on management's current beliefs, assumptions and expectations about the Company's business and the industry in which the Company operates. These forward-looking statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond the Company's control. As a result, any or all of the Company's forward-looking statements in this prospectus may not be relied on and may turn out to be inaccurate. Factors that may cause such differences or make such statements inaccurate include, but are not limited to, the risk factors described in section 7.

Potential investors and other readers are urged to

consider these factors carefully in evaluating the forward-looking statements and are cautioned not to rely on the forward-looking statements.

These forward-looking statements speak only as at the date of this prospectus. Unless required by law, the Company does not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. Potential investors should, however, review the factors and risks the Company describes in the reports to be filed from time to time with NSX after the date of this prospectus.

#### **Electronic prospectus**

This prospectus may be viewed online at [www.kemao-tinplate.com](http://www.kemao-tinplate.com). The information on the Company's website does not form part of this prospectus. The Company is entitled to refuse an application for Shares under this prospectus if it believes the Applicant did not receive the Offer in Australia.

Any person accessing the electronic version of this prospectus for the purpose of making an investment in the Company must only access this prospectus from within Australia.

#### **Financial Information**

All financial information and amounts contained in this prospectus are expressed in AUD unless stated otherwise. In this prospectus, AUD equivalents of sums denominated in currencies other than AUD have been translated into the AUD using a fixed exchange rates of RMB1 = A\$0.20, unless otherwise stated.

#### **Definitions**

Capitalised terms used in this prospectus have the specific meaning given to them in the Glossary in section 11. Unless otherwise indicated, all references to dates and time are to dates and time in Australia.

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## 1 **INDICATIVE TIMETABLE**

|  |               |
|--|---------------|
| Replaced Prospectus lodged with ASIC ( <b>Lodgement Date</b> ) | 5 April 2019  |
| This prospectus lodged with ASIC                               | 12 April 2019 |
| Last day of the Exposure Period                                | 12 April 2019 |
| Opening date of the Offer                                      | 13 April 2019 |
| Closing date of the Offer ( <b>Closing Date</b> )              | 26 April 2019 |
| Issue of Shares under this prospectus                          | 1 May 2019    |
| Expected date for quotation of Shares on NSX                   | 8 May 2019    |

Note:

1. The above dates are indicative only and may change without notice.
2. The Exposure Period may be extended by ASIC by not more than seven days.
3. The Company reserves the right to extend the Closing Date or close the Offer early without prior notice.
4. The quotation of Shares is subject to confirmation from NSX.

## 2 **KEY OFFER TERMS AND CAPITAL STRUCTURE**

|  |             |
|--|-------------|
| Shares on issue on the date of this prospectus       | 100,000,000 |
| Shares offered under this prospectus under the Offer | 1,000,000   |
| Total Shares following completion of the Offer       | 101,000,000 |
| Offer price  | \$0.50      |
| Amount to be raised under the Offer                  | \$500,000   |



### 3 CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Directors of Kemao Industries Limited (**We** or **Company**, including its subsidiaries where the context requires), it gives me great pleasure to introduce the Company to you and invite you to join us as a shareholder of the Company.

The Company was incorporated on 28 May 2018 as the ultimate holding company that indirectly holds 100% of the equity capital of Kemao New Materials Technology Co., Ltd (**Kemao China**), a company registered in China in 2005 and specialises in the production and supply of cold-rolled steel coils and tinplate to the global market. In 2018, we achieved a total revenue of more than A\$136 million of which revenue from export accounted for approximately 30%. We have enjoyed steady growth in recent years and have achieved this with the great efforts of all our staff members and through a relentless focus on safety of our operating environment, quality of products, accountability to customers, product innovation and integrity in our business dealings.

We are excited to start the next chapter of our business with a listing on the NSX. Australia has long been one of our exporting destinations and is a country well known for its economic and political stability. Since incorporating the Company, we have achieved positive results from a marketing trip to Australia in late 2018 by contracting with three new customers which are all established Australian-owned metal packaging companies. We see potential in further expansion of our export network in Australia in the coming years.

In October 2018, we made a strategic decision to transfer all our international sales administration functions from Kemao China to the Company. We believe that the Company, as our sales administration agent, will be able to access some potential overseas customers more easily as it is regulated by Australian corporate law which is well understood internationally. Once listed, the Company will also be subject to continuous disclosure obligations as required by the Listing Rules, making the business affairs of the Company and the Chinese operating subsidiary transparent to the general public.

To assist with the growth of our Australian business, the Company seeks to raise \$500,000 through the issue of 1,000,000 Shares at an issue price of \$0.50 under this prospectus (**Offer**). All the proceeds from the Offer will be used for the development of the Australian business for the next two years, which covers business development and marketing expenses, exhibition costs, office rental and utilities expenses, remuneration and related expenses, corporate expenses and other general expenses.

An investment in us is not without risks. Some key risks we face include debt financing risk, key raw material risk, environmental risk, competition risk, sovereign risk and risks relevant to our Chinese lease agreement, possible adverse incidents, exchange rates, key personnel, intellectual property and shareholding concentration. See section 7 for details of these and other risks relevant to our business. This prospectus contains detailed information on our business. Please read it carefully and in its entirety prior to making your investment decision.

We look forward to welcoming you as a shareholder of the Company.

Yours faithfully,

**LEONG Chong Peng (Sharon)**  
**Non-Executive Chair**



## 4 INVESTMENT OVERVIEW

We have prepared this investment overview to help you make an informed investment decision by highlighting key information in this prospectus. Please note that the information in this section is only a selective overview to help you navigate this prospectus. It is not intended to replace this prospectus. You should read this prospectus in full before deciding whether to invest in the Shares.

### 4.1 Introduction

| Question   | Response  | Section  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
|--|---|--|--|--|------|---|--|--|------|---|--|--|------|--|--|--|--|-----|
| Who is issuing this prospectus?  | <p>This prospectus is issued by Kemao Industries Limited (ACN 625 928 216) (proposed NSX code: KEM) (<b>Company</b> or <b>Kemao</b>), a company incorporated in Australia on 28 May 2018.</p> <p>The Company indirectly holds 100% of the equity capital of Kemao New Materials Technology Co., Ltd (<b>Kemao China</b>), a company registered in China with an operating history since 2005.</p>   | 5  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
| What is the nature of our business?  | We are a Chinese manufacturer of tinplate packaging material and cold-rolled steel strips and our products are being sold globally.   | 5  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
| What is our corporate structure upon listing?  | <p>Our corporate structure as at the date of this prospectus and upon listing is as follows:</p> <table><tr><td><b>Kemao Industries Limited</b><br/>(incorporated in Australia)<br/>(Proposed NSX code: KEM)</td><td></td></tr><tr><td></td><td>100%</td></tr><tr><td><b>Global Newmat Sdn.Bhd.</b><br/>(incorporated in Malaysia)</td><td></td></tr><tr><td></td><td>100%</td></tr><tr><td><b>Jiangyin Fuke New Materials Co., Ltd</b><br/>&lt;江阴福科新材料科技有限责任公司&gt;<br/>(registered in China)</td><td></td></tr><tr><td></td><td>100%</td></tr><tr><td><b>Jiangsu Kemao New Materials Technology Co., Ltd</b><br/>&lt;江苏科茂新材料科技有限公司&gt;<br/>(registered in China)</td><td></td></tr><tr><td></td><td></td></tr></table> <p>Our current corporate structure is as a result of a Restructuring process we undertook for the purpose of this proposed listing on NSX. Details of the Restructuring are set out in section 5.1.</p> | <b>Kemao Industries Limited</b><br>(incorporated in Australia)<br>(Proposed NSX code: KEM) |  |  | 100% | <b>Global Newmat Sdn.Bhd.</b><br>(incorporated in Malaysia) |  |  | 100% | <b>Jiangyin Fuke New Materials Co., Ltd</b><br><江阴福科新材料科技有限责任公司><br>(registered in China) |  |  | 100% | <b>Jiangsu Kemao New Materials Technology Co., Ltd</b><br><江苏科茂新材料科技有限公司><br>(registered in China) |  |  |  | 5.1 |
| <b>Kemao Industries Limited</b><br>(incorporated in Australia)<br>(Proposed NSX code: KEM)         |   |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
|  | 100%  |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
| <b>Global Newmat Sdn.Bhd.</b><br>(incorporated in Malaysia)  |   |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
|  | 100%  |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
| <b>Jiangyin Fuke New Materials Co., Ltd</b><br><江阴福科新材料科技有限责任公司><br>(registered in China)          |   |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
|  | 100%  |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
| <b>Jiangsu Kemao New Materials Technology Co., Ltd</b><br><江苏科茂新材料科技有限公司><br>(registered in China) |   |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
|  |   |  |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |
| What is the purpose of this prospectus?  | <p>This prospectus is issued:</p> <ul style="list-style-type: none"><li>for an offer of 1,000,000 Shares at an issue price of \$0.50 per Share to raise \$500,000;</li><li>to facilitate secondary trading of Shares previously issued by the Company; and</li></ul>  | 10   |  |  |      |   |  |  |      |   |  |  |      |  |  |  |  |     |



|                                |  |
|--------------------------------|--|
|                                | <ul style="list-style-type: none"> <li>in connection with the Company's application for admission to the official list of, and the quotation of its Shares on, NSX.</li> </ul>   |
| Why do we wish to list on NSX? | <p>Our Directors believe that a listing on NSX will:</p> <ul style="list-style-type: none"> <li>provide a liquid market for the Shares;</li> <li>provide the Company with financial flexibility to pursue future growth opportunities;</li> <li>provide an opportunity for the Company to further expand its business in Australia and access the Australian capital markets when needed; and</li> <li>enhance stakeholder confidence by adhering to a set of Australian-standard corporate governance rules.</li> </ul> |

## 4.2 Overview of our business

| Question                                      | Response  | Section |
|---|---|---------|
| What is the history of our business?          | Kemao China is a tinplate producer and supplier in China. The company was registered in China in 2005 with a registered capital of RMB50 million. Kemao China commenced its export activities in 2008 and, in 2018, its export revenue accounted for approximately 30% of its total revenue.  | 5.2     |
| How is our current performance?               | In 2017, we achieved a total production output of 120,000 metric tonnes, with total sales exceeding RMB570 million (≈A\$114 million), while our export sales for that year was approximately US\$20 million. Our tinplate products are being sold globally with the top export destinations in 2018 being Europe, Asia and the Middle East. Export sales account for approximately 30% of our total revenue for calendar year 2018.   | 5.2     |
| What are our current top export destinations? | Our top five export market destinations for calendar year 2018 were Pakistan (25.87%), Egypt (11.80%), Jordan (10.45%), United Arab Emirates (7.35%) and Vietnam (7.10%).   | 5.3     |
| What is our growth strategy?                  | <p>Our goal is to develop ourselves as a professional and reliable partner of the metal packaging businesses around the world. We would like to be known as a consistent, reliable and quality assured supplier in the industry. We believe a good reputation and corporate image are one of our key advantage when compared with other competitors domestically as well as in overseas markets.</p> <p>We are implementing the following strategies to grow our business:</p> <ul style="list-style-type: none"> <li><b>(innovation and technology)</b> We have accumulated extensive experience and knowledge on tinplate manufacturing. We registered a number of patents in 2018 (see section 5.11 for details) and plan to increase our focus on developing industry-leading technologies</li> </ul> | 5.4     |



in the future. We consider that key technology advantages will, on one hand, effectively set our products apart from other similar products in this highly competitive market either through product differentiation or improved efficiency and cost reduction, and, on the other hand, will assist us in qualifying for “high and new technology enterprise” (HNTE) status in China. As a HNTE, we are able to access the income tax reduction which is a key tax incentive available under current China tax laws which aims to encourage investment in HNTEs. We plan to lodge our application for HNTE in 2020. There are certain criteria we need to meet to obtain the HNTE status (set out more in detail in section 15.5(e) of Annexure A) and our application will be subject to the review and approval by the relevant authority.

- **(maintaining relationships with existing customers as well as creating new ones)** We value our relationships with our existing customers and understand that these relationships can be successfully maintained so long as we can consistently deliver good quality products with competitive pricing as well as the ability to deliver products on time as required. Customer satisfaction will help build our company image in the industry.
- **(growing global presence and brand building)** We believe that the internal governance standards that are required under the Australian corporate law as well as the continuous disclosure requirements for a company listed in Australia are well recognised internationally. A publicly listed company with better business transparency will enhance our corporate image in overseas markets and assist us in building stronger customer relationships with our existing and future overseas customers.

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|                         |   |     |
|-------------------------|---|-----|
| What are our products?  | Our factory manufactures a new type of metal packaging material (tinplate) and cold-rolled steel coils. Our tinplate is applicable and supplied to customers in diverse industries. It is mainly used as food and beverage cans, general line cans, paint cans, aerosols, tea cans, battery casing, engine oil filters and office appliances etc. Cold-rolled steel coils as a semi-finished material are widely supplied to other steel further processing industries such as construction, automotive, household electronic appliances, furniture, machinery hardware, etc. | 5.6 |
| What are our key costs? | <p>The key costs of our business include:</p> <ul style="list-style-type: none"><li>• operating costs of raw materials, electricity, gas and salaries and wages; and</li><li>• fixed capital costs such as investment in machines, moulds and other manufacturing equipment in order to manufacture the finished product.</li></ul>   | 5.7 |

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|  |  |      |
|--|--|------|
| What is the use of the funds to be raised under the Offer? | The funds raised under the Offer, being A\$500,000, will be used entirely in Australia for our Australian business activities as disclosed under this prospectus. Details of the proposed use of funds for the two years following listing are as follows: | 5.16 |
|--|--|------|

| Item   | Amount<br>(A\$'000) | % of<br>total<br>funds<br>raised |
|--|---------------------|----------------------------------|
| Office rental and utilities                  | 30                  | 4                                |
| Remuneration and related expenses            | 80                  | 16                               |
| Business development and marketing expense   | 80                  | 16                               |
| Exhibition costs                             | 120                 | 24                               |
| Corporate and regulatory compliance expenses | 180                 | 36                               |
| Other general expenses                       | 20                  | 4                                |

Corporate and regulatory compliance expenses include annual audit fees, nominated adviser and legal costs associated with ASIC and NSX Listing Rules compliance, share registry fees, and ASIC and NSX fees.

Costs of the Offer (as detailed in section 10.17) have been paid and therefore do not form part of the use of funds raised under the Offer.

#### 4.3 Key risk factors

Prospective investors should be aware that investing in us involves a number of risks and uncertainties. The risk factors summarised here and more fully explained in section 7 may affect the value of the Shares in the future. This section summarises only some of the risks which would apply to an investment in us. This summary does not include the risk management approaches we currently have in addressing some of the key risks. Please refer to section 7 for more details on our risks and risk management approaches.

| Factor                                       | Response  | Section |
|--|---|---------|
| <b><i>Specific risks to our business</i></b> |   |         |
| Debt Financing risk                          | <p>We have bank loans totalling RMB148 million as at 31 December 2018. The loans are granted as short-term secured liquidity loans for Kemao China to purchase raw material (steel strips) and each matures on a different date.</p> <p>The loans are provided as debt facilities which can be drawn down either in whole or in part when a drawdown request form is submitted to the bank. Each loan facility will be "rolled over" by the bank approving a new loan facility immediately after any principal and interest amounts owing in the old facility has been paid back.</p> | 7.1(a)  |



|                       |  |        |
|-----------------------|--|--------|
|                       | <p>Our debt financing strategy means we are exposed to cash flow and liquidity risk, interest rate risk and asset disposal risk.</p>   |        |
| Lease                 | <p>As disclosed in section 5.12, Kemao China's right to occupy the land and building that it currently operates at, arises from the Lease Agreement it entered into with Fumao, a related entity.</p> <p>There is a risk that Kemao China may need to relocate its business to another place if the land is expropriated by the government or if Fumao wishes to transfer the land and the buildings to a third party. The business will be significantly interrupted should either event occur.</p>   | 7.1(b) |
| Key raw material risk | <p>The primary input of tinplate production is hot-rolled steel strip. Its supply stability and price have significant impact on tinplate production and price. A rise in the price of hot-rolled steel strip increases purchase costs and typically makes cost of production higher. If these cost increases cannot be passed on to downstream customers through higher product prices, profit margins tend to fall.</p> <p>There is a risk that the price of this input will rise in the future (may be due to increases in steel prices). As the tinplate industry is highly competitive, we may not be able to pass the increased costs to our consumers. If this risk materialises, the profitability of our business may be adversely affected.</p>  | 7.1(c) |
| Environmental risk    | <p>As a producer of tinplate materials, our operations have an impact on the environment and are subject to the regulations under the relevant Chinese environmental laws. The environmental protection provisions, most recently amended in January 2015, allow the relevant environmental agencies to enforce stricter penalties and seize property of illegal polluters. Company executives of polluters may also be held personally liable and subject to prison sentences of 15 days. There is also no longer a cap on fines and, in extreme cases, a polluter can be forced to immediately shut down its operations.</p> <p>Chinese environmental regulations are subject to frequent amendments due to the government's heightened focus on the country's pollution issues. There is a risk that environmental issues relating to air, waste, water, emission and contamination may arise from time to time and that we may be in breach of environmental regulations. If such a risk materialises, we may have to pay a substantial amount of fine or be forced to shut down our business.</p> | 7.1(d) |



|                  |  |        |
|------------------|--|--------|
| Competition risk | <p>The sector in which we operate is subject to vigorous competition, based on factors including price, service, product selection and quality, manufacturing capability, innovation and the ability to provide customers with an appropriate range of products and services in a timely manner. We face competition from sources including:</p> <ul style="list-style-type: none"><li>• other tinplate manufacturers;</li><li>• manufacturers of alternative packaging products which may be used as a substitute for our products; and</li><li>• the potential reduction of import duties or tariffs in the end markets in which we sell our products.</li></ul> <p>Competitors (including overseas manufacturers) may have different quality, price and operational structures from ours or may price uneconomically, which could lead to a deterioration in our sales and profitability.</p> <p>Our competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, or a failure to continue to position ourselves successfully to meet changing market conditions, customer demands and technology. Any deterioration in our competitive position may result in a decline in sales revenue and margins, which may have a material adverse effect on our future financial performance and position.</p> | 7.1(e) |
| Customer risk    | <p>Some of our customer relationships are governed by binding written contracts, others are governed by informal arrangements such as an order-by-order basis subject to standard terms. Where no binding written contract exists, these arrangements can be terminated or varied by customers without incurring significant penalties. Even when there is a binding written contract, depending on the nature of the contract, customers may be under no obligation to continue to purchase, or to purchase a particular volume of, our products.</p> <p>Our contracts with customers are short-term based. Whether the customers will purchase from us repeatedly in the future depends on factors such as product price, quality, delivery time requirement and the demand fluctuation that our customers may experience for their products.</p> <p>Any of the above factors or a combination of these factors may materially reduce demand for our products, which would have a material adverse effect on our future financial performance and position.</p>  | 7.1(f) |



|                           |   |        |
|---------------------------|---|--------|
| Adverse incidents         | <p>Our operations involve the use of heavy machinery and hazardous materials, with resulting risk to both property and personnel. An incident may occur that results in serious injury or death, damage to property, contamination of the environment or business interruption, which may have a material adverse effect on our financial performance and position.</p> <p>Given the nature of our operations, we face the risk of workplace injuries which may result in operational or industrial stoppages and workers' compensation claims. Any failure to safely conduct our operations or to comply with the relevant Chinese work safety laws could result in fines, penalties and compensation for damages as well as reputational damage. Any such consequences could have a material adverse effect on our future financial performance and position.</p> | 7.1(g) |
| Exchange rates            | <p>Our products are being sold into various geographical markets, mainly Asia, Middle East and Europe. Our international sales use USD as the trading currency and we have a US currency reserve account.</p> <p>Our financial reports are prepared in AUD. However, our sales are in either RMB or USD and costs are all in RMB. Any depreciation of the RMB or USD relative to AUD may have a material adverse effect on our financial performance and position.</p> <p>The Company is exposed to foreign currency risk on sales that are denominated in a currency other than the functional currency of the company. The currency giving rise to this risk is primarily the USD.</p>  | 7.1(h) |
| Sovereign risk            | <p>We currently export our products to 33 countries mainly in the Asia and the Middle East, and export sales account for around 30% of our total revenue. Some of these countries may be considered to have high political and sovereign risk. Any material adverse changes to the political and economic environment of these countries and their relationships with China may affect the viability of our export business in those countries and may materially affect our profitability. No assurance can be given regarding our export sales to any overseas country.</p>   | 7.1(i) |
| Reliance on key personnel | <p>Our success depends on the ability and performance of our key personnel, in particular the senior management team, such as WU Bo (Eric), our export manager. Loss of key personnel, sustained underperformance by key personnel or an inability to recruit or retain suitable replacement or additional personnel may adversely affect our future financial performance.</p>   | 7.1(j) |



|                                     |  |        |
|-------------------------------------|--|--------|
| Intellectual property risk          | <p>We use intellectual property and technology developed in the course of our business. Some of these have been patented, some may not be patentable, and others may be patentable in the future.</p> <p>The risks associated with the use of intellectual property and technology we own include:</p> <ul style="list-style-type: none"><li>• challenges by third parties of our right to use our intellectual property or technology; and</li><li>• unauthorised disclosure by a third party.</li></ul> <p>We may incur significant costs in protecting or asserting our rights in such circumstances. There can be no assurance that any patents we may own or control now and, in the future, will afford us a competitive advantage or have any commercial significance.</p>  | 7.1(k) |
| Shareholding concentration          | <p>Mr CHEN Dong and Ms CHEN Fang are the two executive Directors who have a relevant interest in 55.13% and 10% of the issued capital of the Company respectively on the date of this prospectus and therefore have the ability to control the election of Directors and matters subject to ordinary resolution by the Shareholders. The interests of Mr CHEN Dong and Ms CHEN Fang may differ from the interests of the Shareholders or Company. However, they being Shareholders as well as Directors of the Company may also reduce the agency cost of equity and better align their interests as Directors with the interests of all other Shareholders.</p>   | 7.1(l) |
| Additional requirements for capital | <p>Assuming there won't be any material changes to our stated plans and intentions, the funds to be raised under this prospectus are considered sufficient to meet the two-year objectives of the Company and Kemao China has sufficient capital to carry on its business. However, if any of the following occurs, we may seek to raise further funds through equity financing if we have insufficient funds from internal sources or borrowings:</p> <ul style="list-style-type: none"><li>• Kemao China wishes to escalate the process of achieving a higher annual production output to cater for growing demand by purchasing more raw materials; and</li><li>• Kemao China wishes to build and upgrade its production facilities to increase its production capacity and efficiency by investing in new machinery and equipment.</li></ul> <p>Failure to obtain sufficient financing may result in delay and indefinite postponement of our planned activities. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to us and might involve substantial dilution to the Shareholders.</p> | 7.1(m) |



|   |  |        |
|---|--|--------|
| Internal controls                                   | The system of internal controls currently implemented by us is designed for the operations of an owner-managed enterprise. It comprises a number of undocumented procedures which require the substantial hands-on involvement of the owner-manager. The Directors are of the opinion that while this system of internal control is adequate and effective for the current level of operations, it may become inadequate after our business expands. If we are not able to improve and subsequently maintain the quality of our internal controls, any weaknesses could materially and adversely affect our ability to properly manage the operations of our business, provide timely and accurate information about our operations and finance, and could cause the business to be susceptible to internal fraud. | 7.1(n) |
| Reputational damage                                 | Our reputation may be adversely affected by a number of factors, including failure to provide customers with the quality of service they expect, product liability claims, disputes or litigation with third party stakeholders, including customers, employees or suppliers. Any reputational damage may result in the cessation of existing customer relationships, loss of key employees, which may be harmful to our financial performance and lead to disruption in our operations.   | 7.1(o) |
| <b><i>China-related risks</i></b>                   |  |        |
| Chinese regulatory environment and associated risks | China operates under a civil law system. This system is different from the common law system which exists in Australia. The legal system in China is subject to continuing development in areas such as foreign investment, tax and foreign exchange and these could adversely affect our business operations.   | 7.1(p) |
| Chinese political, economic and social reforms      | The Chinese economy has gradually changed from a centralised economy to a market economy. This reform has, among other things, resulted in significant economic growth. Political, economic and social factors may lead to further readjustment of the reforms already in place. However, there is no assurance that any change that occurs as a result of political, economic or social reforms in China will have a positive effect on China's economic development or that Kemao China will benefit from or will be able to capitalise on these reforms. There is a risk that our operations, markets and financial position may be adversely affected by these continuing changes.   | 7.1(q) |
| Government control of currency conversion           | The value of the Yuan is subject to change in the Chinese government's policies and in international economic and political developments.<br><br>Under Chinese government regulations, all foreign enterprises must establish a "current account" and a "capital account" with a bank authorised to deal in foreign exchange. Currently, foreign exchange banks allow for  | 7.1(r) |



|  |   |        |
|--|---|--------|
|  | <p>settlement of “current account” transactions (which include payment of dividends on the basis of a board resolution authorising the distribution of profits or dividends) without other regulatory approval. Conversion of the Yuan into foreign currencies for “capital account transactions” which include the receipt and payment of foreign exchange for loans, contributions and purchases of fixed assets continues to be subject to limitations and requires regulatory approval. There can be no assurance that we will be able to repatriate funds from China to pay dividends or satisfy foreign exchange requirements in the future.</p>  |        |
| Misuse of company seals risk                           | <p>Under Chinese law, company seals are used as the company’s official signature and can bind the company without the need of an accompanying signature on an official document. The safeguard of company seals and measures in place to ensure their proper use are therefore important for Chinese companies. Kemao China’s current policy regulating the use of company seals is set out in section 9.11. However, regardless of the policy Kemao China adopts to minimise the risk of misuse of any of our company seals, there is a risk that our company seals may be used inappropriately or without authority and could bind Kemao China.</p>   | 7.1(s) |
| Compliance with capital preservation requirements risk | <p>Article 166 of China’s Companies Law (2013 Revision) (Article 166) sets out the capital preservation requirements which a company registered in China must comply with before it can distribute its profits to its shareholders. In summary, the capital preservation requirements are as follows:</p> <ul style="list-style-type: none"><li>• a company must provide 10% of its annual profit as its statutory common reserve;</li><li>• a company’s statutory common reserve must be used to make up for losses it had incurred in prior years;</li><li>• if a company’s statutory common reserve is not sufficient to make up for losses it had incurred in prior years, the company must make up for the balance such accumulated losses from its current year’s profits; and</li><li>• a company is not required to make additional provision for its statutory common reserve if the amount in its statutory common reserve is at least 50% of its registered capital.</li></ul> <p>Article 166 further provides that if a company distributes profits to its shareholders without complying with the capital preservation requirements, shareholders must return such profit distributions which had been made in violation of the capital preservation requirements to the company. Therefore, shareholders should be aware that Kemao China’s annual profits must first of all be applied to fulfil the capital preservation requirements under Article</p> | 7.1(t) |



166 before they are available for distribution to shareholders. There is also a risk that should Kemao China distributes its profits to shareholders in violation with Article 166, shareholders shall be liable to return these profit distributions to Kemao China.

#### 4.4 Key people, interests, benefits and contracts

| Question  | Response   | Section             |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
|---|--|---------------------|----------------|---------------------------|---------------------------|-----------|--------------------|-----------|--------------------|---------------|------------------------|---------------------|------------------------|---------------|-----|-----|---------------------|-----|-----|-----|
| Who are the Directors?  | <p>The Directors of the Company are as follows:</p> <table><thead><tr><th>Director</th><th>Designation</th></tr></thead><tbody><tr><td>LEONG Chong Peng (Sharon)</td><td>Non-Executive Chair</td></tr><tr><td>CHEN Dong</td><td>Executive Director</td></tr><tr><td>CHEN Fang</td><td>Executive Director</td></tr><tr><td>ZHOU Jianping</td><td>Non-Executive Director</td></tr><tr><td>LAM Long Huy (Bill)</td><td>Non-Executive Director</td></tr></tbody></table> <p>See section 9.1 for their qualifications, work experience and shareholding in the Company.</p>   | Director            | Designation    | LEONG Chong Peng (Sharon) | Non-Executive Chair       | CHEN Dong | Executive Director | CHEN Fang | Executive Director | ZHOU Jianping | Non-Executive Director | LAM Long Huy (Bill) | Non-Executive Director | 9.1           |     |     |                     |     |     |     |
| Director  | Designation  |                     |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| LEONG Chong Peng (Sharon)   | Non-Executive Chair  |                     |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| CHEN Dong   | Executive Director   |                     |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| CHEN Fang   | Executive Director   |                     |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| ZHOU Jianping   | Non-Executive Director   |                     |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| LAM Long Huy (Bill)   | Non-Executive Director   |                     |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| What are the significant interests of the Directors in the Company? | <p>As at the date of this prospectus, the Directors’ holdings in Shares are as follows:</p> <table><thead><tr><th>Director</th><th>Total interest</th><th>% of issued capital</th></tr></thead><tbody><tr><td>LEONG Chong Peng (Sharon)</td><td>Nil</td><td>Nil</td></tr><tr><td>CHEN Dong</td><td>55,130,000</td><td>55.13</td></tr><tr><td>CHEN Fang</td><td>10,000,000</td><td>10</td></tr><tr><td>ZHOU Jianping</td><td>Nil</td><td>Nil</td></tr><tr><td>LAM Long Huy (Bill)</td><td>Nil</td><td>Nil</td></tr></tbody></table> <p>See section 9.4 for a breakdown of the Directors’ direct and indirect interests.</p> | Director            | Total interest | % of issued capital       | LEONG Chong Peng (Sharon) | Nil       | Nil                | CHEN Dong | 55,130,000         | 55.13         | CHEN Fang              | 10,000,000          | 10                     | ZHOU Jianping | Nil | Nil | LAM Long Huy (Bill) | Nil | Nil | 9.4 |
| Director  | Total interest   | % of issued capital |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| LEONG Chong Peng (Sharon)   | Nil  | Nil                 |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| CHEN Dong   | 55,130,000   | 55.13               |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| CHEN Fang   | 10,000,000   | 10                  |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| ZHOU Jianping   | Nil  | Nil                 |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |
| LAM Long Huy (Bill)   | Nil  | Nil                 |                |                           |                           |           |                    |           |                    |               |                        |                     |                        |               |     |     |                     |     |     |     |





| Question  | Response   | Section                        |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
|---|--|--------------------------------|--------------------------|--------------------------------|---------------------------|------------|-------|-----------|------------|------------|-----------|-------|------------|---------------|--------|-----|---------------------|--------|-----|-----|
| What are the material benefits the Directors are receiving from the Company?                                | <p>The Directors will be paid the following remuneration:</p> <table> <tr> <th>Director</th><th>Director's fee per annum</th><th>Wages, salaries and/or bonuses</th></tr> <tr> <td>LEONG Chong Peng (Sharon)</td><td>24,000</td><td>Nil</td></tr> <tr> <td>CHEN Dong</td><td>1,000</td><td>RMB240,000</td></tr> <tr> <td>CHEN Fang</td><td>1,000</td><td>RMB240,000</td></tr> <tr> <td>ZHOU Jianping</td><td>10,000</td><td>Nil</td></tr> <tr> <td>LAM Long Huy (Bill)</td><td>20,000</td><td>Nil</td></tr> </table> <p>All of the Directors were appointed on 28 May 2018, the date the Company was incorporated.</p> | Director                       | Director's fee per annum | Wages, salaries and/or bonuses | LEONG Chong Peng (Sharon) | 24,000     | Nil   | CHEN Dong | 1,000      | RMB240,000 | CHEN Fang | 1,000 | RMB240,000 | ZHOU Jianping | 10,000 | Nil | LAM Long Huy (Bill) | 20,000 | Nil | 9.5 |
| Director  | Director's fee per annum   | Wages, salaries and/or bonuses |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| LEONG Chong Peng (Sharon)   | 24,000   | Nil                            |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| CHEN Dong   | 1,000  | RMB240,000                     |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| CHEN Fang   | 1,000  | RMB240,000                     |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| ZHOU Jianping   | 10,000   | Nil                            |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| LAM Long Huy (Bill)   | 20,000   | Nil                            |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| Who are the significant existing shareholders of the Company and what will their interests be upon listing? | <p>The existing Shareholders of the Company are:</p> <ul style="list-style-type: none"> <li>• Original Shareholders of Kemao China; and</li> <li>• creditors who have agreed to convert debt Kemao China owed to them into Shares of the Company.</li> </ul> <p>The substantial shareholders of the Company and their interests are set out as follows:</p> <table> <tr> <th>Holder</th><th>Number of Shares</th><th>% of issued capital</th></tr> <tr> <td>CHEN Dong</td><td>55,130,000</td><td>55.13</td></tr> <tr> <td>CHEN Fang</td><td>10,000,000</td><td>10</td></tr> </table>                                   | Holder                         | Number of Shares         | % of issued capital            | CHEN Dong                 | 55,130,000 | 55.13 | CHEN Fang | 10,000,000 | 10         | 5.18      |       |            |               |        |     |                     |        |     |     |
| Holder  | Number of Shares   | % of issued capital            |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| CHEN Dong   | 55,130,000   | 55.13                          |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| CHEN Fang   | 10,000,000   | 10                             |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |
| What material contracts do we have?   | <p>The Company or Kemao China is a party to a number of material contracts which include the following:</p> <p><i>Contracts entered into by Kemao China</i></p> <ul style="list-style-type: none"> <li>• Lease Agreement with Fumao;</li> <li>• Loan Agreement with CHEN Chuandu; and</li> <li>• Technical Service Agreement with Jiangnan University.</li> </ul> <p><i>Contracts entered into by the Company</i></p> <ul style="list-style-type: none"> <li>• Loan Agreement with Kemao China; and</li> <li>• Agency Agreement with Kemao China.</li> </ul> <p>See section 5.9 for a summary of these contracts.</p>  | 5.9                            |                          |                                |                           |            |       |           |            |            |           |       |            |               |        |     |                     |        |     |     |



#### **4.5 Key financial information**

A summary of our financial data is set out in the table below. Details of our financial information is set out in section 8 and should be read together with the management discussion and analysis in that section.

| <b>A\$000s</b>         | <b>FY 2016</b> | <b>FY 2017</b> | <b>FY 2018</b> |
|------------------------|----------------|----------------|----------------|
| Revenue                | 76,083         | 114,905        | 135,217        |
| EBITDA                 | 4,889          | 7,847          | 8,890          |
| <i>EBITDA margin %</i> | <i>6%</i>      | <i>7%</i>      | <i>7%</i>      |
| EBIT                   | 2,406          | 5,341          | 6,453          |
| <i>EBIT margin %</i>   | <i>3%</i>      | <i>5%</i>      | <i>5%</i>      |
| NPAT                   | 518            | 3,218          | 2,280          |
| <i>NPAT margin %</i>   | <i>1%</i>      | <i>3%</i>      | <i>2%</i>      |

1. The figures are estimates only based on a fixed exchange rates of RMB1 = A\$0.20.
2. The financial information is intended as a summary only and should be read in conjunction with the detailed financial information in section 8 as well as the risk factors in section 7 .

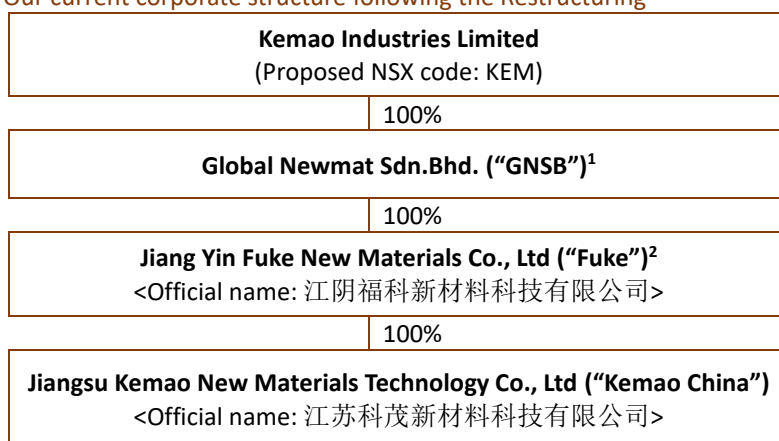


## 5 THE COMPANY AND AN OVERVIEW OF OUR BUSINESS

### 5.1 Introduction

Our listing entity, Kemao Industries Limited (ACN 625 928 216) (**Company**), was incorporated in Australia on 28 May 2018. It acquired 100% indirect equity interest in Jiangsu Kemao New Materials Technology Co., Ltd (**Kemao China**), our Chinese operating business, through a restructuring process which we undertook for the purpose of this proposed listing (**Restructuring**).

Figure 1 Our current corporate structure following the Restructuring



Note:

1. GNSB was registered in Malaysia on 3 October 2017 as an investment holding company for the sole purpose of setting up the listing structure.
2. Fuke was registered in China on 30 November 2017 as an investment holding company for the sole purpose of setting up the listing structure. It is registered as a wholly foreign-owned entity (commonly referred to as WFOE) under Chinese law. As part of its registration as a WFOE, Fuke filed its registration form for the State Administration of Foreign Exchange of China to receive and remit foreign currencies under the relevant foreign exchange laws in China. The registration has been completed and recorded on the government system as required by law.

Prior to the Restructuring, the equity capital of Kemao China were held by two individuals, namely, CHEN Chuandu (98.4%) who is our founder and HUANG Meiyu (1.6%), his spouse. They held their respective interests for themselves and on behalf of certain other investors (together referred to as the **Original Shareholders**). On 20 June 2018, Mr CHEN and Mrs HUANG transferred all of their interests in Kemao China to Fuke.

On 31 July 2018, the Company acquired GNSB's single share on issue from GNSB's sole shareholder, Nalini A/P Subramaniam, a Malaysian national and an unrelated third party who was acting as a nominee of the Original Shareholders. In consideration, the Company issued new Shares to Nalini's nominees, the Original Shareholders, in proportion to their respective interests in the equity capital of Kemao China prior to the Restructuring.

As part of the Restructuring, a sum of RMB34,329,000 (≈A\$6,865,800) out of RMB52,329,000 (≈A\$10,465,800) owed by Kemao China to Mr CHEN Chuandu (**Shareholder Loan**) was settled by the Company issuing 10,000,000 new Shares to Mr CHEN and persons nominated by Mr CHEN. The Shareholder Loan consisted of:

- (a) a sum of RMB47,845,000 (≈A\$9,569,000) raised from Mr CHEN Chuandu and other Original Shareholders to fund Kemao China's operations. This amount was loaned



to Kemao China by Mr CHEN on behalf of himself and the other Original Shareholders; and

- (b) a sum of RMB4,484,000 (≈A\$896,800) owed to certain trade creditors of Kemao China who had agreed to accept new Shares as full and final settlement of debts which Kemao owed to them.

The Restructuring was completed on 31 July 2018. The Company's capital structure following the Restructuring and as at the date of this prospectus is set out in section 5.17 of this prospectus.

## 5.2 Overview of our business

Kemao China is a tinplate producer and supplier in China. The company was registered in China in 2005 with a registered capital of RMB50 million. Kemao China commenced its export activities in 2008 and, in 2018, its export revenue accounted for approximately 30% of its total revenue.

**Table 1 Key information of our business as at the date of this prospectus**

|  |  |
|--|--|
| Registered office in China               | Kemao China is located in the heart of the Yangtze River Golden Delta Economic Circle – Yunting District Industrial Park, 5 Songwentou Road, Yunting Town, Jiangyin City, Jiangsu Province, CHINA – north to Yangtze River waterway, south to Wuxi, west to Changzhou and Nanjing, and east to Suzhou and Shanghai with access to convenient land and water transport. |
| Main facilities and equipment            | Machinery: 3 degreasing lines, 15 sets (30 batches) of annealing furnaces, 4 cold rolling lines, 3 width trimming lines, 2 tinning lines, 4 cutting lines and 4 flattening lines.<br><br>Office building: 8,000 m <sup>2</sup><br><br>Warehouse: 21,000 m <sup>2</sup><br><br>Factory: 32,000 m <sup>2</sup><br><br>Total footprint: 66,000 m <sup>2</sup>             |
| Key geographical areas Kemao operates in | Asia, Europe and the Middle East <sup>1</sup> .  |
| Key products                             | New type packaging material (tinplate) and cold-rolled steel coils and sheets  |
| Annual production output                 | 120,000 MT – 130,000 MT  |
| Key raw materials                        | Hot rolled steel plates supplied by Meishan Steel (tier 1 distributor of Baosteel) and Shougang  |
| Employees                                | Approximately 295 employees with more than 20% being technical staff   |

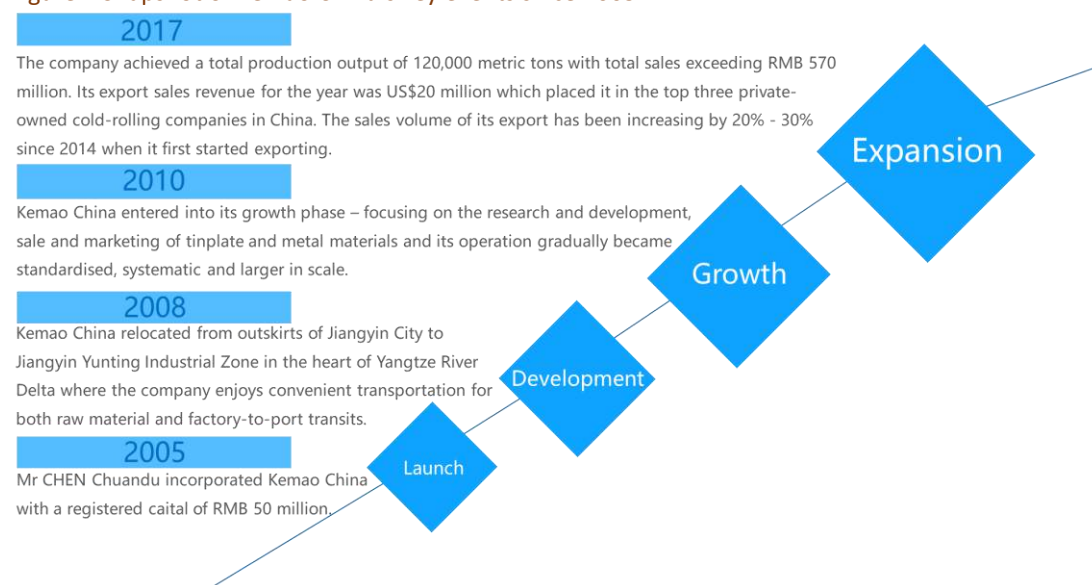
1. We also export to America, but the scale of export was not significant compared with the other regions in year 2018, hence not referred to here as one of the key geographical areas.

Our tinplate products are being sold globally with export revenue accounting for approximately 30% of our total revenue for calendar year 2018.

We adhere to our corporate values of “customer focus, quality, management and innovation” and strictly comply with the ISO9001 quality management system and the ISO14001:2015

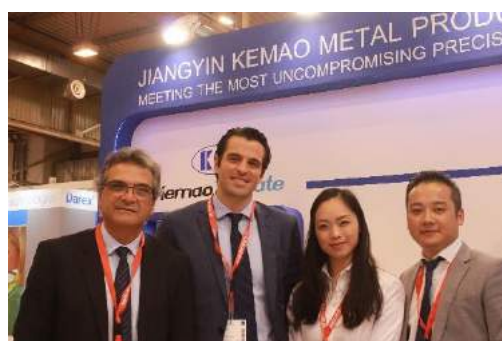
environmental management system. Our mature manufacturing technology and comprehensive quality control equipment ensure the high quality and the excellent functionality of our products. To further improve our product quality, we entered into a technical service agreement with the machinery automation research department of Jiangnan University in 2018 (key terms are detailed in section 5.9(c)) for technology development and new product research and development (R&D). Our DR7-DR8 tinplate material has a controllable thickness range of 0.14–0.50mm and is exported to many countries including Italy, Iran, Australia and Pakistan and has a material market presence in the Middle East and European markets. We have received positive feedback on the quality of our products from many of our international customers.

Figure 2 Snapshot of Kemao China's key events since 2005



### 5.3 Our export business

We commenced our export activities in 2008 and started actively engaging and marketing overseas when we employed WU Bo (Eric) as Export Manager in 2014. Eric is proficient in both English and Chinese and has spent a considerable amount of time overseas each year attending major international metal packaging trade exhibitions as well as visiting existing customers so as to maintain good relationship with them.



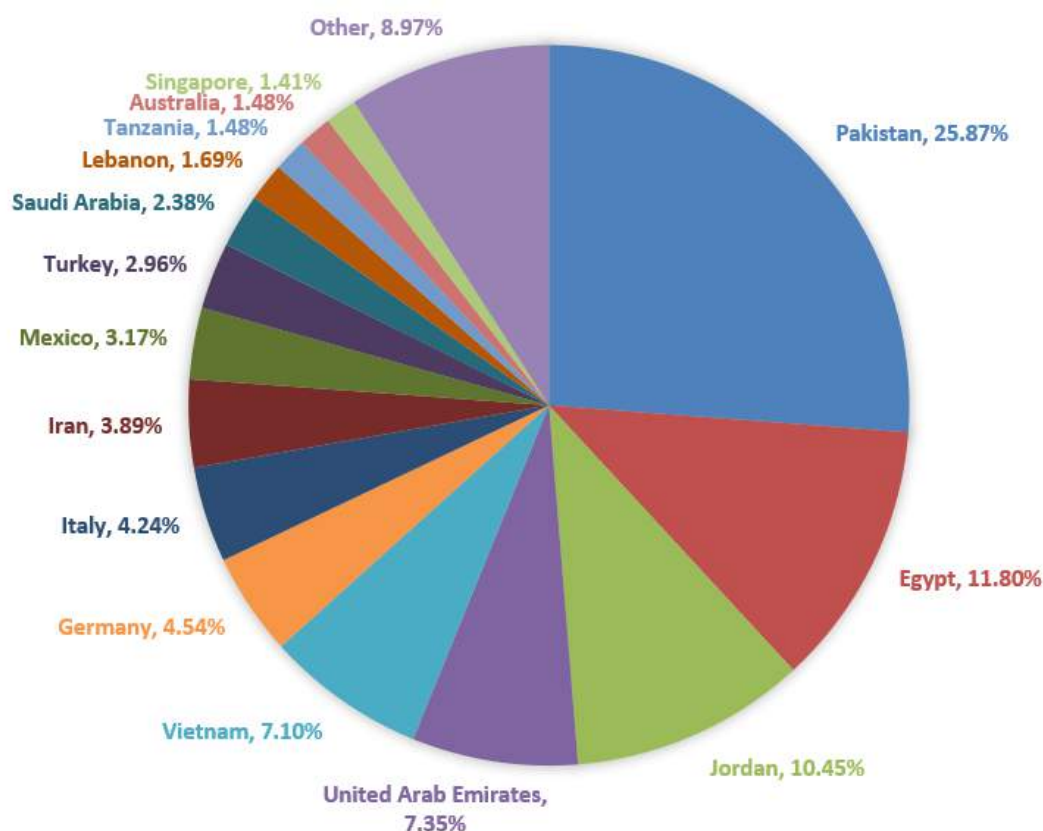
Pictures taken at 2015 Metpack in Germany with WU Bo (Eric), Kemao China staff and event attendees. Kemao China's English name in the pictures was written as "Jiangyin Kemao Metal Products Co., Ltd". This was Kemao China's former official name in English.

Our revenue from exports has grown from 20.84% of total revenue in 2015 to 33.08% of total



revenue in 2018 and has more than doubled in dollar figures for this period. The strong past performance of our export business gives us confidence of our products in the global market and the sales and marketing strategies that we have in place for our overseas business. We currently export to 33 countries in Europe, Asia and Middle East. Below is a pie chart prepared using our internal export statistics for the 2018 calendar year. The top 15 export countries are identified, each with its respective percentage of sales revenue.

Figure 3 Export statistics for calendar year 2018



#### 5.4 Growth strategy

Our goal is to be a professional and reliable partner of the metal packaging businesses around the world. We would like to be known as a consistent, reliable and quality assured supplier in the industry. We believe good reputation and corporate image are our key advantage when compared with other competitors domestically as well as in overseas markets.

We are implementing the following strategies to grow our business:

(a) Innovation and technology

We have accumulated extensive experience and knowledge on tinsplate manufacturing. We registered and obtained a number of patents in 2018 (see section 5.11 for details) and plan to increase our focus on developing industry-leading technologies in the future. Key technology advantages will, on one hand, effectively set our products apart from other similar products in this highly competitive market either through product differentiation or improved efficiency and cost reduction, and, on the other hand, may assist us in qualifying for “high and new technology enterprise” (HNTE) status in China. As a HNTE, we will be able to



access the income tax reduction available under current China tax laws. This tax reduction is a key tax incentive which aims to encourage investment in HNTes. We plan to lodge our application for HNTe in 2020. There are certain criteria we need to meet to obtain the HNTe status (set out more in detail in section 15.5 of Annexure A) and our application will be subject to the review and approval by the relevant authority.

- (b) Maintaining relationships with existing customers as well as creating new ones

We value our relationships with our existing customers and understand that these relationships can be successfully maintained so long as we can consistently deliver good quality products with competitive pricing as well as the ability to deliver products on time as required. Customer satisfaction will help build our company image in the industry. We place great emphasise on our corporate core values and ensure that our employees recognise and understand these values when performing their respective duties.

- (c) Growing global presence and brand building

Our export business has been growing at an average annual rate of 43% for the last three years and a number of our existing overseas customers are repeat customers. The strong performance of this business component proves the competitiveness and quality of our products internationally and gives us great confidence to grow our global presence.

We believe that the internal governance standards that are required under the Australian corporate law as well as the continuous disclosure requirements for a company listed in Australia are well recognised internationally. Being a publicly listed company with better business transparency will enhance our corporate image in the overseas markets and assist us in building stronger customer relationships with our existing and future overseas customers. As part of our growth strategy, we have decided to relocate Kemao China's international sales administration functions to Australia to be carried out by the Company. In other words, moving forward, all the sales administration functions relating to international sales of our products will be carried out from Australia by the Company.

## 5.5 Our business in Australia

Our Chinese subsidiary, Kemao China, has been exporting to one Australian customer repeatedly since 2015 with a current accumulated sales value of US\$191,000. We have developed strong business relationship with this customer and expect to continue to sell to this customer in the future.

On 16 October 2018, the Company and Kemao China entered into an agency agreement (**Agency Agreement**) which formally documented the relocation of Kemao China's international sales administration functions to the Company. A summary of the Agency Agreement is set out in section 5.9(f).

Establishing ourselves in Australia is attractive to us firstly because Australia presents the following advantages over other countries:

- (a) Australia's economy is the world's 13th largest and rated AAA by all three global rating agencies. It is in its 27th year of consecutive annual economic growth – the





only developed economy in the world to achieve this. The economy is also forecast to realise stable gross domestic product (**GDP**) growth over the next five years;

- (b) as a globally integrated economy, Australia is a trusted economic partner globally and plays an integral role in Asia's dynamic growth. International companies can benefit from Australia's deep business and cultural ties with Asia and long-standing links with Europe and North America to expand into or enter global value chains; and
- (c) Australia has sound governance, solid democratic institutions and a transparent regulatory system and is a safe and secure place to invest and do business in. Australia's efficient business frameworks make it relatively easy for international businesses to set up their operations.

Secondly, we believe that having a physical Australian presence will bring additional economic benefit to us as our market research indicates that Australia's metal packaging market is heavily reliant on imported metal packaging material and if marketed more extensively, we should be able to expand our sales network in Australia with the assistance of our existing customer and other contacts in the industry. In particular, we note that according to the Market Report prepared by Darun Consulting (reproduced in section 6), local Australian can manufacturers source their raw materials mainly from Asia. In 2017, Australia imported 88,881 tonnes of tinplate used in the production of cans and other tinplate products. Among all the supplying countries, Japan, South Korea and China were the top three sources, sharing 40.14%, 16.54% and 14.88%, respectively, of the total import. Import from China has accounted for around 12%- 20% in the recent five years. We note that the volume of import from China increased by 16.11% in 2017 compared with 2016.

Following a marketing trip we had in Australia in late 2018, we have signed on three new and additional Australian customers who are all established Australian owned and managed businesses. They have each placed a purchase order with us and paid deposits for their orders. As at the date of this prospectus, two of the three orders have been completed and one order is currently being produced and is expected to be shipped to the customer shortly.

The positive results of our recent sales and marketing efforts in Australia as well as know-how accumulated from our exporting activities since 2015 have given us the confidence to further strengthen our business presence in Australia. Accordingly, we plan to use all funds raised under the Offer in Australia for this purpose. Our growth strategy in Australia will include:

- (a) conducting more marketing trips to Australia to visit potential customers and offer trial orders of our products so as to expand our Australian customer base; and
- (b) attending major packaging exhibitions in Australia such as the annual AUSPACK conference, a major exhibition in Australia for the food, beverage and pharmaceutical processing and packaging industry, to promote our business and products.





Photo of WU Bo (Eric) and exhibitors at the 2019 AUSPACK on 28 March 2019.




To better facilitate our plan, we employed a local Melbourne businessman, Mr XU Jiangnan (Jerry), as Marketing Manager on a part-time basis for a monthly remuneration of A\$2,000 plus superannuation. He is an Australian citizen who has lived in Melbourne for many years and a director of a private property development company. He is a family friend of the Executive Directors and played a key role in linking our current Australian customer with us back in 2015. We consider that Mr XU's understanding of both the Australian and Chinese business culture and his connection with the business community in Australia will assist us in marketing ourselves in Australia.

We lease a communication liaison office from Greenland Property Group Pty Ltd located on unit 6, level 2, 555 Riversdale Road Camberwell, Victoria for a monthly rent of approximately A\$500. The office will be used as a point of contact between the Company and our Australian customers or other stakeholders, and a place where Mr Xu and our staff from China can work at if needed when they visit Australia for business-related purposes.

## 5.6 Our products

Our factory manufactures a new type of metal packaging material (tinplate) and cold-rolled steel coils.

Table 2 Detailed product types and specifications

| Products  | Name and general information                                    |
|---|---|
|  | TINPLATE COILS  |
|   | Thickness: 0.14mm-0.50mm (tolerance $\pm 0.01$ mm)              |
|   | Width: 500mm-980mm (tolerance $\pm 3$ mm)                       |
|   | Coil ID: 508mm  |
|   | HS code: 72101200   |
|   | Tin coating weight: 1.0-5.6g/sqm                                |
|   | Temper grade <sup>1</sup> : T1, T2, T2.5, T3, T3.5, T4, T5, DR8 |



| Products  | Name and general information                                    |
|---|---|
|  | <b>TINPLATE SHEETS</b>  |
|   | Thickness: 0.14mm-0.50mm (tolerance $\pm 0.01$ mm)              |
|   | Width: 500mm-980mm (tolerance $\pm 3$ mm)                       |
|   | Length: 500mm-1250mm or as requested by customers               |
|   | HS code: 72101200   |
|  | Tin coating weight: 1.0-5.6g/sqm                                |
|   | Temper grade <sup>1</sup> : T1, T2, T2.5, T3, T3.5, T4, T5, DR8 |
|  | <b>PRINTED TINPLATE</b>   |
|   | <b>LAMINATED TINPLATE</b>                                       |

1. Temper grades are grouped into single reduced (indicated with the letter “T”) and double reduced (indicated with the letters “DR”) grades. The difference between T1 to T5 temper grades indicates the difference in hardness value of the materials. Tinplate with different temper grades are suitable for different product applications. “Double reduced” materials are thin steel materials with high strength and produced by cold reducing the steel material after the process of cold reducing and annealing.

Our company produces DR8 material using our self-developed double cold-reducing process. Our DR8 material features high plasticity and strength with thicknesses controlled between 0.13mm and 0.23mm ( $\pm 0.002$ um tolerance guaranteed) making it an ideal food packaging material in the Middle East. It also has a material market presence in Dubai and Italy.

In addition, our matte surface-finishing technique allows our matte finish tinplate material to have a high-density surface with uniform distribution of colours and strong adhesion and extensibility characteristics, making it one of the top-quality materials in the industry and an ideal material for making crown caps.

Our tinplate is applicable and supplied to customers in diverse industries. It is mainly used as food and beverage cans, general line cans, paint cans, aerosols, tea cans, battery casings, engine oil filters, office appliances, etc. Cold-rolled steel coils as a semi-finished material are widely supplied to other steel further processing industries such as construction, automotive, household electronic appliances, furniture, machinery hardware, etc.

**Table 3 Applications of our products**



#### FOOD & BEVERAGE

Tinplate is often used for holding juice, coffee, tea, sports drink, cola, soda and beer. Light accelerates oxidation reaction of edible oil, reduces nutritive value and possibly generates harmful substances, and destroys vitamins A and D. Tinplate effectively isolates light and air due to its light-proof property and its tightness, thus making it a preferred choice for packing oil and food.



#### AEROSOLS

Tinplate cans can be high-temperature and high-pressure resistant and thus are suitable for packing high pressure substances (aerosols).



#### GENERAL CANS

Tinplate is a suitable packaging material for chemicals due to its solid, good protective, shock resistant and fire-resistant texture.



#### FANCY CANS

Tinplate cans are also sometimes used as cookie jars, writing cases and decorative badges.

## 5.7 Our production processes

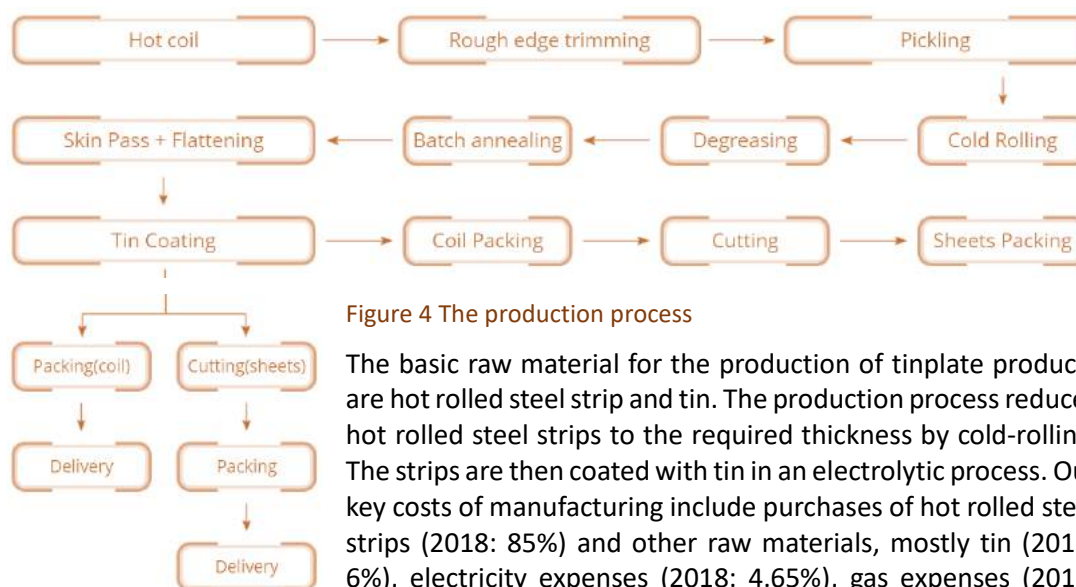


Figure 4 The production process

The basic raw material for the production of tinplate products are hot rolled steel strip and tin. The production process reduces hot rolled steel strips to the required thickness by cold-rolling. The strips are then coated with tin in an electrolytic process. Our key costs of manufacturing include purchases of hot rolled steel strips (2018: 85%) and other raw materials, mostly tin (2018: 6%), electricity expenses (2018: 4.65%), gas expenses (2018: 2.77%) and salaries and wages (2018: 2.02%). In addition to these operating costs, we also incur material fixed capital costs such as investment in machines, moulds and other necessary equipment for production as well as R&D into new manufacturing methods and technologies.

Since 2015, we have expended a total of more than RMB30 million (≈A\$6 million) on factory machinery. These expenditures are partly for the purchase and installation of new processing equipment (including one cold rolling line, two degreasing lines, eight batch annealing furnaces, one tinning line and one high speed cutting line) and partly for routine or necessary old unit upgrades or replacement.

In addition, we have also redesigned our facility layout and rebuilt our in-house transportation and material feeding system – materials are transported with only one rail

and are separately feeding their respective procedures.

The primary focus of our factory-related expenditures is to maintain the safety of our workers, control business disruption due to machine defects, improve product quality and production efficiency so as to improve our competitiveness in the market and reduce variable cost of manufacturing.

Table 4 A selection of pictures showing our production lines



• Hot coil receiving & inspection

Hot rolled steel strip is the raw material for the production of tinplate.



• Rough edge trimming

All hot coil goes through inspection and rough-edge trimming before being processed.

The tandem cold rolling mill takes the hot rolled strip and rolls it to achieve its final thickness as required.



• Two-stand tandem cold rolling line



• Cleaning and degreasing

After cold rolling, the strip requires degreasing. It is cleaned of impurities and lubricant residue and then goes with an electrolytic degreasing cycle.

The cleaned strip goes through the batch annealing line to restore its crystal structure and ductility.



• Batch annealing line





• Skin-pass line / Temperrolling line

After annealing, the strength of the steel strip is brought to a desired level by light reduction on a temper mill which also gives the steel its required surface quality and flatness.

The steel strip then goes through a soft-edge trimming line.



• Soft edge trimming line



• Electrolytic Tinning line



Steel strip when coated becomes tinfoil. The steel is joined in an endless strip by welding, and the material is passed through an electrolytic strip coating line where a thin layer of tin is applied to its surface.

After coating, the tinfoil either remains in a coil or is cut into sheets in various cut-to-size formats for shipping to the processor.



• Final products(Coil / Cut-to length)



## 5.8 Customers

We have a diversified base of domestic and international customers. Our dealings with our customers are mostly on an as-need and short-term basis, that is, our customers place orders with us based on their needs at the time. We do not enter into longer term contracts with



our customers for two reasons:

- (a) firstly, our customers are manufacturers in the metal packaging industry manufacturing cans and metal packages to be used for food and beverage products, aerosols and general-purpose cans. The demand for our products is therefore affected by the conditions and performance of these end markets. This being so, our top customers for each financial year often vary due to different demand factors experienced by each end market. For example, one of our top customers is an Italian tomato sauce manufacturer and their orders of tinplate were significantly reduced due to a particular bad harvesting season for tomatoes last year; and
- (b) secondly, our raw material cost (being costs for hot-rolled steel strips) is highly correlated with steel price and by locking into a longer-term sales contract, we bear additional price risk during the term of the contract which may reduce our profitability. We do not have a policy of hedging against this price risk and consider that the preferred approach is to adopt a make-to-order manufacturing process which gives us more flexibility in adjusting our product prices due to varied manufacturing costs.

## 5.9 Material contracts

The Company and its subsidiaries have entered into a number of important contracts. These are:

### *Contracts entered into by Kemao China*

#### (a) Lease Agreement

Kemao China leases the land it operates its business on (**Land**) from Fumao under a lease agreement entered into on 10 November 2012. The key terms of the lease are as follows:

- (i) the lease is for a term of 45 years which will end on 21 August 2053;
- (ii) Kemao China agreed to invest RMB16.13 million (≈A\$3.3 million) (**Invested Amount**) to construct office and factory buildings on the Land;
- (iii) Once completed, the buildings would be registered and owned by Fumao;
- (iv) In consideration for agreeing to (ii) and (iii) above, Kemao China has the right to the exclusive use of the buildings including any ancillary facilities such as vacant space, passageways and main entrance during the term of the lease;
- (v) Kemao China would be responsible for all electricity, water or any other consumption costs;
- (vi) in the event that Fumao wishes to transfer the land and the buildings, it must notify Kemao China with a three-month notice and Kemao China has a right of first refusal to the transfer, and if Kemao China does not exercise its right of first refusal, Fumao must return the Invested Amount to Kemao China at the time of the transfer. Kemao China will vacate the land and the buildings within one month of receiving the Investment amount;
- (vii) in the event that the land is expropriated by the government, Fumao will



be entitled to any government compensation for the expropriation of the land and the buildings, and Kemao will be entitled to any compensation for the loss of business income. Fumao will return the investment amount to Kemao China. Kemao China will vacate the land and the buildings within one month of receiving the Invested Amount; and

- (viii) in the event that neither of the above two has occurred, Kemao China has the right to keep using the land and the buildings and Fumao must not demand Kemao China to vacate.

This agreement is subject to Chinese law.

See section 7.1(b) for the associated risk disclosure.

(b) Agreement with CHEN Chuandu

Kemao China entered to an agreement with Mr CHEN Chuandu on 18 October 2018 under which the parties agreed to fix an RMB7.5 million loan owed by Kemao China to Mr CHEN Chuandu for five years, interest free, from the date of the agreement. The parties will negotiate the repayment method, loan term extension and interest rate upon expiry of this five-year loan term.

The agreement is subject to Chinese law.

(c) Technical Service Agreement with Jiangnan University

Kemao China entered into a technical service contract with Jiangnan University on 23 November 2018 to conduct system analysis and improvement to parts of Kemao China's processing techniques so as to produce thinner tinplate with improved hardness and toughness. The agreement runs for three years from 1 December 2018 to 1 December 2021 and the total service fee is RMB300,000 payable in three equal instalments at the end of January, February and March 2019.

Jiangnan University will produce two technical reports to Kemao China and assist Kemao China's relevant personnel to undergo technical training.

Jiangnan University has a right to stop providing technical service if Kemao China does not pay the fee instalments on time. If any fee instalment is not paid before December 2019, Jiangnan University has a right to unilaterally terminate the agreement and claim to receive all outstanding service fee.

Any technical achievements or intellectual property rights arising during the course of this agreement are shared between the parties.

The agreement is governed by Chinese law.

(d) Other agreements

In addition to the above material contracts, we enter into other commercial contracts during the ordinary course of our business. None of these commercial contracts:

- (i) is entered into with a related party; or
- (ii) contains onerous or unusual terms.

These commercial contracts include short term (typically one year) sale and purchase agreements with our customers and suppliers. These contracts are not



disclosed in this prospectus because they contain commercially sensitive information including the identity of our customers and prices of our products.

*Contracts entered into by the Company*

(e) Agreement with Kemao China regarding a loan

As part of the Restructuring, Mr CHEN Chuandu assigned his creditor's right to a loan of RMB34,329,000 owed by Kemao China to the Company in exchange for 10,000,000 Shares in the capital of the Company.

The Company and Kemao China entered into an agreement on 18 October 2018 to acknowledge this loan and agreed to fix the loan for five years, interest free, from the date of the agreement. The parties will negotiate the repayment method, loan term extension and interest rate upon expiry of this five-year loan term.

This agreement is subject to Chinese law.

(f) Agency Agreement

The Company entered into the Agency Agreement with Kemao China on 16 October 2018 under which Kemao China appointed the Company to be its sole agent for the sale of all of its products in all markets other than the Chinese market, and agreed to transfer its existing Australian customer to the Company. The key terms of the agreement are as follows:

- (i) **(Appointment and customer transfer)** subject to these terms of the agreement, Kemao China appoints the agent to be its sole agent for the sale of its products in all markets other than the Chinese market **(Territory)** and transfers its existing Australian customer to the agent.
- (ii) **(Duration of agency)** the agreement commences on 16 October 2018 and continues in force for a period of one year from the commencement date and afterwards from year to year unless cancelled.
- (iii) **(Duties of agent)** the agent's duties include:
  - (A) to promote and extend sales of Kemao China's products;
  - (B) not to be involved with competing products;
  - (C) not to take orders for sale outside the territory;
  - (D) to promptly submit to Kemao China all inquiries or orders obtained by it for its products;
  - (E) to clearly indicate in all correspondence that it is acting as the selling agent of Kemao China;
  - (F) not to accept orders or make contracts without confirmation or acceptance from Kemao China;
  - (G) not to offer products for sale at any price other than that fixed by Kemao China at the time, without written consent from the company;
  - (H) not to incur any liability on behalf of Kemao China;
  - (I) to observe all directions and instructions given to it by Kemao



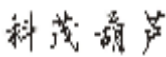




- China for the sale, distribution and exploitation of the products;
- (J) to keep full and proper books of account and records showing clearly all inquiries, transactions and proceedings relating to the agency; and
- (K) not to assign, transfer, charge or deal with in any manner any of its rights under this agreement.
- (iv) **(Duties of Kemao China)** Kemao China will use its best endeavours to safeguard the sole rights granted to the agent, including taking available steps to prevent the infringement of those rights by other agents of the company;
- (v) **(Rights of Kemao China)** Kemao China reserves its rights to:
- (A) trade with any persons within or outside the territory who in the normal course of their business choose to buy products directly from Kemao China rather than the agent;
- (B) decline for any reason (acting reasonably) to accept any order transmitted to it through the agent or to submit any tender on any inquiry through the agent. If this occurs, Kemao China must immediately notify the agent of such a decision; and
- (C) take steps as may seem necessary or expedient to it to promote the sale of the products in the territory and to notify the agent of any potential buyers in the territory.
- (vi) **(Agent's commission)** except as provided under the agreement, Kemao China must pay to the agent for its services a commission of 2% in USD of the total contractual value sold in the territory under this agreement to purchasers for the purposes of their business carried on in the territory.

This agreement is subject to Australian law.

### 5.10 Intellectual property – trademarks

As at the date of this prospectus, we have registered the following trademarks:

| Trademark   | Registration /<br>Application No. | Application<br>Date | International<br>Patent<br>Classification | Status     |
|---|-----------------------------------|---------------------|---|------------|
|  | 14794054                          | 17/07/2014          | 40  | Registered |
|   | 14793988                          | 17/07/2014          | 6   | Registered |
|  | 27382437A                         | 9/11/2017           | 6   | Registered |
|  | 27384042A                         | 9/11/2017           | 6   | Registered |

### 5.11 Intellectual property – patents

As at the date of this prospectus, we have the following registered utility model patents:



| <b>Patent Name</b>   | <b>Registration / Application No.</b> | <b>Application Date</b> | <b>Status</b> |
|--|---------------------------------------|-------------------------|---------------|
| Automatic unwinding device <自动放卷装置>                              | CN201820250241.5                      | 12/02/2018              | Registered    |
| Tension control traction device <张力控制牵引装置>                       | CN201820250185.5                      | 12/02/2018              | Registered    |
| Tension control traction frame <张力控制牵引架>                         | CN201820250246.8                      | 12/02/2018              | Registered    |
| Rolling traction device <压轧牵引装置>                                 | CN201820360401.1                      | 16/03/2018              | Registered    |
| Winding device <收卷装置>  | CN201820250214.8                      | 12/02/2018              | Registered    |
| Strip unwinding machine with correcting mechanism <设有纠偏机械的带钢开卷机> | CN201820360403.0                      | 16/03/2018              | Registered    |
| Tinplate iron plate pickling and drying device <马口铁板片酸洗后干燥装置>    | CN201820359958.3                      | 16/03/2018              | Registered    |
| Tinplate iron pickling and drying device <马口铁片酸洗后吹干装置>           | CN201820250234.5                      | 12/02/2018              | Registered    |
| Tinplate sheet pulling device <马口铁板片牵引装置>                        | CN201820250235.X                      | 12/02/2018              | Registered    |
| Tinplate iron plate welding device <马口铁板片焊接装置>                   | CN201820250247.2                      | 12/02/2018              | Registered    |
| Tinplate sheet pot welding device <马口铁板片点焊装置>                    | CN201820359980.8                      | 16/03/2018              | Registered    |
| Aluminium foil rolling traction device <铝箔压轧牵引装置>                | CN201820359957.9                      | 16/03/2018              | Registered    |
| Aluminium foil winding device <铝箔收卷装置>                           | CN201820359586.4                      | 16/03/2018              | Registered    |
| Coil discharge pressing device <卷材放料压紧装置>                        | CN201820250242.X                      | 12/02/2018              | Registered    |
| Metal brightener filter <金属光亮剂过滤器>                               | CN201820359598.7                      | 16/03/2018              | Registered    |
| Metal plate pickling device <金属板酸洗装置>                            | CN201820360402.6                      | 16/03/2018              | Registered    |
| Metal plate pickling tank <金属板酸洗槽>                               | CN201820250184.0                      | 12/02/2018              | Registered    |
| Rail type coil retracting device <导轨式卷材收放装置>                     | CN201820250243.4                      | 12/02/2018              | Registered    |



| Patent Name   | Registration / Application No. | Application Date | Status                        |
|---|--------------------------------|------------------|-------------------------------|
| Tinplate plate traction device with rectification function <带纠偏功能的马口铁板片牵引装置>  | CN201820359596.8               | 16/03/2018       | Registered                    |
| Strip shot blasting machine dust removal system <带钢抛丸机除尘系统>                   | CN201820359982.7               | 16/03/2018       | Registered                    |
| Metal sheet acid dip pickle <金属板酸洗装置>   | CN201820360402                 | 16/03/2018       | Registered                    |
| As at the date of this prospectus, we have two invention patent applications: |                                |                  |                               |
| Mirror finish processing technique <镜面铁加工工艺>                                  | CN201811599947                 | 26/12/2018       | Substantive examination began |
| Scrub iron grinding process <磨砂铁的磨砂工艺>  | CN201811599388.6               | 26/12/2018       | Patent application published  |

See 15.6 for an overview of intellectual property law in China.

## 5.12 Properties

Kemao China's head office is located at 5 Songwentou Road, Yunting Town, Jiangyin City, Jiangsu Province, China. Kemao has one operating facility located next to the head office. Kemao China leases the land it operates on, its office and factory buildings from Fumao Textile Fabric Co., Ltd (**Fumao**) under a lease agreement entered into on 10 November 2012 (**Lease Agreement**).

Legal evaluation regarding the Lease Agreement contained in the Legal Due Diligence Report has confirmed that:

- (a) Fumao is the registered legal owner of the land and the buildings mentioned in the Lease Agreement; and
- (b) the Lease Agreement is valid and effective – Kemao China has a right to occupy, use and earn income from the land and the buildings.

Fumao is 80% owned by Mr CHEN Dong and 20% owned by Ms GAO Li, Mr CHEN's wife. Mr CHEN Dong is the son of Mr CHEN Chuandu, the founder of Kemao China. As Mr CHEN is an Executive Director of the Company and the General Manager of Kemao China, Fumao is a related entity of Kemao. The Lease Agreement is thus a related party agreement.

The key terms of the Lease Agreement are summarised in section 5.9(a) of this prospectus. See section 7.1(b) for the associated risk disclosure.

## 5.13 Quality control

We have an in-house quality control team which analyses tinning weight, dimensional tolerance, hardness and tensile property. Real time pinhole detection is carried out on all the tinning lines and cutting lines. Any off-spec products will be categorised separately and information on defects are recorded for future reference.



Our production and quality control strictly comply with GB/T 2520-2008 (Chinese Standard) JIS G3303-2008 (Japanese Standard), DIN EN10202-2001 (European Standard) and ASTM A623M-06a (American Standard).

#### **5.14 Safety control**

We provide safety training to all of our production employees on a regular basis. Pursuant to the Work Safety Law of the People's Republic of China, we have adopted a set of standards of practice (**SOP**) that all production employees must strictly comply with. The training and SOPs aim to educate the employees to identify all safety hazards and threats and have effective means to mitigate those risks.

#### **5.15 Environment and sustainability**

Environmental awareness and sustainability are important to us. We seek to minimise the impact of our own operations on the environment. We believe that we meet current environmental standards in all material respects. To date, our manufacturing operations have not been significantly affected by environmental laws and regulations.

#### **5.16 Use of funds**

The funds raised under the Offer will be used entirely in Australia for our Australian business activities as disclosed under this prospectus. Details of the proposed use of funds for the two years following listing are as follows:

| <b>Item</b>   | <b>Amount</b>  | <b>% of total funds raised</b> |
|---|----------------|--------------------------------|
| Office rental and utilities                               | 30,000         | 4                              |
| Remuneration and related expenses                         | 80,000         | 16                             |
| Business development and marketing expenses               | 80,000         | 16                             |
| Exhibition costs  | 120,000        | 24                             |
| Corporate and regulatory compliance expenses <sup>1</sup> | 180,000        | 36                             |
| Other general expenses                                    | 20,000         | 4                              |
| <b>Total<sup>2</sup></b>                                  | <b>500,000</b> | <b>100</b>                     |

1. Corporate and regulatory compliance expenses include annual audit fees, nominated adviser and legal costs associated with ASIC and NSX Listing Rules compliance, share registry fees, and ASIC and NSX fees.
2. Costs of the Offer (as detailed in section 10.15) have been paid and therefore do not form part of the use of funds raised under the Offer.

The proposed use of proceeds described above represents our current intention based upon the present plans and business conditions. The amounts and timing of the actual expenditures may vary significantly and will depend upon numerous factors, including any material changes to regulatory and political environments in China and Australia, the success of the Company's marketing plans in Australia and the manufacturing capacity of Kemao China. Assuming there won't be any material changes to our stated plans and intentions, the Directors believe that, on completion of the Offer:

- (a) the Company will have sufficient funds available from the proceeds of the Offer and its operations to fulfil the purposes of the Offer and carry out its stated business objectives for the next two years; and



- (b) Kemao China will have sufficient funds available from its operations to continue its business activities as described in this prospectus.

We may need to raise further funds if there are any material changes to our stated plans and intentions. See section 7.1(m) for more details.

## 5.17 Capital structure

Our capital structure before and after the Offer is as follows:

| Shares  | Number             | %          |
|---|--------------------|------------|
| Existing Shares <sup>1</sup>  | 100,000,000        |            |
| <i>Subscription Shares on incorporation of the Company</i>                                  | 2                  | -          |
| <i>Shares issued as consideration for the acquisition of GNSB<sup>2</sup></i>               | 89,999,998         | 89.11      |
| <i>Shares issued as consideration for the assignment of Shareholder Loan to Kemao China</i> | 10,000,000         | 9.90       |
| Shares to be issued under this prospectus   | 1,000,000          | 0.99       |
| <b>Total Shares following the Offer</b>   | <b>101,000,000</b> | <b>100</b> |

- These Shares were issued for a total notional consideration of A\$6,801,000 pursuant to the Restructuring.
- The Shares were issued to 131 Shareholders (**Existing Shareholders**) on 31 July 2018 as consideration for the acquisition of GNSB and the assignment of RMB34,329,000 of the Shareholder Loan to the Company. The Existing Shareholders are investors who had pooled their funds to either invest in the equity capital of Kemao China or lend money to Kemao China or acquire an interest in the equity capital of Kemao China from other Existing Shareholders from time to time. The dates of investment and amounts invested by the Existing Shareholders in Kemao China are shown in the following table:

| Date                        | Amount invested<br>(in RMB) | Exchange rate<br>(from xe.com) | Amount invested<br>(in A\$ equivalent) | Average cost<br>per Share  |
|-----------------------------|-----------------------------|--------------------------------|--|----------------------------|
| 20 September 2011           | 50,000,000                  | 0.1521                         | 7,605,000                              |                            |
| 14 June 2018 <sup>(1)</sup> | 34,329,000                  | 0.2079                         | 7,136,999                              |                            |
|                             |                             |                                | 14,741,999                             | 14.74 cents <sup>(2)</sup> |

(1) Sums making up the RMB34.329 million Shareholder Loan was paid into Kemao China between 12 March 2018 and 14 June 2018.

(2) Calculated based on 100,000,000 Shares, being the total number of Shares on issue as at the date of this prospectus.

The Company has no other class of securities on issue as at the date of this prospectus.

## 5.18 Substantial Shareholder

The following are substantial shareholders of the Company as at the date of this prospectus:

| Shareholders | Number of<br>Shares | % holding of<br>the Company |
|--------------|---------------------|-----------------------------|
| Mr CHEN Dong | 55,130,000          | 55.13                       |
| Ms CHEN Fang | 10,000,000          | 10                          |

## 5.19 Restricted securities

NSX may classify certain securities as being subject to the restricted securities provisions of the Listing Rules. In particular, Directors, other related parties and promoters may receive



escrow on securities they hold for up to 24 months from the date of quotation of the Company's Shares on NSX.

Subject to NSX's acceptance of our submission on securities to be restricted, we intend to have escrow arrangements in respect of 65,130,000 Shares. These Shares will represent 64.5% of the Company's issued share capital following the Offer. If NSX accepts our submission on securities to be restricted, Mr CHEN Dong and Ms CHEN Fang will enter into restriction agreements with us, under which they are restricted from dealing in any share held by them during the escrow period.

#### **5.20 Dividend policy**

The Company does not intend to pay dividends on securities for the financial year ending 31 December 2019 as the Company considers that its Australian business is in its expansion stage for the first two years after listing and thus may need to utilise all available funds for its business activities. Any future determination as to the payment of dividends by the Company will depend on a variety of factors such as the availability of distributable earnings, the operating results and financial condition of the Company, future capital requirements, general business and other factors considered relevant by the Directors.

The Company's ability to distribute dividend in Australia may also be affected by the repatriation of dividend policy of China. See section 7.1(r) below for details of the relevant risk.

#### **5.21 Litigation**

Legal proceedings may arise from time to time in the course of our business. As at the date of this prospectus, the Company or its subsidiary or its controlled entity is not involved in any legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company, its subsidiary or its controlled entity.

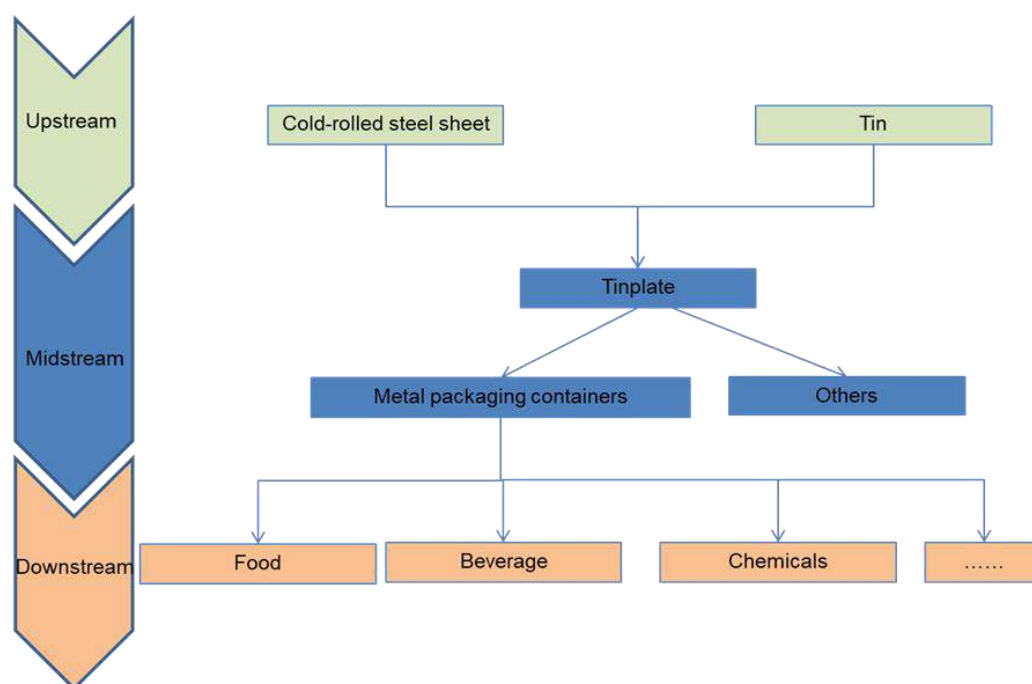
## 6 INDUSTRY OVERVIEW

### 6.1 Brief introduction to tinplate and its industry chain

Tinplate is a thin steel sheet with a coating of tin on the surface. It has four coating layers on base steel, from the inside to the outside: tin-iron alloy, tin, chromium oxide and oil film. As it has the strength and formability of steel, combined with the noncorrosive and nontoxic properties of tin, and the additional property of easy solderability, tinplate is largely used to make metal packaging containers as packages for food and beverages, chemicals and other industrial products, etc. Besides, its use has broadened to include toys, baking equipment, and parts for radio and other electronic equipment. However, the metal packaging industry has been the largest application sector for tinplate in China by far, accounting for about 70% of total consumption.

Similar to the metal packaging industry, whose upstream industries are metal materials mainly tinplate and aluminium, and downstream food, beverage, pharmaceutical, cosmetics and chemical industries, tinplate is also in the middle of the industry chain. Its upstream industries are cold-rolled steel sheet and tin. Its downstream industries are mainly metal packaging containers and other products like toys, baking equipment, and parts for radio and other electronic equipment.

Figure 4 Tinplate industry chain



Source: Darun Consulting

### 6.2 Overview of China's metal packaging industry

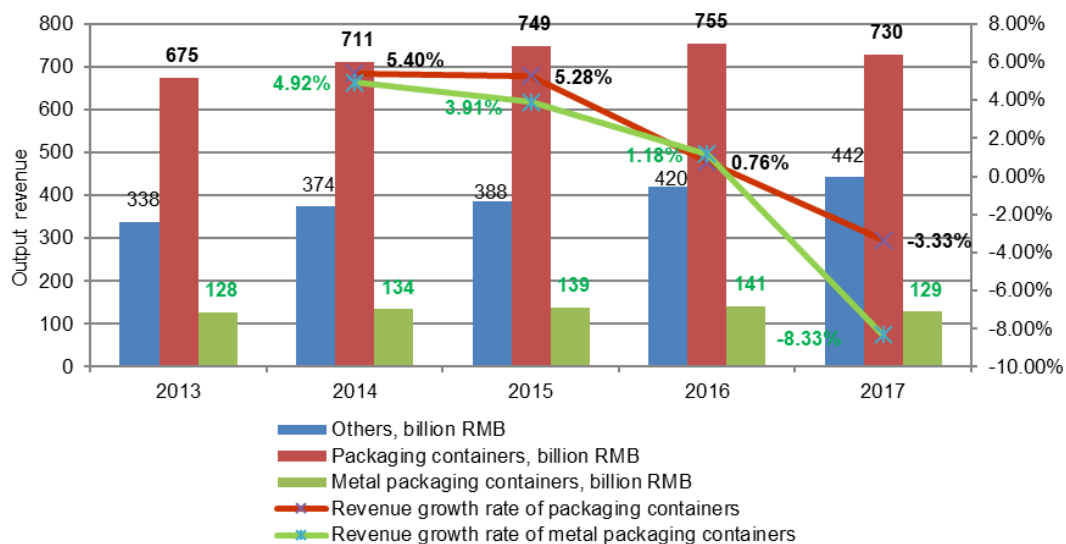
The metal packaging industry, the major downstream industry of tinplate, is one of the sub-sectors in China's packaging industry, along with paper packaging, plastic packaging, metal packaging, glass packaging, packaging printing and packaging machinery. Its development, similar to the overall packaging industry, is closely related to China's economic development, including both consumer and industrial products that need packages made from all types of



materials, including metals.

With the slowdown of China's economic growth in recent years, China's packaging industry, including the metal packaging industry, has witnessed relatively slow growth in the past five years.

Figure 5 Output revenue of packaging industry and metal packaging industry in China, 2013-2017



Notes:

1. The packaging industry is classified into three sub-sectors according to the revenue statistics by China Packaging Federation (CPF), packaging containers, plastic film, softwood, and packaging equipment, with the latter two being classified into "Others" in this figure.
2. Packaging containers consist of four types according to the materials of the package, being paper packaging containers, plastic containers, metal packaging containers, and glass packaging containers.

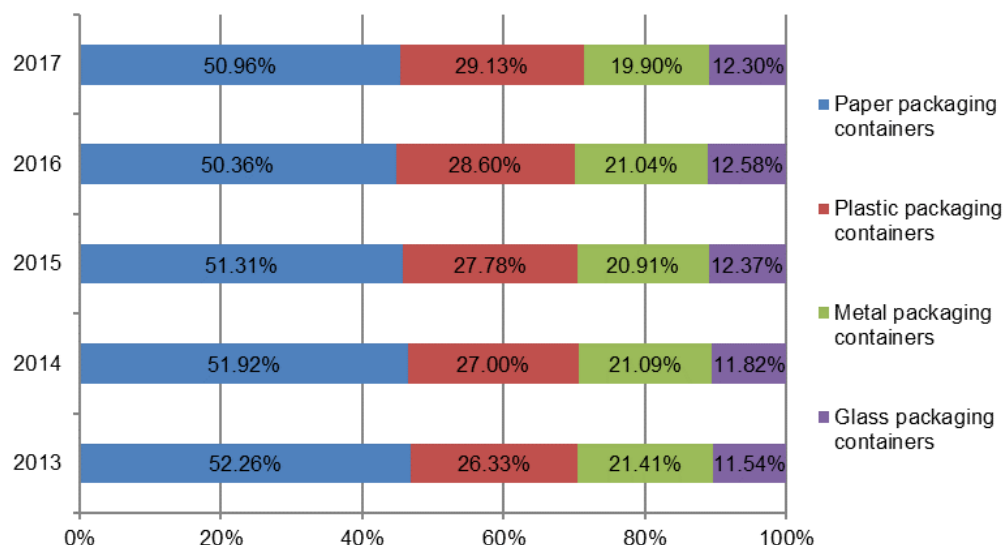
Source: CPF, Darun Consulting

Among all types of packaging containers in China, metal packaging containers, with a market share of around 20%, are ranked the third largest by output revenue coming next to paper packaging containers and plastic packaging containers with the market shares of about 50% and 30% respectively. In the past five years, metal packaging containers have their market share snatched by the other three types of packaging containers. Its market share shrank from 21.41% in 2013 to 19.90% in 2017. The reasons for the shrinking are diverse, including an increasing demand for cheaper, lighter and more convenient packaging containers than metal packaging containers, performance innovations in other types of packaging containers that make them more competitive than metal packaging ones, etc.





Figure 6 Market share of metal packaging containers in China by output revenue, 2013-2017

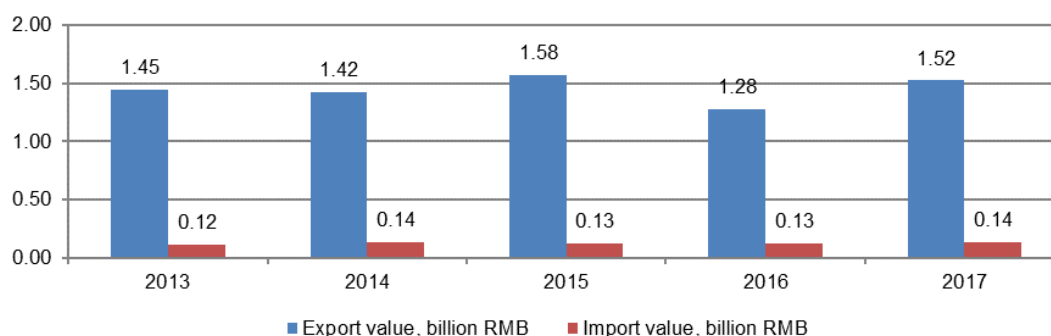


Source: CPF, Darun Consulting

Similar to other types of packaging containers, metal packaging containers' production in China is rather segmented with a big number of manufacturers. According to statistics from the CPF, the number of China's metal packaging container enterprises above designated size, namely those with main business revenue more than RMB20 million per year, reached 733.

Compared with its output revenue, China's import and export of metal packaging containers have been much smaller in recent years, indicating their minor role in China's market. The ratio of export value against output revenue has been a little more than 1% while that of import has been even smaller, at only a little more than 0.1%.

Figure 7 Export and import value of metal packaging containers industry, 2013-2017



Source: CPF

China's economy has entered a new era of relatively low and steady growth in recent years. Accordingly, China's metal packaging industry development has also shifted from the golden development period to the problem-prone period. Problems troubling this industry include long-term overcapacity, low efficiency in energy and resource consumption, weak innovation capability, weak competitiveness of domestic players in the global market, slim profits of small manufacturers, etc. Under the context of overcapacity, the capability difference to solve these problems will be key for companies to survive the industrial structure adjustment



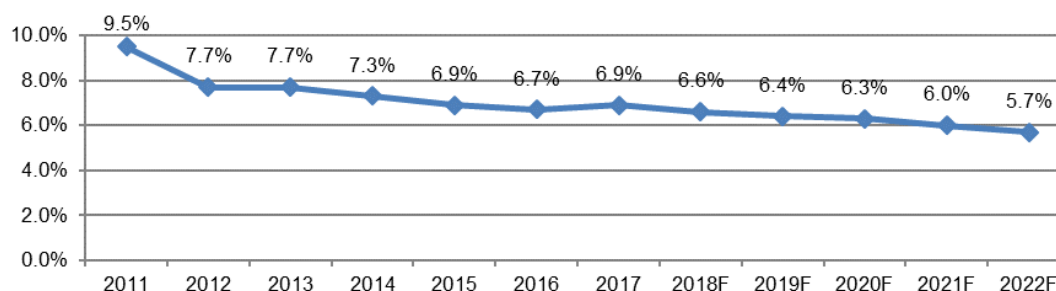
and the increasingly intense competition. Small enterprises are eliminating backward production capacity, while large enterprises are expanding production through merger and acquisition to further decrease their raw material cost.

### 6.3 Macro environment of tinplate industry in China

China's tinplate industry development has been closely linked to the metal packaging container industry, whose development is largely driven by its downstream industries, including food, beverages, pharmaceuticals, instruments and industrial products, etc. These industries are influenced by the country's economic activity, its population and the people's per capita disposable income.

Since the reform and opening up, China has achieved rapid economic development and it has been the second largest economy in the world since 2010. China's GDP growth rate has slowed down in recent years, falling to only 6.9% in 2017. In the next five years, China's macro-economy is expected to maintain a steady growth trend. The International Monetary Fund (IMF) predicts that China's GDP growth during 2018-22 will maintain a medium-to-high-speed growth rate, compared with those of other countries in the world.

Figure 8 GDP growth in China, 2011-2022F



Notes:

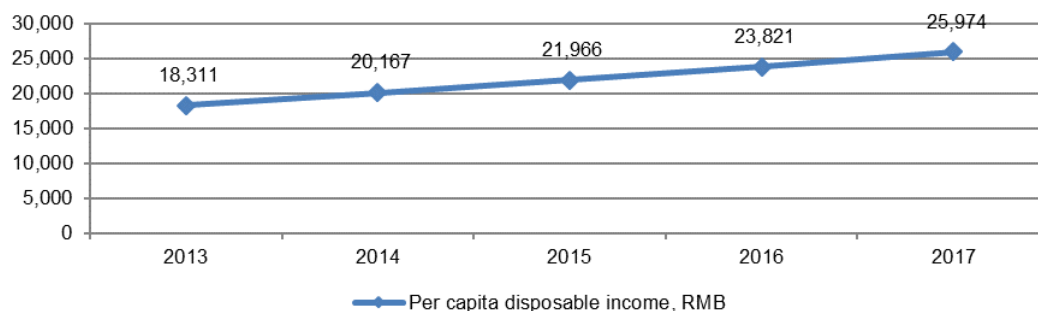
1. "F" means forecast in the figure.
2. GDP growth rate in China from 2012 to 2017 was released by China's National Bureau of Statistics (NBS), while that of 2018 to 2022 is forecast by IMF.

Source: NBS & IMF

With steady GDP growth, Chinese people's per capita disposable income has increased from RMB18,311 in 2013 to RMB25,974 in 2017, with a compound annual growth rate (CAGR) of 9.13%. It is predicted that the per capita disposable income of Chinese residents will continue to grow at a high rate in the next five years. The increase in Chinese consumers' per capita disposable income will drive their demand for consumer goods to grow.



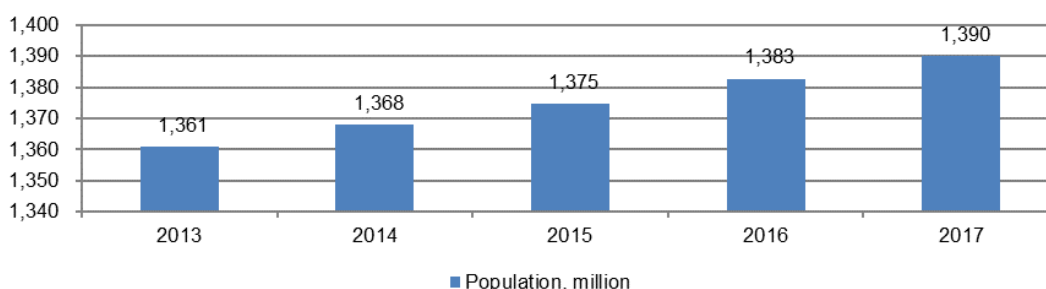
Figure 9 Per capita disposable income in China, 2013-2017



Source: NBS

With the world's largest population, China's population growth rate has increased in 2016 and 2017 after the implementation of the second-child policy, with the growth rate in 2017 reaching 0.53%. In the next five years, China's population growth rate is expected to remain above 0.5%. According to the National Population Development Plan (2016-2030) by the State Council of China, China's population is expected to reach 1,420 million in 2020 and 1,450 million in 2030.

Figure 10 Population of China, 2013-2030F



Note: "F" means forecast in the figure.

Source: NBS & National Population Development Plan (2016-2030) by State Council of China

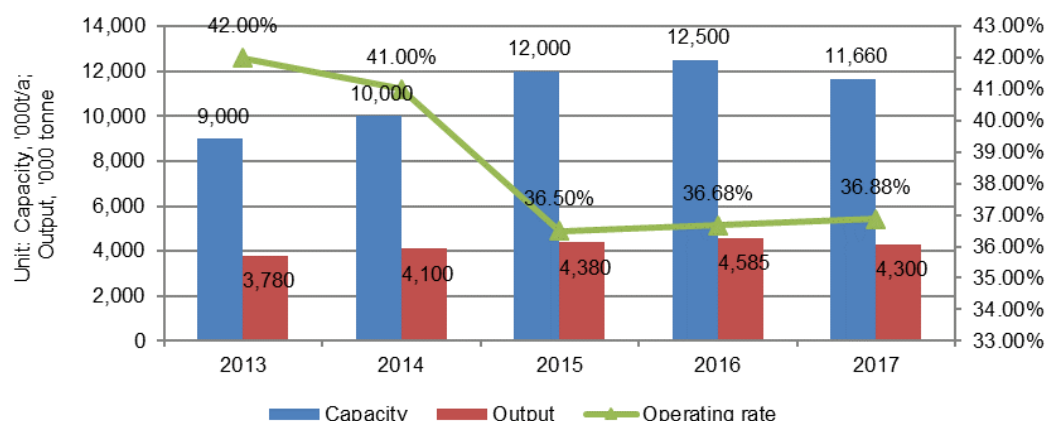
## 6.4 Tinplate production in China

China's tinplate industry development started relatively late. In 1979, China introduced from Germany a set of electroplated tinplate production line with a capacity of 100,000 tonnes per annum. After nearly 40 years of development, China's tinplate industry has gradually entered a stable growth period from a rapid one.

The tinplate industry in China during 2013-17 has been developing stably. China's tinplate capacity has increased rapidly in recent years while the output increase has been much slower. The CAGR of tinplate capacity and output during 2013-17 are estimated to be 6.69% and 3.27%, respectively. The operating rate of tinplate production in China decreased from 42.00% in 2013 to 36.88% in 2017, as China's tinplate capacity expansion had far exceeded its demand growth.



Figure 11 Capacity and output of tinplate in China, 2013-2017

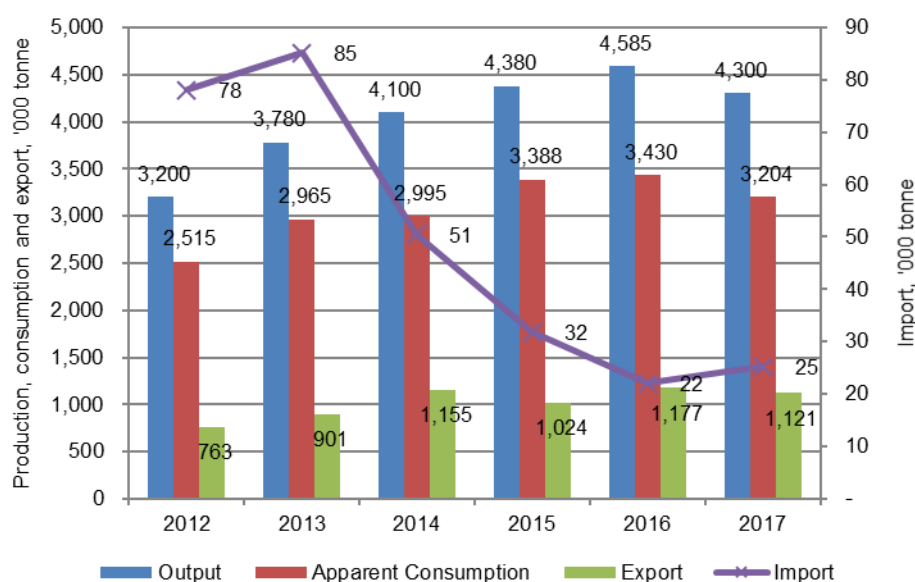


Source: Darun Consulting

Despite China's tinplate overcapacity, some domestic companies still have plans to expand their capacity, especially some top manufacturers. However, the decline in domestic consumption in 2017 has hit tinplate manufacturers' capacity expansion enthusiasm. Given China's overcapacity, new tinplate enterprises that lack customer advantages and capital advantages have been finding it increasingly difficult to survive.

In fact, the industry has been consolidating. The number of tinplate manufacturers in China decreased from more than 120 before 2013 to about 100 in 2017. The consolidation is expected to continue, with the Chinese government's stricter environmental protection requirement and increasingly intense market competition, etc.

Figure 12 Output, consumption and trade volume of China's tinplate industry, 2013-2017



Note: Apparent consumption, different from actual consumption, doesn't take inventory into consideration.  
 Apparent consumption = Output + Import - Export

Source: China Customs, Darun Consulting



## **6.5 Government policies**

China has no policies that specifically target the production or consumption of tinplate specifically. However, the Chinese government's policies on environmental protection and industrial transformation and upgrading for all manufacturing industries, have definitely influenced the tinplate industry.

The Chinese government has been strengthening supervision on environmental protection in recent years. Accordingly, manufacturers of tinplate and its raw materials have to invest more or upgrade their equipment for waste treatment during their production. Environmental protection policies may become the biggest obstacle for small-scale newcomers to enter the tinplate industry, which is favourable for leading players.

Besides, Chinese state and local governments have successively introduced policies to accelerate industrial transformation and upgrading. The overall direction is to shift from low value-added products/industries to high value-added ones, from high energy consumption and pollution to low energy consumption and pollution. High value-added tinplate (DR tinplate) will be one of the development directions.

Companies with large capital and R&D capabilities are increasing investment in R&D to improve production technology, for better products, more environmentally friendly production, and less energy consumption, etc. Some manufacturers choose to cooperate with multinational companies and some others are themselves Sino-foreign joint ventures. JFE Steel Corporation, Japan's enterprise, and Ton Yi Industrial Corporation, Taiwan's enterprise jointly invested in setting up subsidiaries in mainland China, including Fujian Ton Yi Tinplate Co., Ltd. and Jiangsu Ton Yi Tinplate Co., Ltd. Another example is Guangzhou Pacific Tinplate Co., Ltd., a joint venture of Japan's enterprise, Nippon Steel. & Sumitomo Metal Corporation (**NSSMC**).

## **6.6 China's tinplate imports and exports**

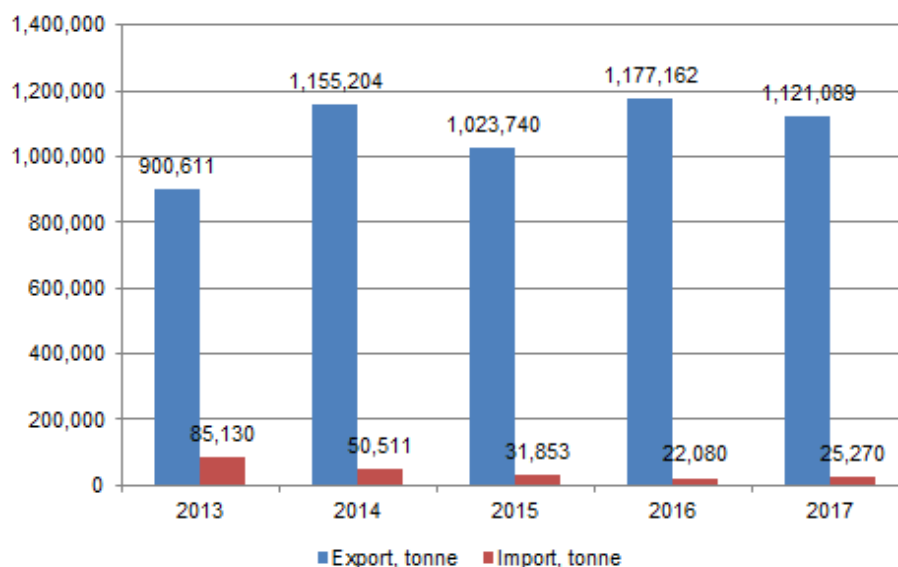
Thanks to technology improvement, China's tinplate import dependency has dropped and its import volume has been decreasing year by year, dropping from 85,130 tonnes in 2013 to 25,270 tonnes in 2017.

At the same time, China's export has been on the rise in general, in spite of the decreases in 2015 and 2017. During 2013-17, China exported around a quarter of its total domestic production, with an export volume of around 1,120,000 tonnes in 2017. Prior to 1997, the consumption of tinplate in China mainly relied on imports. However, by 2008, Chinese tinplate had achieved a trade surplus.

In 2017, the top three export destinations of China's tinplate were Italy, Thailand and the United States.

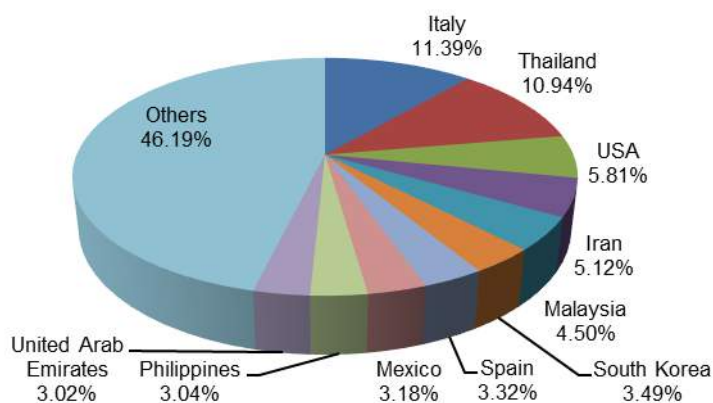


Figure 13 Export and import of tinplate in China by volume, 2013-2017



Source: United Nations Commodity Trade Statistics Database (*UN Comtrade*)

Figure 14 China's tinplate export share by export destination, 2017



Source: *UN Comtrade*

## 6.7 China's tinplate consumption

Tinplate in China is used to make two types of products, packaging products, namely canisters, and other products, namely non-canisters. Firstly, it is used to make metal packaging containers used as packages for consumer products of beverage, canned food, cosmetics, pharmaceuticals, and for industrial products like oil, coating and other chemical products. Secondly, it is used to make toy parts, baking equipment parts, electronic equipment parts, home appliance parts, auto parts, etc.

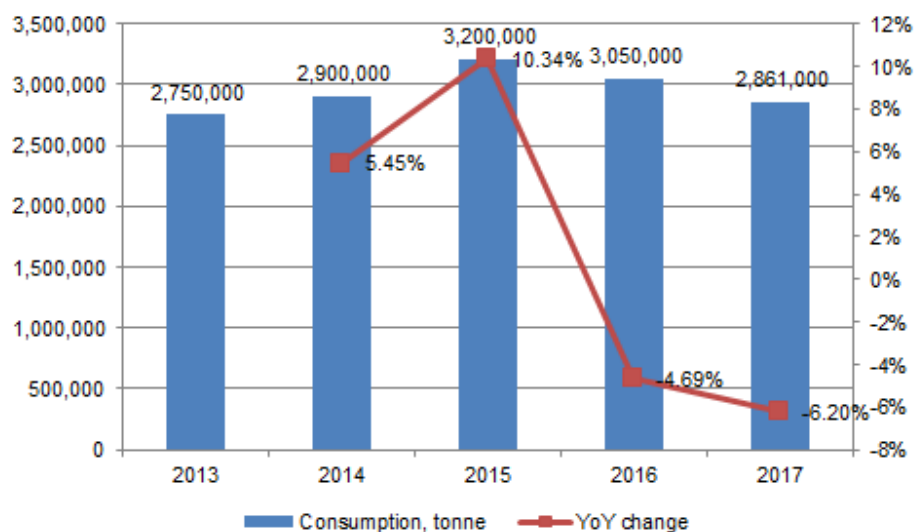
The first type of products is the largest application sector for tinplate in China. Tinplate consumption used for canisters in China was 1,966,000 tonnes and that for non-canisters 845,000 tonnes in 2017, with the canister's tinplate consumption accounting for about 70% of the national total that year.

In the past five years, China's tinplate consumption has been fluctuating, influenced mainly by changes in its downstream industries, and competition from substituting products. The



consumption volume peaked in 2015, at 3,200,000 tonnes. However, it declined in 2016 and 2017, affected by declining demand from packaging of beverages and canned foods, and the competition of alternative packaging materials, mainly aluminium plate, plastics and glass.

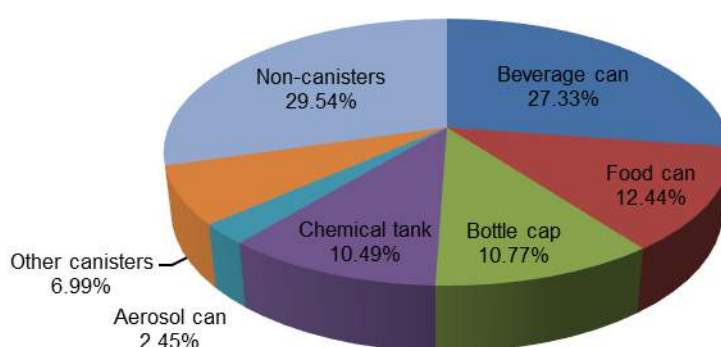
Figure 15 Consumption volume of tinplate in China, 2013-2017



Source: Darun Consulting

In 2017, China's tinplate consumption was 2,861,000 tonnes, down 6.20% over the previous year. Among all the sectors, beverage cans are the largest consumption sector, with a share of 27%, followed by food cans, and bottle caps with shares of a little more than 10%. Non-canisters consumed more than 29% of the total tinplate consumption in China that year.

Figure 16 Consumption structure of tinplate in China, 2017



Source: Darun Consulting

The packaging industry and demand from downstream industries, consumer goods and industrial goods, which are packed by containers made from tinplate and other materials is the main driver of the development of the tinplate industry in China.





## 6.8 Beverage and food cans

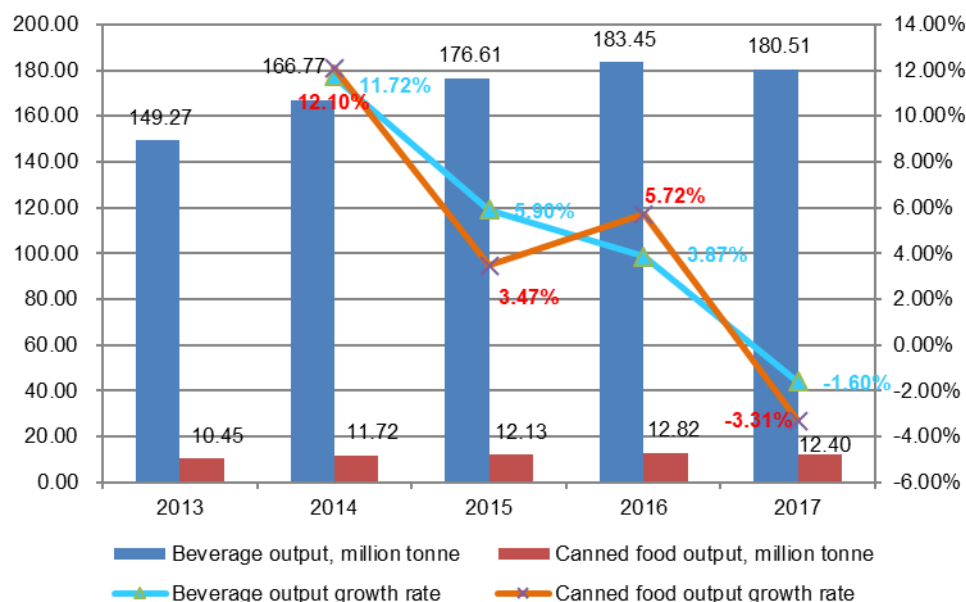
With excellent and non-toxic barrier properties, tinplate containers are hygienic and safe for food and beverages and can protect them from impurities, bacteria, moisture, light and odours.

The markets of beverage cans and food cans are the top two segments for tinplate applications, according to their tinplate consumption volume in 2017, 782,000 tonnes for beverage cans and 306,000 tonnes for food cans.

Food and beverage as ordinary consumer products are closely related to consumers' lifestyle and income level, which means their consumption volume is unlikely to fluctuate largely.

China's beverage and canned food output increased year by year from 2013 to 2016 but declined slightly in 2017.

Figure 17 Output of beverages and canned food in China, 2013-2017



Source: China Beverage Industry Association, China Canned Food Industry Association

Chinese beverage output growth has slowed in recent years, from 11.72% in 2014 to 3.87% in 2016, and showed even negative growth in 2017. The major types of beverages packed with tinplate cans include beer, carbonated drinks and energy drinks like RedBull.

With income growth, Chinese consumers have been looking for a much healthier life. Their demand for beer and carbonated drinks has weakened and accordingly China's output of both carbonated drinks and beer has been either dropping or growing very slowly in the past few years. This trend is expected to maintain in the coming years.

In 2017, tinplate consumption for beverage cans declined slightly in China, because of beverage production decline that year, and competition from substitution products. Besides, the packaging of some downstream products has been gradually changed from three-piece cans to two-piece cans, with the former mainly made with tinplate and the latter mainly made with aluminium plate. This means demand reduction for tinplate, although both DI-



tinplate and aluminium are used as two-piece cans, aluminium plate is more competitive compared with tinplate.

Compared with beverage cans, food cans have relatively high technical requirements for tinplate. With the advancement of technology, tinplate costs for food cans are expected to decrease, which will be favourable for tinplate consumption in this sector.

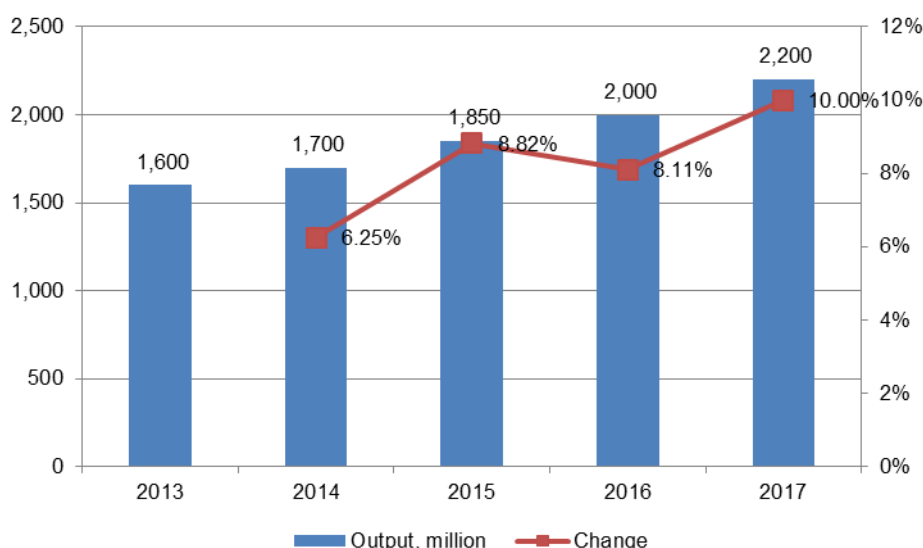
The major types of food that are packed with tinplate containers include canned food, milk, etc. Among them, canned food has been the largest type by tinplate consumption. China's canned food output has witnessed a similar growth trend to that of beverages, growing at a much slower growth rate during 2013-16 than the previous period, but it declined in 2017. However, with growing Chinese consumer demand for convenience food, canned food demand in China is expected to continue to grow. Although milk demand is expected to grow as China has loosened its one-child policy from 2015, China's milk output is unlikely to grow fast because of competition from overseas products.

## 6.9 Bottle caps

Bottle caps are also a big market for tinplate. Thanks to its good sealing property, tinplate is mainly used to produce crown caps for beer and beverages, and screw and lug caps for glass bottles for canned food such as peppers and pickles in China. Bottle caps in China consumed 308,000 tonnes of tinplate in 2017, accounting for 10.96% of total consumption.

However, the development of chrome plate (chromium-coated steel, also referred to as tin-free steel or TFS), more and more caps tend to use chrome plates currently. In particular, more than 75% of crown caps produced by Baosteel use TFS. However, there is no significant reduction in the tinplate consumption of caps. In terms of performance and price, tinplate has been very competitive compared with aluminium plate on easy-open caps. Even though the proportion of the aluminium plate is much higher than that of the tinplate currently, there is a lot of room for growth in tinplate market size on easy open caps.

Figure 18 Output quantity of aerosol cans in China, 2013-2017



Source: China Packaging Federation Aerosol Professional Committee



#### **6.10 Tinplate consumption in non-canister products**

Non-canister products that adopt tinplate as one of their raw materials include badges, battery cases, rice cooker shells and other home appliance parts, automotive oil filters, air filters, gaskets and other auto parts, USB interfaces and other electronic accessories, etc. Their tinplate consumption in total was estimated to reach 845,000 tonnes in 2017, sharing 29.54% of China's total tinplate consumption that year.

#### **6.11 Key factors influencing China's tinplate industry development**

Factors influencing the development of China's tinplate industry are diverse:

(a) China's growing demand of environmentally friendly products

Compared with other forms of packaging, metal packaging is more environmentally friendly and energy-saving in terms of energy consumption, transportation, degradation and recycling, thus are better in line with the country's environmentally friendly policies. The carbon emissions of metal container manufacturing from recycling metal packaging containers is 95% lower than that from new raw materials. Moreover, some metal packaging can be recycled multiple times, which will also greatly reduce carbon emissions. That's why development of metal packaging containers, the major application of tinplate, has been encouraged by the country.

According to The Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (Revised Draft) released in July 2018, the China government encourages manufacturers to research on and produce film coverings and commodity packaging that are easy to recycle, easy to dispose of or degrade in the environment. The Chinese government has forbidden the production and selling of non-degradable plastic film coverings and packaging. Besides, many local governments have introduced methods for packaging recycling.

Accordingly, as the recycling of commodity packaging has become a trend in the packaging industry in China, similar to many countries in the world, this will promote the use of tinplate in packaging, as metal packaging containers including the ones made with tinplate are 100% recyclable.

(b) Increasingly strict environmental policies

With the improvement of China's environmental protection standards and the country's emphasis on environmental protection, tinplate manufacturers are supposed improve their ability to treat wastes to realize non-emission, pollution-free and environmental protection of their tinplate production, as in the production of tinplate, harmful waste water and waste slag are discharged, causing pollution to land, groundwater and the environment.

This suggests higher production cost of tinplate on the one hand and, on the other hand, it will help eliminate backward tinplate capacities in China, making it favourable for the leading players.

(c) Raw material supply and price

The key raw materials for tinplate production include cold-rolled sheet or hot-rolled sheet, both being steel materials, and tin. While a large majority of China's tinplate manufacturers use cold-rolled sheet as the raw material, some purchase hot-rolled

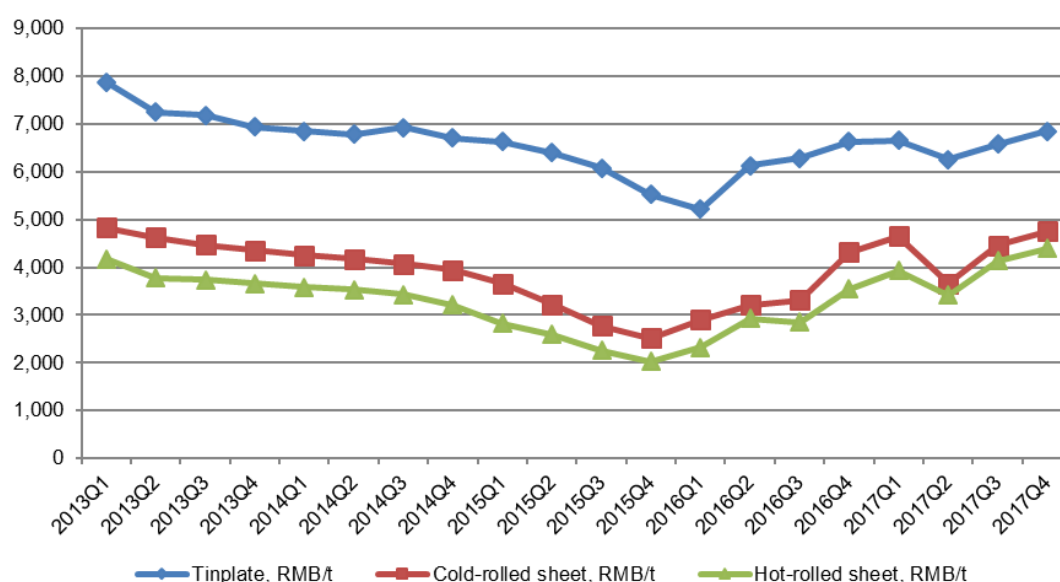


sheet and then process it into cold-roll sheet to produce tinplate, as the price of hot-rolled sheet is lower than that of cold-rolled sheet. The supply and price stability of these raw materials have significant impacts on tinplate production and price.

### 6.12 Cold-rolled sheet and hot-rolled sheet

Cold-rolled sheet or hot-rolled sheet is an essential raw material for the manufacture of automotive, home appliances, construction industries, etc. Among all these applications, tinplate's consumption of either cold-rolled or hot-rolled sheet is only a small proportion of their total consumption and so tinplate manufacturers are in a weak position in the raw material price negotiation. As cold-rolled sheet or hot-rolled sheet is the key raw material of tinplate, tinplate price is closely related to the price of cold-rolled sheet or hot-rolled sheet.

Figure 19 Quarterly average market price of tinplate, cold-rolled sheet and hot-rolled sheet in China, Q1 2013-Q4 2017



Notes:

1. The product specification of cold-rolled sheet is 1.00mm.
2. The product specification of hot-rolled sheet is 3.00mm.

Source: Darun Consulting, China Industry of Steel Association

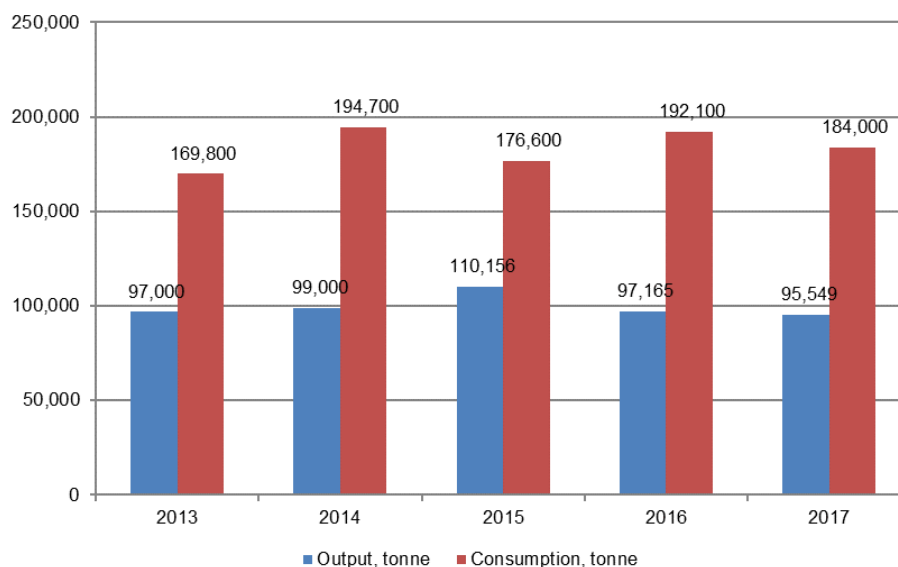
### 6.13 Tin

Tinplate is one of the major application areas of tin. According to International Tin Association, China's top five application areas of refined tin in 2016 were: tin solder (65%), tin chemical (15%), tinplate (8%), float glass (5%) and copper alloy (4%).

China's tin concentration resources are in short supply. The excessive and inefficient mining in the early stage led to the loss of high-grade tin resources. Currently domestic tin concentrate production is difficult to meet the needs of fine tin production. Chinese tin concentrate mainly depends on imports from Myanmar. Imports from Myanmar account for more than 99% of the total imports. China's shortage of tin concentrate is expected to last for a long time.



Figure 20 Output of tin concentration and consumption of tin in China, 2013-2017



Source: China Nonferrous Metals Industry Association

#### **6.14 Competition from substitution products**

Tinplate, as one of the two major materials to make metal packaging containers, faces competition from other metal materials, mainly aluminium plate, as well as other packaging materials like plastics.

Among them, aluminium plate is the biggest threat to tinplate in the packaging sector, for two reasons. First, aluminium cans used as packages for beverages are able to reduce 30% weight compared with tinplate cans, thereby reducing transportation costs. Second, for all industries and products, seamless cans made by a single aluminium sheet ensure better product safety. However, tinplate is mainly used to produce three-piece metal cans and two-piece metal cans. It is the dominant material for three-piece metal cans, with the rest mainly aluminium plate, while for two-piece metal cans, aluminium plate is the dominant material. The trend is for fewer pieces for the cans for better seal capability.

In recent years, some beverage cans and aerosol cans have been transformed from tinplate to aluminium plate, which has directly affected the consumption of tinplate.

Although plastics are not easy to recycle and difficult to degrade, thus do not meet the development trend of degradable or recycling in the packaging industry, recycled polyethylene terephthalate (**rPET**) in plastic packaging is very competitive compared with tinplate. With low cost, easy moulding, light weight and recyclability, rPET is one of the important development directions of the packaging industry in the future. PepsiCo has been working on the recycling of rPET in recent years, aiming to increase the share of rPET in the packaging of its bottles to 50% by 2030.

#### **6.15 Forecast on tinplate industry in China to 2022**

China's tinplate capacity and output is expected to decrease slightly in the coming years. Higher value-added tinplate will be the main development direction of tinplate manufacturers in the next few years. With growing demand for thinner high-grade tinplate from overseas and Chinese tinplate's quality improvement, China's tinplate export volume

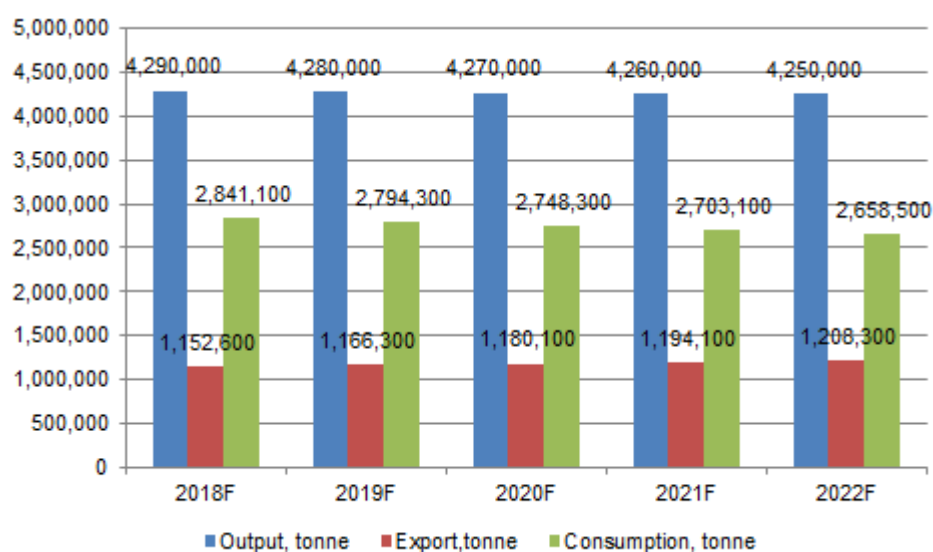


will increase in the future.

Tinplate consumption in China is forecast to decline slightly in the next few years for the following factors:

- (a) competition from substitution products of aluminium plate and plastics;
- (b) relatively slower growth of China's food and beverage industries, and other end applications of the tinplate industry; and
- (c) as the lightweight of metal packaging containers is the future trend, thinner tin layer and thinner steel base suggest less demand for tinplate.

Figure 21 Forecast on China's tinplate production, export and demand, 2018-2022



Source: Darun Consulting

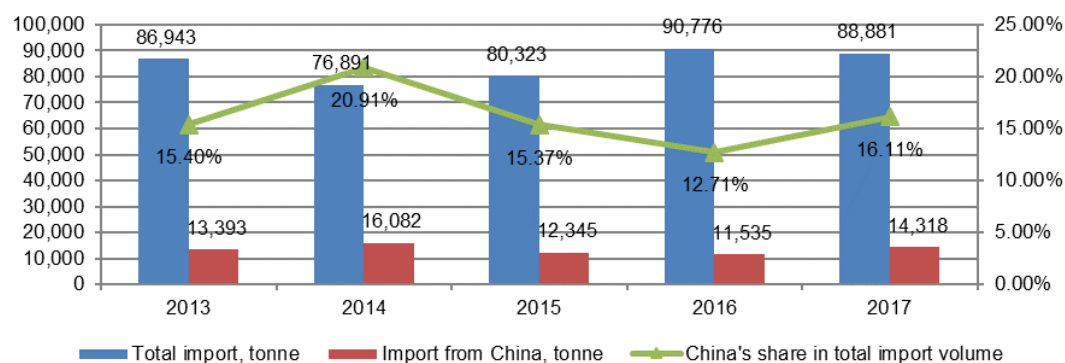
## 6.16 Tinplate industry in Australia

Australia's only local tinplate manufacturer, BlueScope Steel with a capacity of 400,000 tonnes per annum was closed in 2007. Since then, Australia's can manufacturers have been importing tinplate from other countries, mainly from Asia.

Australia's tinplate import volume has been fluctuating between around 75,000 tonnes and 91,000 tonnes during 2013-17. In 2017, Australia imported 88,881 tonnes of tinplate used in the production of cans and other tinplate products. Among all the supplying countries, Japan, South Korea and China were the top three sources, sharing 40.14%, 16.54% and 14.88% of the total import. Import from China has accounted for around 12%-20% in the recent five years.

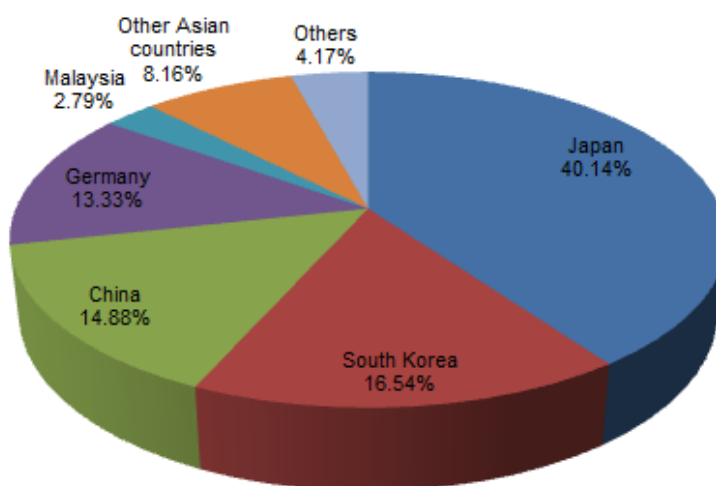


Figure 22 Australia's total tinplate import and import from China, 2013-2017



Source: UN Comtrade

Figure 22 Import of tinplate in Australia by source country, 2017



Source: UN Comtrade

### 6.17 Major tinplate players in China

China's tinplate production is quite fragmented. As at end of 2017, there were about 100 tinplate manufacturers in China. The top five manufacturers account for only around 40% of China's total tinplate output in 2017. The number of manufacturers below 150,000 tonnes per annum was about 70-80, and their capacity utilisation rate is only about 20%. Some small-scale manufacturers had even suspended their production in the last few years.

However, in recent years, China's tinplate production has a trend of concentration, and output has gradually been concentrated in larger manufacturers. In 2017, output of the top 20 manufacturers accounted for 74.42% of the total output, which was 4% higher than in 2013.

Production costs of manufacturers with self-owned raw material supply, advanced technology, good management are lower than those of other companies. The costs of material recycling, wastewater treatment, energy saving and emission reduction are playing more and more important roles in the production cost, which will widen the differences of





cost among manufacturers.

The companies with their own upstream raw materials have advantages in cost, such as Baosteel and Shougang. In order to control their costs, other manufacturers without their own raw material supply are expanding their capacity or extending their business to downstream industries such as packaging containers. These tinplate manufacturers are expected to have a larger market share.

Table 5 Capacity and output of key tinplate manufacturers in China, 2017

| No                       | Manufacturer   | Location       | Capacity in 2017, '000 t/a | Output in 2017, '000 tonnes | Output value, billion RMB | Share by output value |
|--------------------------|--|----------------|----------------------------|-----------------------------|---------------------------|-----------------------|
| 1                        | Baoshan Iron & Steel Co., Ltd                                | Shanghai       | 850                        | 700                         | 4.61                      | 16.28%                |
| 2                        | Beijing Shougang Co., Ltd.                                   | Beijing, Hebei | 650                        | 400                         | 2.63                      | 9.30%                 |
| 3                        | Jiangyin Comat Metal Products Co., Ltd.                      | Jiangsu        | 450                        | 250                         | 1.65                      | 5.81%                 |
| 4                        | WISCO-NIPPON Steel Tinplate Co., Ltd.                        | Hubei          | 400                        | 200                         | 1.32                      | 4.65%                 |
| 5                        | Hebei Iron & Steel Group Hengshui Strip Processing Co., Ltd. | Hebei          | 350                        | 140                         | 0.92                      | 3.26%                 |
| <b>Subtotal of top 5</b> |  |                | <b>2,700</b>               | <b>1,690</b>                | <b>11.12</b>              | <b>39.30%</b>         |
| <b>Share of top 5</b>    |  |                | <b>23.16%</b>              | <b>39.30%</b>               | <b>39.30%</b>             | <b>39.30%</b>         |
| <b>Total</b>             |  |                | <b>11,660</b>              | <b>4,300</b>                | <b>28.30</b>              | <b>100%</b>           |

Source: Darun Consulting

## 6.18 Other information

This is a reproduction of the Market Report. Save for the preparation of this report and services rendered in connection with this report and received service fee as disclosed in section 11.5, Darun Consulting has no interest in the Company and no interest in the outcome of the listing. Darun Consulting has not and will not receive any other benefits (including any commissions) and there are no factors which may reasonably be assumed to have influenced the contents of this report nor which may be assumed to have provided bias or influence. Darun Consulting does not hold any financial services licence and their report does not constitute advice in respect of the Offer or the listing.



## **7 RISK FACTORS**

An investment in the Company is not risk free. Before deciding to trade in the Shares, Shareholders and prospective investors should read this prospectus in its entirety, consider at least the following risk factors in light of their personal circumstances and investment objectives (including financial and taxation issues) and seek professional advice from their accountant, bank manager, stockbroker, lawyer or other professional adviser.

Our operating and financial performance and position, the value of Shares and the amount and timing of any dividends that the Company may pay will be influenced by a range of factors. Many of these factors will remain beyond our control. Accordingly, these factors may have a material effect on our performance and profitability which may cause the market price of Shares to rise or fall over any given period.

This section identifies the areas the Directors regard as major risks associated with an investment in our business. This list is not intended to be an exhaustive list of the risk factors to which we are exposed. The risks and uncertainties described below are not the only ones we face. There are other risks and uncertainties which we deem immaterial or not currently known may also have a material adverse effect on our business, financial condition, operating results and/or cash flow.

### **7.1 Specific risks to our business**

**(a) Debt financing risks**

Kemao China has a total bank loan amount of RMB148,000,000 as at 31 December 2018 (2017: RMB151,000,000; 2016: RMB146,000,000) consisting of mostly short-term liquidity loans borrowed from three licensed financial institutions with an average loan amount of approximately RMB10 million and each has a different maturity date. Some loans are guaranteed by the directors or related companies of Kemao China and some are secured with company machinery or personal assets of Kemao China's legal representative, Mrs HUANG Meiyu.

The loans are provided as debt facilities which can be drawn down either in whole or in part when a drawdown request form is submitted to the bank. Each loan facility will be "rolled over" by the bank approving a new loan facility immediately after any principal and interest amounts owing in the old facility has been paid back.

There are several risks associated with our debt financing strategy:

- (i) (cash flow and liquidity risk) our high debt level means that we need to set a great amount of cash aside so as to satisfy the bank of our ability to pay back loans when they fall due. As a result, our future business strategies may be constrained due to the inflexibility to utilise our cash reserves and our ability to pay our debts must be closely monitored and managed to avoid the risk of us suffering catastrophic losses;
- (ii) (interest rate risk) our interest expenditure fluctuates as interest rate varies when each loan is rolled over – a higher interest rate will increase our interest expenditure which may materially reduce our profitability for that period; and
- (iii) (asset disposal risk) we may be forced to dispose of our assets to repay loans if we have insufficient cash to pay back loans. If this happens, our



business operation will be disrupted, and our financial performance will also be affected.

Kemao China has had such financing arrangements with the banks since 2013 and has maintained good credit record with the banks. The company keeps a record of all loan due dates and prepares for each loan payback a month prior to its due date by cashing in on accounts receivables and limiting cash expenditures on inventories. The standard rates that apply to us are usually between 10% and 20% above the benchmark interest rate at the time. Our good credit record means that we receive preferential interest rate from the banks for our loans.

We consider that having an appropriate level of debt financing reduces our overall cost of capital and is an effective way of funding business activities when equity fundraising is not applicable as Kemao China is a wholly owned subsidiary of the Group. However, the Directors are mindful of the risks associated with over-leveraging and will monitor our debt financing levels closely. When appropriate, we may seek to re-adjust Kemao China's leverage ratio by either reducing interest bearing debts or raise additional equity through capital raisings via the Company to fund our operations in China.

(b) Lease

As disclosed in section 5.12 above, Kemao China's right to occupy the land and building that it currently operates at arises from the Lease Agreement it entered into with Fumao, a related entity.

There is a risk that Kemao China may need to relocate its business to another place if the land is expropriated by the government or if Fumao wishes to transfer the land and the buildings to a third party. The business will be significantly interrupted should either event occur. However, the Directors consider the risk of this happening to be extremely unlikely based on the current circumstances and would like to note that Kemao China will receive compensation either in the form of the return of its investment money or compensation for loss of business income should relocation be required. This will materially reduce the impact of that event on our business performance.

(c) Key raw material risk

The primary input of tinplate production is hot-rolled steel strip. Its supply stability and price have significant impact on tinplate production and price. A rise in the price of hot-rolled steel strip increases purchase costs and typically makes cost of production higher. If these cost increases cannot be passed on to downstream customers through higher product prices, profit margins tend to fall.

There is a risk that the price of this input will rise in the future (may be due to increases in steel prices). As the tinplate industry is highly competitive, we may not be able to pass the increased costs to our consumers. If this risk materialises, the profitability of our business may be adversely affected.

To manage this price risk, we contract with our customers per purchase order so that we have more flexibility in adjusting our product prices for future orders, taking into consideration any input cost variations.



(d) Environmental risk

As a producer of tinfoil materials, our operations have an impact on the environment and are subject to the regulations under the relevant Chinese environmental laws. The environmental protection provisions, most recently amended in January 2015, allow the relevant environmental agencies to enforce stricter penalties and seize property of illegal polluters. Company executives of polluters may also be held personally liable and subject to prison sentences of 15 days. There is also no longer a cap on fines and, in extreme cases, a polluter can be forced to immediately shut down its operations.

Chinese environmental regulations are subject to frequent amendments due to the government's heightened focus on the country's pollution issues. Sustainability, energy conservation, emission reduction, green production and food security form part of our core considerations for the future development of our business. We take environmental matters very seriously and monitor our business in accordance with authority guidelines. However, there is a risk that environmental issues relating to air, waste, water, emission and contamination may arise from time to time and that we may be in breach of environmental regulations. If such a risk materialises, we may have to pay a substantial amount of fine or be forced to shut down our business.

As at the Lodgement Date, we have not been issued any fines, infringement notices, penalties or other notices of non-compliance by any relevant Chinese authority for breach of our environmental obligations.

(e) Competition risk

The sector in which we operate is subject to vigorous competition, based on factors including price, service, product selection and quality, manufacturing capability, innovation and the ability to provide customers with an appropriate range of products and services in a timely manner. We face competition from sources including:

- (i) other manufacturers of tinfoil;
- (ii) manufacturers of alternative packaging products which may be used as a substitute for our products; and
- (iii) the potential reduction of import duties or tariffs in the end markets in which we sell our products.

Competitors (including overseas manufacturers) may have different quality, price and operational structures from ours or may price their products uneconomically, which could lead to a deterioration in our sales and profitability.

Our competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors, or a failure to continue to position ourselves successfully to meet changing market conditions, customer demands and technology. Any deterioration in our competitive position may result in a decline in sales revenue and margins, which may have a material adverse effect on our future financial performance and position.



(f) Customer risk

Some of our customer relationships are governed by binding written contracts, others are governed by informal arrangements such as an order-by-order basis subject to standard terms. Where no binding written contract exists, these arrangements can be terminated or varied by customers without incurring significant penalties. Even when there is a binding written contract, depending on the nature of the contract, customers may be under no obligation to continue to purchase, or to purchase a particular volume of, our products.

Our contracts with customers are short-term based. Whether the customers will purchase from us repeatedly in the future depends on factors such as product price, quality, delivery time requirement and the demand fluctuation that our customers may experience for their products.

Any of the above factors or a combination of these factors may materially reduce demand for our products, which would have a material adverse effect on our future financial performance and position.

(g) Adverse incidents

Our operations involve the use of heavy machinery and hazardous materials, with resulting risk to both property and personnel. An incident may occur that results in serious injury or death, damage to property, contamination of the environment or business interruption, which may have a material adverse effect on our financial performance and position.

Given the nature of our operations, we face the risk of workplace injuries which may result in operational or industrial stoppages and workers' compensation claims. Any failure to safely conduct our operations or to comply with the relevant Chinese work safety laws could result in fines, penalties and compensation for damages as well as reputational damage. Any such consequences could have a material adverse effect on our future financial performance and position.

In March 2017, Wuxi Quality and Technology Supervision Bureau found Kemao China to be partially liable for a workplace incident that occurred at the factory and, as a result, Kemao China was fined RMB100,000 pursuant to the requirement under Special Equipment Safety Law of the People's Republic of China. The infringement notice also required Kemao China to review its work safety procedures and processes. The fine has been paid and Kemao China has conducted further review and improvements as required under the infringement notice. Kemao China has had no other work safety related infringement in the last three years.

Kemao China regularly provides safety production training to its employees and requires the strict compliance with its standard of practice. The purpose of the training is to assist the employees in identifying potential risks and ways to mitigate the risks.

(h) Exchange rates

Our products are being sold into various geographical markets, mainly Asia, Middle East and Europe. Its international sales use the USD as the trading currency and Kemao China has a US currency reserve account.



Our financial reports are prepared in AUD. However, our sales are in either RMB or USD and costs are all in RMB. Any depreciation of the RMB or USD relative to AUD may have a material adverse effect on our financial performance and position.

The Company is exposed to foreign currency risk on sales that are denominated in a currency other than the functional currency of the company. The currency giving rise to this risk is primarily the USD.

We do not consider it economical to hedge against currency risk as the cost of hedging might outweigh the benefit of hedging. Having a US currency reserve gives us the flexibility to limit part of the currency risks we are exposed to.

(i) Sovereign risk

We currently export our products to 33 countries mainly in the Asia and the Middle East, and export sales account for around 30% of our total revenue. Some of these countries may be considered to have high political and sovereign risk. Any material adverse changes to the political and economic environment of these countries and their relationships with China may affect the viability of our export business in those countries and may materially affect our profitability. No assurance can be given regarding our export sales to any overseas country.

(j) Reliance on key personnel

Our success depends on the ability and performance of our key personnel, in particular the senior management team, such as WO Bo (Eric), our export manager. Loss of key personnel, sustained underperformance by key personnel or an inability to recruit or retain suitable replacement or additional personnel may adversely affect our future financial performance.

(k) Intellectual property risk

We use intellectual property and technology developed in the course of our business. Some of these have been patented, some may not be patentable, and others may be patentable in the future.

The risks associated with the use of intellectual property and technology we own include:

(i) challenges by third parties of our right to use our intellectual property or technology; and

(ii) unauthorised disclosure by a third party.

We may incur significant costs in protecting or asserting our rights in such circumstances. There can be no assurance that any patents we may own or control now and, in the future, will afford us a competitive advantage or have any commercial significance.

As at the Lodgement Date, we are not aware of any unauthorised disclosure or current or potential challenges by third parties.

(l) Shareholding concentration

Mr CHEN Dong and Ms CHEN Fang are the two executive Directors who have a relevant interest in 65.13% of the issued capital of the Company (Mr CHEN holds 55.13% direct interest and Ms CHEN holds 10% direct interest) as at the date of this



prospectus and therefore have the ability to control the election of Directors and matters subject to ordinary resolution by the Shareholders. The interests of Mr CHEN Dong and Ms CHEN Fang may differ from the interests of the Shareholders or Company. However, they being Shareholders as well as Directors of the Company may also reduce the agency cost of equity and better align their interests as Directors with the interests of all other Shareholders.

(m) Additional requirements for capital

Assuming there won't be any material changes to our stated plans and intentions, the funds to be raised under this prospectus are considered sufficient to meet the two-year objectives of the Company and Kemao China has sufficient capital to carry on its business. However, if any of the following occurs, we may seek to raise further funds through equity financing if we have insufficient funds from internal sources or borrowings:

- (i) Kemao China wishes to escalate the process of achieving a higher annual production output to cater for growing demand by purchasing more raw materials; and
- (ii) Kemao China wishes to build and upgrade its production facilities to increase its production capacity and efficiency by investing in new machinery and equipment.

Failure to obtain sufficient financing may result in delay and indefinite postponement of our planned activities. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to us and might involve substantial dilution to the Shareholders.

As at the date of this prospectus, we have no detailed plan or calculation for either of these scenarios. We will update the market if such plan has been made.

(n) Internal controls

The system of internal controls currently implemented by us is designed for the operations of an owner-managed enterprise. It comprises a number of undocumented procedures which require the substantial hands-on involvement of the owner-manager. The Directors are of the opinion that while this system of internal control is adequate and effective for the current level of operations, it may become inadequate after our business expands. If we are not able to improve and subsequently maintain the quality of our internal controls, any weaknesses could materially and adversely affect the Company's ability to properly manage the operations of the Group, provide timely and accurate information about our operations and finance, and could cause the Group to be susceptible to internal fraud.

The Directors will continually review our system of internal controls and ensure that they are developed to, and maintained at, a level appropriate for a publicly listed company of comparable size and scale of operations. Any weaknesses in effective internal controls may create additional challenges in the Company complying with its continuous disclosure obligations. To mitigate risks associated with compliance with continuous disclosure obligations, we have adopted, as part of the Company's corporate governance practices, a risk management and internal control policy. The





policy requires each Director and employee of the Company to be responsible for ensuring regular communication between the Company and Kemao China so that the board of Directors are fully aware of the business activities happening in China. The policy also requires any use of the Company's funds of more than A\$2,000 to be approved by a Non-Executive Director before the money can be taken out of the Company's bank account. In addition, the Company will appoint its nominated adviser and other suitable advisers to provide regular training and review of its compliance with Australian laws and continuous disclosure obligations.

(o) Reputational damage

Our reputation may be adversely affected by a number of factors, including failure to provide customers with the quality of service they expect, product liability claims, disputes or litigation with third party stakeholders, including customers, employees or suppliers. Any reputational damage may result in the cessation of existing customer relationships, loss of key employees, which may be harmful to our financial performance and lead to disruption in our operations.

(p) Chinese regulatory environment and associated risks

China operates under a civil law system. This system is different from the common law system which exists in Australia. While individual court decisions in China may be noted for reference, they may not have precedent value. Although legislative reforms during the last two decades have significantly enhanced the protection enjoyed by enterprises in China, some of these laws, regulations and measures are relatively recent and their interpretation and enforcement remain uncertain. In addition, the legal system in China is subject to continuing development in areas such as foreign investment, tax and foreign exchange and these could adversely affect the operations of Kemao China.

Should it be necessary for the Company to enforce its legal rights in relation to its business, it would need to do so in accordance with the laws of China and perhaps other jurisdictions. If multiple jurisdictions or cross-border issues are involved, the matters may well attract unusual complexities which may result in added costs.

(q) Chinese political, economic and social reforms

The Chinese economy has gradually changed from a centralised economy to a market economy. This reform has, among other things, resulted in significant economic growth. Political, economic and social factors may lead to further readjustment of the reforms already in place. However, there is no assurance that any change that occurs as a result of political, economic or social reforms in China will have a positive effect on China's economic development or that Kemao China will benefit from or will be able to capitalise on these reforms. There is a risk that our operations, markets and financial position may be adversely affected by these continuing changes.

(r) Government control of currency conversion and repatriation of dividends

The value of the Yuan is subject to change in the Chinese government's policies and in international economic and political developments. Under Chinese government regulations, all foreign enterprises must establish a "current account" and a "capital account" with a bank authorised to deal in foreign exchange. Currently, foreign exchange banks allow for settlement of "current account" transactions (which



include payment of dividends on the basis of a board resolution authorising the distribution of profits or dividends) without other regulatory approval. Conversion of the Yuan into foreign currencies for “capital account transactions” which include the receipt and payment of foreign exchange for loans, contributions and purchases of fixed assets continues to be subject to limitations and requires regulatory approval. There can be no assurance that we will be able to repatriate funds from China to pay dividends or satisfy foreign exchange requirements in the future.

(s) Misuse of company seals risk

Under Chinese law, company seals are used as the company’s official signature and can bind the company without the need of an accompanying signature on an official document. The safeguard of company seals and measures in place to ensure their proper use are therefore important for Chinese companies. Kemao China’s current policy regulating the use of company seals is set out in section 9.11. However, regardless of the policy Kemao China adopts to minimise the risk of misuse of any of our company seals, there is a risk that our company seals may be used inappropriately or without authority and could bind Kemao China.

We are not aware of any previous or current misuse of Kemao China’s company seals. However, to better protect ourselves from any such future risk, we will adopt the following additional measures as at the date of this prospectus:

- (i) all company seals must only be used with the prior written approval of the relevant department head; and
- (ii) the use of all company seals must be recorded on a register of documents sealed with that seal.

(t) Compliance with capital preservation requirements risk

Article 166 of China’s Companies Law (2013 Revision) (**Article 166**) sets out the capital preservation requirements which a company registered in China must comply with before it can distribute its profits to its shareholders. In summary, the capital preservation requirements are as follows:

- (i) a company must provide 10% of its annual profit as its statutory common reserve;
- (ii) a company’s statutory common reserve must be used to make up for losses it had incurred in prior years;
- (iii) if a company’s statutory common reserve is not sufficient to make up for losses it had incurred in prior years, the company must make up for the balance such accumulated losses from its current year’s profits; and
- (iv) a company is not required to make additional provision for its statutory common reserve if the amount in its statutory common reserve is at least 50% of its registered capital.

Article 166 further provides that if a company distributes profits to its shareholders without complying with the capital preservation requirements, shareholders must return such profit distributions which had been made in violation of the capital preservation requirements to the company. Therefore, shareholders should be



aware that Kemao China's annual profits must first of all be applied to fulfil the capital preservation requirements under Article 166 before they are available for distribution to shareholders. There is also a risk that should Kemao China distributes its profits to shareholders in violation with Article 166, shareholders shall be liable to return these profit distributions to Kemao China.

## **7.2 General investment risks**

### **(a) Investment in securities**

Shareholders and interested investors should be aware that there are risks associated with any investment in securities such as the Shares and should recognise that the price of securities may fall as well as rise. In particular, the trading price of securities at any given time may be higher or lower than the price paid by the investor for these securities. Further, there can be no assurance that an active trading market will develop in the Shares.

Many other factors will affect the price of the Shares, including general fluctuations in the performance of local and international stock markets, movements in interest and exchange rates, industry-specific as well as general economic conditions and investor sentiment. Stock markets have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies. There can be no guarantee that trading prices and volumes of any securities will be sustained. These factors may materially affect the market price of the Shares, regardless of our operational performance.

No guarantee can be given by the Company in respect of the payment of dividends, return of capital or the market value of the Shares. Such issues are dependent on our business performance after listing, the control of costs and the need for working capital and other funding requirements.

### **(b) Economic risk**

Changes in the general economic climate in which we operate may adversely affect our financial performance. Factors that may contribute to that general economic climate include the level of direct and indirect competition against us, industrial disruption and the rate of growth of the gross domestic product in China where it operates, interest and exchange rates and rates of inflation.

No assurances can be given or forecasts made regarding the continuing strong growth experienced by the Chinese economy nor whether or when it will slow materially or shrink. If the Chinese economy does not continue to grow or if it slows materially, stops growing or goes into recession, there may be a diminished market for our products. This would have a material adverse effect on the performance and profitability of the Group.

### **(c) Changes in legislation and government regulation**

The introduction of new legislation or amendments to existing legislation and regulations by governments, and the decisions of courts and tribunals, can impact adversely on our assets, operations and, ultimately, our financial performance. In addition, any adverse changes in political and regulatory conditions in China, Australia or any of our export countries could affect the prospects of Kemao China or those of the Group as a whole. Financial and economic changes such as changes



in both monetary and fiscal policies, import regulations and tariffs, taxation, methods of taxation and currency exchange could affect our profitability and adversely affect the return to Shareholders.



## 8 INDEPENDENT LIMITED ASSURANCE REPORT AND FINANCIAL INFORMATION



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4 April 2019

The Directors  
Kemao Industries Ltd  
20/217 Hay Street  
SUBIACO WA 6008

Dear Directors

### INDEPENDENT LIMITED ASSURANCE REPORT ON THE KEMAO INDUSTRIES LTD HISTORICAL AND PRO FORMA CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

We have been engaged to report on the Historical Financial Information and Pro Forma Historical Financial Information of Kemao Industries Ltd (the 'Company' or 'KIL') and its controlled entities (the 'Group') as at and for the period ended 31 December 2018.

This report is an Independent Limited Assurance Report, the scope of which is set out below.

The Historical Financial Information has been prepared for in the inclusion of the Prospectus dated 5 April 2019 in connection with the proposed issue of 1,000,000 new Ordinary Shares at an issue price of AUD \$0.50 each to raise AUD\$500,000 before costs (the 'Prospectus').

Expressions and terms defined in the Prospectus has the same meaning in this report.

#### 1. SCOPE

##### *Historical Financial Information*

The following Historical Financial Information of Kemao Industries Ltd and Jiangsu Kemao New Materials Technology Co. Ltd. (Kemao China) is included in the Prospectus:

- The Statement of Comprehensive Income for Jiangsu Kemao New Materials Technology Co. Ltd for the years ended 31 December 2016, 31 December 2017 and 31 December 2018;
- The Consolidated Statement of Comprehensive Income for Kemao Industries Ltd for the period 28 May 2018 (date of incorporation) to 31 December 2018;
- The Statement of Financial Position of Jiangsu Kemao New Material Technology Co. Ltd as at 31 December 2016 and 31 December 2017;
- The Consolidated Statement of Financial Position of Kemao Industries Ltd as at 31 December 2018; and
- The Consolidated Statement of Changes in Equity of Kemao Industries Ltd for the period ended 31 December 2018.
- The Consolidated Statement of Cash Flows of Kemao Industries Ltd for the period ended 31 December 2018

MGI refers to one or more of the independent member firms of the MGI international alliance of independent auditing, accounting and consulting firms. Each MGI firm in Australasia is a separate legal entity and has no liability for another Australasian or international member's acts or omissions. MGI is a brand name for the MGI Australasian network and for each of the MGI member firms worldwide. Liability limited by a scheme approved under Professional Standards Legislation.

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- The Statement of Cash Flows for Jiangsu Kemao New Materials Technology Co. Ltd for the years ended 31 December 2016, 2017 and 2018.

(collectively the 'Historical Financial Information').

The Historical Financial Information was presented within the Financial Reports of Kemao China in Chinese Renminbi ('RMB'). For the purposes of this report, we have translated the statements included as above into Australian Dollars ('AUD') using the prevailing spot rate at year end 31 December 2016, 31 December 2017 and 31 December 2018, as taken from the Reserve Bank of Australia. The relevant rates used were:

|                  |                      |
|------------------|----------------------|
| 31 December 2016 | \$1 AUD = RMB 5.0286 |
| 31 December 2017 | \$1 AUD = RMB 5.0842 |
| 31 December 2018 | \$1 AUD = RMB 4.8548 |

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles of contained in the International Financial Reporting Standards and the Group's adopted accounting policies. The Historical Financial Information has been extracted from the financial reports of Kemao China for the years ended 31 December 2016, 2017 and 2018 (the 'financial reports'), which were audited by HML & Co in accordance with International Standards on Auditing.

HML & Co issued a qualified audit opinion on the financial report of Kemao China for the year ended 31 December 2016 due to not being in attendance at the year-end stock count. Subsequently they were unable to provide an opinion on the inventory quantities held as at 31 December 2016 and unable to determine whether adjustments might have been necessary in respect of the profit and net cash flows for the year ended 31 December 2016.

HML & Co issued unmodified audit opinion of the financial reports for the years ended 31 December 2017 and 2018.

The Historical Financial Information is presented in the Prospectus in an abbreviated form, as it does not include all presentation and disclosure required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

#### **Pro Forma Historical Information**

You have requested that we review:

- the Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2018; and
- the Pro Forma Consolidated Statement of Changes in Equity of the Group for the year ended 31 December 2018.

(collectively the 'Pro Forma Consolidated Historical Financial Information').

The Pro Forma Consolidated Historical Financial Information has been derived from the Historical Financial Information of the Group, after adjusting for the effects of pro forma adjustments as described in sections 3 and 4 of this report, as if those events or transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro Forma Consolidated Historical Financial Information does not represent the Group's actual or prospective financial position.



***Global Newmat Sdn. Bhd. and Jiangyin Fuke New Materials Co. Ltd.***

Based on our enquiries of management of the Company, Global Newmat Sdn. Bhd and Jiangyin Fuke New Materials Co. Ltd. are non-trading entities. The only transactions within these entities are minor administrative costs, share capital issued and the investment in subsidiaries.

As such, our Limited Assurance Report refers to the Company as the ultimate parent entity of the Group and Kemao China, the only entities with trading activity.

**Directors' Responsibility**

The directors of Kemao Industries Ltd are responsible for the preparation of the Historical Financial Information and Pro Forma Consolidated Historical Financial Information, including the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Consolidated Historical Financial Information. This includes responsibility for such internal control as the directors determine are necessary to enable the preparation of the Historical Financial Information and Pro Forma Consolidated Historical Financial Information that are free from material misstatement whether due to fraud or error.

**Our Responsibility**

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information and Pro Forma Consolidated Financial Information based on procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Auditing Standards.

Our review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**2. CONCLUSION*****Historical Financial Information***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, as described in Appendices 1 to 4 of this report and comprising:

- The following Historical Financial Information of Kemao Industries Ltd and Jiangsu Kemao New Materials Technology Co. Ltd. is included in the Prospectus:
- The Statement of Comprehensive Income for Jiangsu Kemao New Materials Technology Co. Ltd for the years ended 31 December 2016, 31 December 2017 and 31 December 2018;
- The Consolidated Statement of Comprehensive Income for Kemao Industries Ltd for the period 28 May 2018 (date of incorporation) to 31 December 2018;
- The Statement of Financial Position of Jiangsu Kemao New Materials Technology Co. Ltd as at 31 December 2016 and 31 December 2017;
- The Consolidated Statement of Financial Position of Kemao Industries Ltd as at 31 December 2018; and





- The Consolidated Statement of Changes in Equity of Kemao Industries Ltd for the period ended 31 December 2018.
- The Consolidated Statement of Cash Flows of Kemao Industries Ltd for the period ended 31 December 2018
- The Statement of Cash Flows for Jiangsu Kemao New Materials Technology Co. Ltd for the years ended 31 December 2016, 2017 and 2018.

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Group's adopted accounting policies as described in Appendix 5 of this report.

***Pro Forma Consolidated Historical Financial Information***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Consolidated Historical Financial Information, as described in Appendices 1 to 4 of this report and comprising:

- the Pro Forma Consolidated Statement of Financial Position of the Group as at 31 December 2018; and
- the Pro Forma Consolidated Statement of Changes in Equity of the Group for the year ended 31 December 2018.

are not presented fairly, in all material respects, in accordance with the stated basis of preparation being the recognition and measurement principles contained in Australian Accounting Standards and the Group's adopted accounting policies as described in Appendix 5 of this report.

**3. SUBSEQUENT EVENTS PRIOR TO THE PROSPECTUS**

There are no events subsequent to balance date and prior to this Prospectus which are to be disclosed or included in the Pro Forma Consolidated Historical Financial Information.

**4. ASSUMPTIONS ADOPTED IN COMPILING THE PRO FORMA ADJUSTMENTS**

The following transactions and events are related to the issue of share under the Prospectus date on 5 April 2019:

- The Limited Assurance Report has been prepared on the assumption that either NIL or the maximum number of Ordinary Shares (1,000,000 fully paid Ordinary Shares at an issue price of AUD \$0.50 each) to be issued under the Prospectus is achieved.
- Unpaid expenses associated with the Prospectus totalling up to AUD\$320,000 have been treated as a cost of listing the Company's Ordinary Shares on the National Stock Exchange of Australia.

**5. RESTRICTION ON USE**

The financial information included in the Prospectus has been prepared in Australian dollars and in accordance with Australian Accounting Standards and the Group's adopted accounting policies. The



information set out in the Prospectus and the pro forma financial information should be read together with:

- The risk factors described in section 7 of the Prospectus;
- The Independent Limited Assurance report on the historical and Pro Forma Financial Information set out in section 8 of the Prospectus; and
- Other information contained in this Prospectus.

**6. LIABILITY**

MGI Perth Audit Services Pty Ltd has consented to the inclusion of this report in the Prospectus in the form and context of which it is included. Our liability is limited to the including of the report in the Prospectus. We make no representation regarding, and has no liability for any other statement, including omissions from, the Prospectus.

**7. DECLARATION ON INTEREST**

MGI Perth Audit Services Pty Ltd does not have any interest in the outcome of the Offer other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully,

**MGI PERTH AUDIT SERVICES PTY LTD**

**CLAYTON LAWRENCE**  
Director



**APPENDIX 1:**

**KEMAO INDUSTRIES LTD  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2016 TO 31 DECEMBER 2018**

|  | <b>Kemao<br/>Industries Ltd<br/>Consolidated<br/>Group</b> | <b>Jiangsu Kemao<br/>New Materials<br/>Technology Co.,<br/>Ltd Company</b> | <b>Jiangsu Kemao<br/>New Materials<br/>Technology Co.,<br/>Ltd Company</b> | <b>Jiangsu Kemao<br/>New Materials<br/>Technology Co.,<br/>Ltd Company</b> |
|--|--|--|--|--|
|  | <b>31 Dec 2018<br/>AUD \$</b>                              | <b>31 Dec 2018<br/>AUD \$</b>  | <b>31 Dec 2017<br/>AUD \$</b>  | <b>31 Dec 2016<br/>AUD \$</b>  |
| <b>Revenue from Continuing operations</b>      | 136,773,195  | 136,773,195  | 113,002,231  | 75,649,892   |
| Cost of sales                                  | (129,356,599)  | (129,356,599)  | (107,303,521)  | (73,017,686)   |
| Gross profit                                   | 7,416,596  | 7,416,596  | 5,698,710  | 2,632,206  |
| Other operating income                         | 5,381,263  | 7,374,526  | 3,334,356  | 2,810,912  |
| Administration expenses                        | (6,914,117)  | (6,905,913)  | (2,264,587)  | (1,667,409)  |
| Operating expenses                             | (1,358,439)  | (1,358,439)  | (1,515,982)  | (1,383,038)  |
| <b>Profit from operations</b>                  | <b>4,525,303</b>   | <b>6,526,770</b>   | <b>5,252,498</b>   | <b>2,392,671</b>   |
| Finance costs                                  | (1,795,519)  | (1,795,519)  | (1,856,522)  | (1,618,646)  |
| <b>Profit before tax</b>                       | <b>2,729,784</b>   | <b>4,731,251</b>   | <b>3,395,975</b>   | <b>774,024</b>   |
| Income tax expense                             | 4,239  | 4,239  | (231,037)  | (258,702)  |
| <b>Profit for the year</b>                     | <b>2,734,023</b>   | <b>4,735,490</b>   | <b>3,164,938</b>   | <b>515,323</b>   |
| <b>Other comprehensive income</b>              |  |  |  |  |
| Foreign exchange differences                   | 321,023  | 86,130   | -  | -  |
| <b>Total comprehensive income for the year</b> | <b>3,055,046</b>   | <b>4,821,620</b>   | <b>3,164,938</b>   | <b>515,323</b>   |



**APPENDIX 2:**

**KEMAO INDUSTRIES LTD  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017 AND 31 DECEMBER 2016**

|   | Kemao Industries<br>Limited<br>Consolidated<br>Group<br>31 Dec 2018<br>AUD \$ | Jiangsu Kemao<br>New Materials<br>Technology Co.,<br>Ltd<br>31 Dec 2017<br>AUD \$ | Jiangsu Kemao<br>New Materials<br>Technology Co.,<br>Ltd<br>31 Dec 2016<br>AUD \$ |
|---|---|---|---|
| <b>ASSETS</b>                                 |   |   |   |
| <b>Current Assets</b>                         |   |   |   |
| Cash and bank balances                        | 5,036,891   | 2,053,836   | 4,247,365   |
| Trade receivables                             | 15,770,239  | 14,208,982  | 3,471,075   |
| Inventories                                   | 24,847,854  | 15,162,796  | 12,099,665  |
| Fixed deposits with bank                      | 197,742   | 188,820   | 190,908   |
| Other receivables and advance payments        | 9,356,855   | 10,122,663  | 9,287,242   |
| Tax recoverable                               | 400,191   | -   | -   |
| VAT recoverable                               | 552,106   | -   | 271,113   |
| <b>Total Current Assets</b>                   | <b>56,161,877</b>   | <b>41,737,096</b>   | <b>29,567,368</b>   |
| <b>Non-Current Assets</b>                     |   |   |   |
| Property, plant and equipment                 | 11,861,619  | 12,374,586  | 13,587,783  |
| Deferred tax assets                           | 341,097   | 274,571   | 199,667   |
| Lease prepayment                              | 2,769,369   | 3,173,298   | 3,208,384   |
| <b>Total Non-Current Assets</b>               | <b>14,972,086</b>   | <b>15,822,455</b>   | <b>16,995,834</b>   |
| <b>TOTAL ASSETS</b>                           | <b>71,133,963</b>   | <b>57,559,551</b>   | <b>46,563,203</b>   |
| <b>LIABILITIES</b>                            |   |   |   |
| <b>Current Liabilities</b>                    |   |   |   |
| Trade and bills payables                      | 11,172,514  | 9,015,511   | 7,305,900   |
| Other payables, deposit received and accruals | 12,329,734  | 12,252,353  | 7,070,124   |
| Borrowings - secured                          | 29,455,384  | 28,716,416  | 29,033,926  |
| Tax payable                                   | -   | 681,212   | 377,213   |
| <b>Total Current Liabilities</b>              | <b>52,957,632</b>   | <b>50,665,492</b>   | <b>43,787,162</b>   |
| <b>Non-Current Liabilities</b>                |   |   |   |
| Borrowings - Secured                          | 1,029,909   | 983,439   | -   |
| Other payables                                | 1,101,466   | -   | -   |
| <b>Total Non-Current Liabilities</b>          | <b>2,131,374</b>  | <b>983,439</b>  | <b>-</b>  |
| <b>TOTAL LIABILITIES</b>                      | <b>55,089,007</b>   | <b>51,648,931</b>   | <b>43,787,162</b>   |
| <b>NET ASSETS</b>                             | <b>16,044,956</b>   | <b>5,910,620</b>  | <b>2,776,040</b>  |
| <b>EQUITY</b>                                 |   |   |   |
| Share capital                                 | 17,099,086  | 9,834,389   | 9,943,125   |
| Accumulated losses                            | (1,375,153)   | (3,923,769)   | (7,167,085)   |
| Exchange difference                           | 321,023   | -   | -   |
| <b>TOTAL EQUITY</b>                           | <b>16,044,956</b>   | <b>5,910,620</b>  | <b>2,776,040</b>  |



KEMAO INDUSTRIES LTD  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018

|   | Note | Jiangsu Kemao New Materials Technology Co., Ltd Company<br>31 Dec 2018<br>AUD \$ | Kemao Industries Limited Group<br>31 Dec 2018<br>AUD \$ | Subsequent Event Adjustments<br>AUD \$ | Pro-Forma Adjustments<br>AUD \$ | Pro-Forma Adjustments<br>AUD \$500,000<br>AUD \$ | Pro-Forma After Issue<br>AUD \$ | Pro-Forma After Issue<br>AUD \$500,000<br>AUD \$ |
|---|------|--|---|--|---------------------------------|--|---------------------------------|--|
| <b>ASSETS</b>                                 |      |  |   |  |                                 |  |                                 |  |
| <b>Current Assets</b>                         |      |  |   |  |                                 |  |                                 |  |
| Cash and bank balances                        | 2    | 5,036,401  | 5,036,891   |  | (320,000)                       | 180,000  | 4,716,891                       | 5,216,891  |
| Trade receivables                             |      | 15,770,238   | 15,770,239  |  |                                 |  | 15,770,239                      | 15,770,239                                       |
| Inventories                                   |      | 24,847,854   | 24,847,854  |  |                                 |  | 24,847,854                      | 24,847,854                                       |
| Fixed deposits with bank                      |      | 197,742  | 197,742   |  |                                 |  | 197,742                         | 197,742  |
| Other receivables and advance payments        |      | 9,356,377  | 9,356,855   |  |                                 |  | 9,356,855                       | 9,356,855  |
| Tax recoverable                               |      | 400,191  | 400,191   |  |                                 |  | 400,191                         | 400,191  |
| VAT recoverable                               |      | 552,106  | 552,106   |  |                                 |  | 552,106                         | 552,106  |
| <b>Total Current Assets</b>                   |      | <b>56,160,909</b>  | <b>56,161,877</b>                                       | -                                      | (320,000)                       | 180,000  | <b>55,841,877</b>               | <b>56,341,877</b>                                |
| <b>Non-Current Assets</b>                     |      |  |   |  |                                 |  |                                 |  |
| Property, plant and equipment                 |      | 11,861,619   | 11,861,619  |  |                                 |  | 11,861,619                      | 11,861,619                                       |
| Deferred tax assets                           |      | 341,097  | 341,097   |  |                                 |  | 341,097                         | 341,097  |
| Lease prepayment                              |      | 2,769,369  | 2,769,369   |  |                                 |  | 2,769,369                       | 2,769,369  |
| <b>Total Non-Current Assets</b>               |      | <b>14,972,086</b>  | <b>14,972,086</b>                                       | -                                      | -                               | -  | <b>14,972,086</b>               | <b>14,972,086</b>                                |
| <b>TOTAL ASSETS</b>                           |      | <b>71,132,994</b>  | <b>71,133,963</b>                                       | -                                      | (320,000)                       | 180,000  | <b>70,813,963</b>               | <b>71,313,963</b>                                |
| <b>LIABILITIES</b>                            |      |  |   |  |                                 |  |                                 |  |
| <b>Current Liabilities</b>                    |      |  |   |  |                                 |  |                                 |  |
| Trade and bills payables                      |      | 11,172,172   | 11,172,514  |  |                                 |  | 11,172,514                      | 11,172,514                                       |
| Other payables, deposit received and accruals |      | 12,320,905   | 12,329,734  |  |                                 |  | 12,329,734                      | 12,329,734                                       |
| Borrowings - secured                          |      | 29,455,384   | 29,455,384  |  |                                 |  | 29,455,384                      | 29,455,384                                       |
|   |      | 52,948,461   | 52,957,632  | -                                      | -                               | -  | 52,957,632                      | 52,957,632                                       |
| <b>Non-Current Liabilities</b>                |      |  |   |  |                                 |  |                                 |  |
| Amount owing to ultimate holding company      |      | 5,041,630  | -   |  |                                 |  | -                               | -  |
| Borrowings - Secured                          |      | 1,029,909  | 1,029,909   |  |                                 |  | 1,029,909                       | 1,029,909  |
| Other payables                                |      | 1,101,466  | 1,101,466   |  |                                 |  | 1,101,466                       | 1,101,466  |
|   |      | 7,173,004  | 2,131,374   | -                                      | -                               | -  | 2,131,374                       | 2,131,374  |
| <b>TOTAL LIABILITIES</b>                      |      | <b>60,121,465</b>  | <b>55,089,007</b>                                       | -                                      | -                               | -  | <b>55,089,007</b>               | <b>55,089,007</b>                                |
| <b>NET ASSETS</b>                             |      | <b>11,011,529</b>  | <b>16,044,956</b>                                       | -                                      | (320,000)                       | 180,000  | <b>15,724,956</b>               | <b>16,224,956</b>                                |
| <b>EQUITY</b>                                 |      |  |   |  |                                 |  |                                 |  |
| Contributed equity                            | 3    | 10,299,085   | 17,099,086  |  | -                               | 500,000  | 17,099,086                      | 17,599,086                                       |
| Accumulated losses                            | 4    | 626,314  | (1,375,153)   |  | (320,000)                       | (320,000)  | (1,695,153)                     | (1,695,153)                                      |
| Exchange difference                           |      | 86,130   | 321,023   |  | -                               | -  | 321,023                         | 321,023  |
| <b>TOTAL EQUITY</b>                           |      | <b>11,011,529</b>  | <b>16,044,956</b>                                       | -                                      | (320,000)                       | 180,000  | <b>15,724,956</b>               | <b>16,224,956</b>                                |



**APPENDIX 3:**

**KEMAO INDUSTRIES LTD  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER 2018**

|  | Jiangsu<br>Kemao New<br>Materials<br>Technology<br>Co., Ltd<br>Company | Kemao<br>Industries<br>Limited<br>Group | Subsequent<br>Event<br>Adjustments | Pro-Forma<br>Adjustments | Pro-Forma<br>Adjustments   | Pro-Forma<br>After Issue | Pro-Forma<br>After Issue   |
|--|--|---|------------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
|  | 31 Dec 2018<br>AUD \$  | 31 Dec 2018<br>AUD \$                   | AUD \$                             | AUD \$<br>AUD \$         | AUD<br>\$500,000<br>AUD \$ | AUD \$<br>AUD \$         | AUD<br>\$500,000<br>AUD \$ |
| <b>Opening Balance 1 January 2018</b>                                    |  |   |                                    |                          |                            |                          |                            |
| - Contributed Equity   | 10,299,085   | 10,299,085                              | -                                  | -                        | -                          | 10,299,085               | 10,299,085                 |
| - Retained Earnings  | (4,109,176)  | (4,109,176)                             | -                                  | -                        | -                          | (4,109,176)              | (4,109,176)                |
|  | <b>6,189,910</b>   | <b>6,189,910</b>                        | -                                  | -                        | -                          | <b>6,189,910</b>         | <b>6,189,910</b>           |
| <b>Comprehensive Income for the period</b>                               |  |   |                                    |                          |                            |                          |                            |
| Profit / (Loss) for the period attributable to owners of the company     | 4,735,490  | 2,734,023                               | -                                  | (320,000)                | (320,000)                  | 2,414,023                | 2,414,023                  |
| Profit / (Loss) for the period attributable to non-controlling interests | -  | -                                       | -                                  | -                        | -                          | -                        | -                          |
| Foreign Exchange Differences   | 86,130   | 321,023                                 | -                                  | -                        | -                          | 321,023                  | 321,023                    |
| <b>Total comprehensive loss attributed to members</b>                    | <b>4,821,620</b>   | <b>3,055,046</b>                        | -                                  | <b>(320,000)</b>         | <b>(320,000)</b>           | <b>2,735,046</b>         | <b>2,735,046</b>           |
| <b>Transactions with owners in their capacity as owners:</b>             |  |   |                                    |                          |                            |                          |                            |
| Shares issued during the year less transaction costs                     | -  | 6,800,000                               | -                                  | -                        | 500,000                    | 6,800,000                | 7,300,000                  |
| Non-controlling interest capital contributions                           | -  | -                                       | -                                  | -                        | -                          | -                        | -                          |
| <b>Total transactions with owners</b>                                    | <b>-</b>   | <b>6,800,000</b>                        | -                                  | -                        | <b>500,000</b>             | <b>6,800,000</b>         | <b>7,300,000</b>           |
| <b>Closing balance at 31 December 2018</b>                               | <b>11,011,529</b>  | <b>16,044,956</b>                       | -                                  | <b>(320,000)</b>         | <b>180,000</b>             | <b>15,724,956</b>        | <b>16,224,956</b>          |





**APPENDIX 4:**

**KEMAO INDUSTRIES LTD  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED 31 DECEMBER 2016 TO 31 DECEMBER 2018**

|  | <b>Kemao<br/>Industries Ltd<br/>Consolidated<br/>Group</b> | <b>Jiangsu Kemao<br/>New Materials<br/>Technology Co.,<br/>Ltd Company</b> | <b>Jiangsu Kemao<br/>New Materials<br/>Technology Co.,<br/>Ltd Company</b> | <b>Jiangsu Kemao<br/>New Materials<br/>Technology Co.,<br/>Ltd Company</b> |
|--|--|--|--|--|
|  | <b>31 Dec 2018<br/>AUD \$</b>                              | <b>31 Dec 2018<br/>AUD \$</b>  | <b>31 Dec 2017<br/>AUD \$</b>  | <b>31 Dec 2016<br/>AUD \$</b>  |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>           |  |  |  |  |
| Receipts from Customers                              | 141,820,810  | 141,820,810  | 102,334,980  | 79,756,389   |
| Payments to Suppliers and Employees                  | (142,460,579)  | (142,460,068)  | (102,009,153)  | (88,429,524)   |
| Interest Received                                    | 36,206   | 36,206   | 25,489   | 108,962  |
| Interest Paid  | (1,795,519)  | (1,795,519)  | (1,821,730)  | (1,646,078)  |
| Taxation Paid  | (1,142,056)  | (1,142,056)  | -  | (15,553)   |
| <b>Net cash provided by operating activities</b>     | <b>(3,541,137)</b>   | <b>(3,540,626)</b>   | <b>(1,470,414)</b>   | <b>(10,225,804)</b>  |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>           |  |  |  |  |
| Payments for purchase of property, plant & equipment | (1,515,175)  | (1,515,175)  | (1,761,808)  | (3,514,368)  |
| Proceeds from sale of property, plant & equipment    | 34,582   | 34,582   | 160,370  | 115,809  |
| Change in bank balances for restricted use           | (1,317,797)  | (1,317,797)  | 1,283,076  | 11,148,326   |
| <b>Net cash provided by investing activities</b>     | <b>(2,798,390)</b>   | <b>(2,798,390)</b>   | <b>(318,362)</b>   | <b>7,749,766</b>   |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>           |  |  |  |  |
| Proceeds from borrowings                             | 23,467,055   | 23,467,055   | 23,546,214   | 29,525,967   |
| Repayment of borrowings                              | (24,073,962)   | (24,073,962)   | (22,581,205)   | (27,908,105)   |
| Advance from Ultimate Holding Company                | -  | 6,944,832  | -  | -  |
| Advance from other payables                          | 1,517,266  | 1,517,266  | -  | -  |
| Capital contributions                                | 6,801,000  | -  | -  | -  |
| <b>Net cash provided by financing activities</b>     | <b>7,711,360</b>   | <b>7,855,192</b>   | <b>965,009</b>   | <b>1,617,861</b>   |
| Effect of Foreign Exchange translation               | 200,756  | 55,924   | (31,648)   | (123,529)  |
| <b>Net increase (decrease) in cash held</b>          | <b>1,572,590</b>   | <b>1,572,100</b>   | <b>(855,416)</b>   | <b>(981,706)</b>   |
| Opening balance of cash and cash equivalents         | 599,920  | 599,920  | 1,455,335  | 2,437,041  |
| Closing balance of cash and cash equivalents         | <b>2,172,509</b>   | <b>2,172,020</b>   | <b>599,920</b>   | <b>1,455,335</b>   |
| <b>Cash and cash equivalents comprise:</b>           |  |  |  |  |
| Fixed deposits                                       | 197,742  | 197,742  | 188,820  | 190,908  |
| Cash and bank balances                               | 5,036,891  | 5,036,401  | 2,053,836  | 4,247,365  |
| Bank balances restricted for use                     | (3,062,124)  | (3,062,124)  | (1,642,736)  | (2,982,938)  |
|  | <b>2,172,509</b>   | <b>2,172,020</b>   | <b>599,920</b>   | <b>1,455,335</b>   |





**APPENDIX 5:**

**NOTES TO AND FORMING PART OF THE HISTORICAL AND PRO FORMA CONSOLIDATED HISTORICAL FINANCIAL INFORMATION**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. REPORTING ENTITY**

The significant accounting policies adopted in the preparation of the Historical Financial Information and Pro Forma Consolidated Historical Financial Information included in this report have been set out below.

**A. Basis of Preparation of Historical and Pro Forma Consolidated Historical Financial Information**

The Historical and Pro Forma Consolidated Historical Financial Information has been prepared in accordance with the recognition and measurement, but not all the presentation and disclosure requirements of the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

The Historical and Pro Forma Consolidated Historical Financial Information has been prepared on a historical cost basis and except where stated does not take in to account changing money values or current valuations of non-current assets. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian Dollars.

The accounting policies and methods of computation adopted in the preparation of this Historical and Pro Forma Consolidated Historical Financial Information, apart from the significant accounting policies set out below, are consistent with those adopted in the annual financial statements for the year ended 31 December 2018.

**B. Going concern**

The Financial Information has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

**C. Foreign currency translations and balances**

*Functional and presentation currency*

The consolidated financial statements are presented in Australian Dollars (\$AUD), which is also the functional currency of the Parent Company.

*Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured fair value which are translated using the exchange rates at the date when fair value was determined.

**D. Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entity controlled by the Company (its subsidiary). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expense of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of a subsidiary to bring its accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in a subsidiary that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and this value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised the statement of comprehensive income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or this values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

**E. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. All revenue is stated net of the amount of goods and services tax (GST) or value added tax (VAT).

*Sale of goods*

Revenue is measured based on the considerations specified in a contract with a customer in exchange for transferring goods to customer, excluding amounts collected on behalf of third parties. The Company recognised revenue when or as it transfer control over a product to customer. An asset is transferred when or as the customer obtains control of the asset.

The Company transfers control of goods at a point in time unless one of the following overtime criteria is met:



- a) The customer simultaneously receives and consumes the benefits provided as the Company's performs;
- b) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- c) The Company's performance does not create an assets with an alternative use and the Company has an enforceable right to payment for performance completed to date.

*Interest revenue*

Interest income is recognised as it accrues using the effective interest method in profit or loss.

**F. Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset. Operating lease payments are recognised as an expense on a straight its basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**G. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

**H. Share-based payments**

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.



**I. Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**J. Plant and equipment**

Plant, equipment, vehicles and other fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.



In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. Depreciation is provided on plant, equipment and other fixed assets. Depreciation is calculated on a straight line so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The depreciation rates used for each class of asset for the current period are as follows:

|                           |               |
|---------------------------|---------------|
| • Computer Equipment      | 3 to 5 years  |
| • Furniture and Fittings  | 5 years       |
| • Machinery and Equipment | 5 to 10 years |
| • Motor vehicles          | 4 to 5 years  |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **K. Financial instruments**

##### *Initial Recognition and Measurement*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

##### *Classification and Subsequent Measurement*

Financial instruments are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.



Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy, and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

#### *Derecognition*

A financial asset is derecognised when the holder’s contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (i.e. the Group has no practical ability to make a unilateral decision to sell the asset to a third party).





On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which was elected to be classified under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

**Classification and Subsequent Measurement***Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amounts due less provision for doubtful debts. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

*Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

**L. Impairment of financial assets**

At each reporting date, the Group assesses all financial assets, other than those held at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired. For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments, are all considered indicators of impairment.

Impairment losses are recognised in profit or loss, and are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset, at the date that the impairment is reversed, shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

**M. Goods and services tax & Value Added Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or Value Added Tax (VAT), except where the amount of GST or VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of





acquisition of an asset or as part of an item of expense. Receivables and payables in the consolidated statement of financial position are recognised inclusive of GST and VAT.

Cash flows are included in the cash flow statement on a gross basis. The GST and VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

**N. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, other short-term highly liquid investments with original maturities of three (3) months or less, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

**O. Impairment of non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Tests are conducted annually by the Company to determine whether the carrying value of Technology rights and capitalised patent expenditure has suffered any impairment.

**P. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and overheads, where applicable, that have been incurred in bring the inventories to their present location and condition. Cost is calculated using the first in first out method. Net realisable value represents the estimate selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Q. Employee benefits**

The employees of the Group and the Company are required to participate in a central pension scheme operated by the Government. The Group and the Company are required to contribute a certain percentage of payroll costs to the central pension scheme. These contributions are charged to the profit or loss in the period to which the contributions relate.

**R. Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



**S. Comparative amounts**

Where necessary, comparative figures have been reclassified and repositioned for consistency with current year disclosures.

**NOTE 2: CASH AND CASH EQUIVALENTS**

|  | Jiangsu Kemao<br>New Materials<br>Technology Co.,<br>Ltd<br>Company<br>31 Dec 2018<br>AUD \$ | Kemao<br>Industries<br>Limited<br>Group<br>31 Dec 2018<br>AUD \$ | Pro Forma After<br>Issue<br>AUD \$ | Pro Forma After<br>Issue<br>AUD \$500,000<br>AUD \$ |
|--|--|--|------------------------------------|---|
| <b>Cash and bank balances</b>                    | <b>5,036,401</b>   | <b>5,036,891</b>   | <b>-</b>                           | <b>5,536,891</b>                                    |
| Audited balance at 31 December 2018              |  |  | 5,036,891                          | 5,036,891   |
| Proceeds from Share issued under this Prospectus |  |  | -                                  | 500,000   |
| NSX share listing costs                          |  |  | (320,000)                          | (320,000)   |
| <b>Pro Forma Balance</b>                         |  |  | <b>4,716,891</b>                   | <b>5,216,891</b>                                    |

**NOTE 3: CONTRIBUTED EQUITY**

|   | Jiangsu Kemao<br>New Materials<br>Technology Co.,<br>Ltd<br>Company<br>31 Dec 2018<br>AUD \$ | Kemao<br>Industries<br>Limited<br>Group<br>31 Dec 2018<br>AUD \$ | Pro Forma After<br>Issue<br>AUD \$ | Pro Forma After<br>Issue<br>AUD \$500,000<br>AUD \$ |
|---|--|--|------------------------------------|---|
| <b>Contributed equity</b>                         | <b>10,299,085</b>  | <b>17,099,086</b>  | <b>17,099,086</b>                  | <b>17,599,086</b>                                   |
| Audited balance at 31 December 2018               |  |  | 17,099,086                         | 17,099,086  |
| Proceeds from Shares issued under this Prospectus |  |  | -                                  | 500,000   |
| <b>Pro Forma Balance</b>                          |  |  | <b>17,099,086</b>                  | <b>17,599,086</b>                                   |

**NOTE 4: ACCUMULATED LOSSES**

|                                     | Jiangsu Kemao<br>New Materials<br>Technology Co.,<br>Ltd<br>Company<br>31 Dec 2018<br>AUD \$ | Kemao Industries<br>Limited<br>Group<br>31 Dec 2018<br>AUD \$ | Pro-Forma After<br>Issue<br>31 Dec 2018<br>AUD \$ |
|-------------------------------------|--|---|---|
| Accumulated surplus (losses)        | 626,314  | (1,375,153)   | (1,695,153)                                       |
| Audited balance at 31 December 2018 |  |   | (1,375,153)                                       |
| NSX share listing costs             |  |   | (320,000)   |
| Pro Forma Balance                   |  |   | <u>(1,695,153)</u>                                |

**NOTE 5: OPTIONS**

As at the date of this report there were no Options on issue in the Company.

**NOTE 6: ACCOUNTING FOR THE ACQUISITION**

Kemao Industries Limited (KIL) acquired all of the shares in Global Newmat Sdn. Bhd. (GNSB) by payment of AUD \$1.00 and issuing 89,999,998 shares for every 1 share by the shareholder of GNSB.

The above consideration would result in the shareholder of GNSB acquiring 89,999,998 of 90,000,000 Ordinary Shares or 99.99% of KIL (excluding shares issued under this Prospectus and subsequent to the Acquisition).

GNSB and its subsidiary Jiangyin Fuke New Materials Co., Ltd are both dormant investment holding companies set up for the purposes of holding the investment in Kemao China. Their setup and purpose was principally to facilitate the proposed listing of KIL.

Kemao China has been deemed the acquirer for accounting purposes and there are no fair value adjustments on acquisition of assets of GNSB as the transaction does not fall within the scope of *AASB 3 Business Combinations*.

The Acquisition has been accounting in accordance with *AASB 2 Share-Based-Payments*, whereby Kemao China is deemed to have issued shares to KIL in exchange for the new assets held by KIL.

The fair value of the shares provided to shareholders of KIL has been determined as the notional number of equity instruments that the shareholders would have had to issue to KIL to give the same percentage ownership in the combined consolidated group. We have deemed this amount to be AUD\$6,801,000, which approximates the value of the issued capital in KIL. KIL was newly incorporated in May 2018 has no significant assets or liabilities other than its investment in GNSB carried at a cost of \$1,000 and a loan to Kemao China of AUD\$6,800,000. The purpose of its incorporation was to facilitate the proposed listing.



**NOTE 7: RELATED PARTY DISCLOSURES**

Transactions with Related Parties and Directors Interests are disclosed in section 9.5 of the Prospectus.

The Directors of the Company at the date of this report are:

- CHEN Dong
- CHEN Fang
- ZHOU Jianping
- LEONG Chong Peng
- LAM Long Huy

Directors' holdings of shares, Directors' remuneration and other Directors' interests are set out in 9. of the Prospectus.



## **9 DIRECTORS, KEY MANAGEMENT AND CORPORATE GOVERNANCE**

### **9.1 Directors**

The Company is managed by a board of directors which currently comprise two executive Directors and three non-executive Directors. The Company considers a Director is independent when the Director is free from any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of the Director's judgement. The Directors' qualifications and experiences are summarised as follows:



**LEONG Chong Peng (Sharon)**

**Independent Non-Executive Chair**

*Bachelor of Commerce, Curtin University*

*Australian citizen; Appointed on 28 May 2018*

Ms LEONG is a Certified Practising Accountant and Registered Company Auditor in Australia. Currently, she is a director of CPL Corporate, a professional Perth-based practice specialising in providing accounting and corporate services to small and medium-sized businesses. She speaks and writes English and Chinese, and is also fluent in the Chinese Cantonese dialect. Prior to founding CPL Corporate, she was an executive director of the Australian member firm of a mid-tier international accounting network and, in her early career, worked at the Hong Kong, Shanghai and Perth office of a Big-Four international accounting firm. During her career, she had participated in the audits of multinational and listed companies in Hong Kong, China and Australia and had gained experience in accounting, corporate governance, risk management and corporate compliance. She has also been involved in initial public offerings in both Australia and Hong Kong.



**LAM Long Huy (Bill)**

**Independent Non-Executive Director**

*Bachelor of Business (Accounting and Finance Major), University of Technology Sydney*

*Australian citizen; Appointed on 28 May 2018*

Mr LAM is the founder and executive director of ABL Accounting and Taxation Pty Ltd, a boutique accounting firm which he established in 1993. Qualified as a CPA in Australia, his practice focus is in advising clients on accounting, tax planning and compliance and general corporate compliance matters. His corporate clients operate in a range of industries such as retail, property, education, recruitment, hospitality and the medical and legal professions. Prior to founding ABL Accounting and Taxation Pty Ltd, He worked as the financial controller of Wills Australia for 10 years and at AAPT Limited, a company listed on the ASX before it was acquired, then delisted, by Telecom New Zealand. He was independent non-executive director and company secretary of Sanhe Building Materials Technology Limited, an Australian public company which was listed on the Sydney Stock Exchange. Prior to this public company experience, he has also worked, on secondment, for a company listed on the Growth Enterprise Market board of the Stock Exchange of Hong Kong.





**Mr CHEN Dong**

**Executive Director**

*Chinese citizen; Appointed on 28 May 2018*

Mr CHEN joined Kemao China in 2016 as the company's legal representative and in 2018 he became the company's General Manager. He is responsible for executing the company's business plans, maintaining business relationships with overseas customers and managing the growth of the company's export business.

He has more than 18 years of experience in the manufacturing sector. He founded Jiangyin Fumao Chemical Fibre Factory in 2003 and has been acting as its general manager. Prior to this, he acted as the general manager of Jiangyin Maosheng Textile Manufacturing from 2000 to 2003. He was a recipient of Jiangyin outstanding entrepreneur award and is currently the vice president of Jiangyin Chamber of Commerce.



**Ms CHEN Fang**

**Executive Director**

*Chinese citizen; Appointed on 28 May 2018*

Ms CHEN joined Kemao China in 2011 and is currently Chief Business Development Officer of Kemao China. She started as a management trainee in the company and was responsible for managing the manufacturing operations.

She is now responsible for the company's overall marketing, raw material procurement and day-to-day management of sales activities. She plans and implements marketing strategies for the purposes of identifying and developing new customers and business opportunities internationally. She was a recipient of Wuxi City's Development and Innovation Talents Award.



**Mr ZHOU Jianping**

**Independent Non-Executive Director**

*Chinese citizen; Appointed on 28 May 2018*

Mr ZHOU worked in the local government from 1977 to 1999.

In 2000, he founded an insulating materials business and acted as the chairperson and general manager between 2000 and 2009. From 2010 until now, he is the chair and general manager of an insulation material technology company that he founded in 2010. The company runs a successful business producing insulated fire-resistant mica tapes which are sold internationally. In 2017, he was chairperson of Jiangsu Lefu Family Technology Co., Ltd. The company manufactures graphene heating films using its own patented technology which are used for floor heating, steam rooms, foot bath buckets, floor mats, movable heaters, etc. The company has six production bases and more than a hundred franchise stores in China.

## 9.2 Company secretary

To assist with all regulatory compliances in Australia, we have appointed an experienced and qualified company secretary, Ms LI Xuekun.



Ms Li is a chartered company secretary and a qualified accountant with more than 20 years' experience in financial accounting and corporate governance. She worked as an audit manager at the China practice of a Big-Four international accounting firm where she was involved in audits both for periodic financial reporting and for initial public offerings. She relocated to and commenced her career in Australia in 2006. She speaks and writes English and Chinese. She is an executive at L.X.K. Consulting, a Perth-based accounting and corporate services business. Her appointments include being company secretary of ASX-listed Energy Metals Limited (ASX:EME).

### **9.3 Senior management**

The day-to-day management of our operating subsidiary, Kemao China, is overseen by Mr CHEN Dong and Ms CHEN Fang with the assistance of our management team in China. Our management team consists of the following key personnel:

(a) Mr WU Bo (Eric), Foreign Trade Manager

Mr WU worked as the sales manager in the overseas department of Jiangyin Longshan Pipe-Fitting Co., Ltd from 2011 to 2013 and from 2015 to 2017 when he assisted the company in establishing cooperative relationships with a number of prestigious international industrial engineering and construction companies and achieved a total sales revenue of over US\$6 million with customers from Europe, the Middle East and the US in 2012 alone.

In addition to his capability and extensive experience as a sales manager, he is particularly strong and naturally gifted in his English business communication skills. Since joining Kemao China in 2014, he has been a valuable addition to Kemao China and has played an important role in expanding the company's export business.

(b) Ms LI Li, Chief Accountant

Ms Li joined Kemao China in 2016 and is now the chief accountant of the company. She is responsible for the overall planning and management of the company's accounting and financial matters.

She has more than 15 years of accounting and financial management experience and had spent 15 years in the manufacturing industry. She began her career as Accounting Assistant of Jiangyin Tianli Pty Ltd in 2007. She was accountant for Jiangyin Sunmo Pty Ltd from 2011 to 2014 and financial manager for Jiangyin Medical Products Pt Ltd from 2014 to 2016.

(c) Mr WANG Baisheng, Chief Engineer

Mr WANG started his career as a bailiff at the Procuratorate of Hubei Province between 1994 and 1997. He then worked as head of factory production at Yida Coloured Printings Co., Ltd until 2006 and as production engineer at Kemao Metalwork Co., Ltd (a member of Haida Group of Jiangsu Province between 2007 and 2009).

He joined Kemao China in 2010 and is now the Chief Engineer responsible for technical management as well as product research, development and innovation.

(d) Mr LIU Qinghua, Domestic Trade Manager

Mr Liu graduated from Jiangnan University and worked as a production operator in Jiangyin Zhengxin Machinery Factory between 2000 and 2007 and salesperson in





Jiangyin Zaiyu Metals Co., Ltd between 2007 and 2009. He joined Kemao China in 2009 as the domestic trade manager of the company.

#### 9.4 Directors' holdings

As at the date of this prospectus, Directors' interests in Shares are as follows:

| Director         | Direct interest | Indirect interest | Total interest | % of issued capital |
|------------------|-----------------|-------------------|----------------|---------------------|
| CHEN Dong        | 55,130,000      | Nil               | 55,130,000     | 55.13               |
| CHEN Fang        | 10,000,000      | Nil               | 10,000,000     | 10                  |
| ZHOU Jianping    | Nil             | Nil               | Nil            | Nil                 |
| LEONG Chong Peng | Nil             | Nil               | Nil            | Nil                 |
| LAM Long Huy     | Nil             | Nil               | Nil            | Nil                 |

#### 9.5 Remuneration received by Directors and their related entities

Directors will be paid the following remuneration:

| Director         | Director's Fee per annum | Wages, salaries and/or bonuses | Benefits paid in the previous two years |
|------------------|--------------------------|--------------------------------|---|
| CHEN Dong        | 1,000                    | RMB240,000                     | RMB480,000                              |
| CHEN Fang        | 1,000                    | RMB240,000                     | RMB480,000                              |
| ZHOU Jianping    | 10,000                   | Nil                            | Nil                                     |
| LEONG Chong Peng | 24,000                   | Nil                            | Nil                                     |
| LAM Long Huy     | 20,000                   | Nil                            | Nil                                     |

Each Director has signed a letter of appointment with the Company. These letters of appointment contain normal terms and conditions customary for directors' appointment in Australia, including:

- remuneration (disclosed in the table above);
- minimum time commitment (at least 16 hours a quarter);
- compliance with the Corporations Act, the Company's corporate governance plans and policies, and the Company's constitution;
- requirement to disclose directors' interests and any matter which affects directors' independence;
- maintain confidentiality unless otherwise required by the Listing Rules or any applicable laws; and
- right to access all corporate information of the Company during the term of their appointment.

A Director may also be paid fees or other amounts as the Directors determine if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out-of-pocket expenses incurred as a result of his or her directorship or any special duties.

**9.6 Deeds of indemnity, insurance and access**

The Company will enter into a deed of indemnity, insurance and access with each of its Directors and the Company Secretary under which the Company will agree to indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Company will also use its best endeavour to keep the officers insured for the benefit of the relevant officer and allow the officer to inspect company records in certain circumstances.

**9.7 No other Directors Interests**

Other than as set out above or elsewhere in this prospectus, no Director or proposed Director holds at the date of this prospectus, or held at any time during the last two years before the date of lodgement of this prospectus with ASIC, any interest in:

- (a) the formation or promotion of the Company; or
- (b) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Company or the Offer; or
- (c) the Offer; and

no amounts have been paid or agreed to be paid by any person and no benefits have been given or agreed to be given by any person:

- (d) to a Director or proposed Director to induce him or her to become, or to qualify as, a Director; or
- (e) for services provided by a Director or proposed Director in connection with the formation or promotion of the Company or the Offer.

**9.8 Other information on Directors**

As at the date of this prospectus and other than disclosed elsewhere in this prospectus:

- (a) there are no family relationships among any of the Directors; and
- (b) none of the Directors has, in any jurisdiction, been convicted in any criminal proceeding or has had a bankruptcy petition filed against him or her or any partnership in which he or she is or was a partner or any body corporate of which he or she is or was a director or has been sanctioned or otherwise disciplined by any self-regulatory securities associated of which he or she is or has been a security holder or any securities supervisory or regulatory body or any such event is pending.

**9.9 Related party transaction**

As at the date of this prospectus, we have two currently effective related party agreements:

- (a) the Lease Agreement entered into with Fumao as detailed in sections 5.9(a) and 5.12; and
- (b) an agreement entered into between Mr CHEN Chuandu and Kemao China to fix the term of an RMB7,500,000 loan owed by Kemao China to Mr CHEN Chuandu for five years with no interest. Refer to section 5.9(b) for a summary of this agreement.

Apart from the above agreements, Kemao China and Fumao China have short-term and interest-free borrowings to and from each other – these are either for working capital



purposes or for the payment of utility bills on behalf of one another as the two companies operate next to each other on the same parcel of land.

Save for the above, we do not have any ongoing or potential related party transactions.

In the ordinary course of our business, a subsidiary may from time to time propose to enter into a transaction with a related party. The terms of all proposed interested party transactions will be reviewed by our audit committee. When reviewing the terms of a proposed related party transaction, the committee will specifically have regard to the following factors:

- (a) whether it would be reasonable, considering all circumstances, that the subsidiary and the related party were dealing at arms' length;
- (b) the terms of the proposed related party transaction are less favourable to the related party than terms the subsidiary can obtain from a non-related party; and
- (c) whether approval of Shareholders for the proposed related party transaction will be required under Listing Rule 6.43 and also what is prescribed under the Corporations Act or otherwise as described in ASIC's Regulatory Guide 76 – Related Party Transactions.

Between June and December 2018, Kemao China entered into eight raw material purchase agreements with a related party, Jiangyin Haotian Shengshi Import and Export Trade Co., Ltd (**Haotian**), and purchased approximately RMB174 million hot-rolled steel strips in total (**Purchase Agreements**). Haotian is 40% owned by Mr CHEN Dong and 10% owned by Ms CHEN Fang who are key management personnel of Kemao China and executive Directors of the Company. The Purchase Agreements were entered into because it was informed by one of its long-standing raw material suppliers of their limited-time promotion to offer discounts to new customers. With the full knowledge and agreement of this supplier, Kemao China managed to purchase hot-rolled steel strips through Haotian at lower-than-market prices which it would not be able to get had it not entered into the Purchase Agreements. This arrangement was a one-off arrangement which Kemao China did not intend to enter into once the supplier's limited-time promotion had ended.

#### **9.10 Corporate governance statement**

Our corporate governance practices are based on the principles and recommendations set out in Corporate Governance Council's Principles and Recommendations, 3<sup>rd</sup> Edition issued by ASX Corporate Governance Council, which we had modified to take into account the Company's current size and scale of its operations. Our corporate governance statement which is also our "if not, why not" statement is set out in Annexure B and the full corporate governance plan will also be available in a dedicated corporate governance information section of the Company's website [www.kemao-tinplate.com](http://www.kemao-tinplate.com).

#### **9.11 The use of company seals in China and Kemao China's policy**

All Chinese companies must have an official chop or, more correctly, an official company seal (the Official Company Seal). An impression of a company's Official Company Seal must be registered at the relevant authorities including the Public Security Bureau. Under Chinese law, documents affixed with a company's Official Company Seal shall prima facie bind that company. This is similar to the legal effect in commonwealth jurisdictions, including Australia, where documents on which a company's common seal is affixed shall prima facie bind that company.



Kemao China has adopted a comprehensive policy regarding the safe-keeping and use of its Official Company Seal which it strictly implements and adheres to. This policy is set out as follows:

- (a) the person who has primary responsibility for the safe-keeping and proper use of the Official Company Seal is its legal representative, who currently is Ms HUANG Meiyu, Mr CHEN Chuandu's wife, and mother of the two Executive Directors (Mr CHEN Dong and Ms CHEN Fang);
- (b) the legal representative may delegate the duty to safe-keep and ensure proper use of the Official Company Seal in accordance with its policy on Official Company Seal to a senior management personnel of Kemao China (Custodian). Currently, the legal representative of Kemao China has delegated this duty to Ms LI Li, the Chief Accountant of Kemao China;
- (c) when not in use, the Official Company Seal must be kept in a locked safe in Kemao China's registered office at all times;
- (d) each and every use the Official Company Seal shall be recorded on a register of documents sealed with the Official Company Seal (Register) and can be used only with the prior approval of the legal representative. The Custodian may refuse to provide the Official Company Seal or affix the Official Company Seal on a document if he (or she) has reason to believe that the legal representative has not approved its use or the use of the Official Company Seal in that instance is inappropriate;
- (e) the use of the Official Company Seal outside Kemao China's premises shall only be permitted under exceptional circumstances. The employee taking it must first of all obtain permission from the legal representative, and the following information must be entered into the Register:
  - (i) name of the person;
  - (ii) the date and time he or she takes possession of the Official Company Seal, and when it is returned to the Custodian; and
  - (iii) the purpose for which the Official Company Seal is to be used.The person who takes temporary possession of the Official Company Seal must use it only for the approved purpose and bear all responsibilities, including criminal liability, as a result of any misuse of the Official Company Seal;
- (f) the Official Company Seal will not be affixed to any blank documents such as blank agreements, certificates or letters; and
- (g) a replacement Official Company Seal can only be made upon satisfaction of all the following conditions:
  - (i) the existing Official Company Seal is either lost or is totally worn-out;
  - (ii) the legal representative authorising its replacement in writing;
  - (iii) if the existing Official Company Seal is lost, a report is filed with the relevant Public Security Bureau, or if the existing Official Company Seal is worn-out, it is completely destroyed; and
  - (iv) an impression of a company's replacement Official Company Seal be registered at the relevant authorities including the Public Securities



Bureau.

- (h) To supplement the use of the Official Company Seal, Kemao China (like many other companies in China) adopts four other seals, namely:
- (i) **(legal representative seal)** this seal is the personal seal of the legal representative and is affixed in place of his hand-signed signature. As the legal representative seal is often used in conjunction with the Official Company Seal, safe-keeping of this seal is entrusted to the Custodian who will follow the same policy for its use as that applicable for the Official Company Seal;
  - (ii) **(contracts seal)** this seal is used to affix to the contracts entered into by Kemao China on a day-to-day basis in the ordinary course of business. It is affixed to documents such as sales contracts from customers and purchase orders to suppliers. The responsibility for the safe-keeping and proper use of this contracts seal is entrusted to the head of Kemao China's sales department who bears all responsibilities, including criminal liability, as a result of any misuse of the contracts seal;
  - (iii) **(finance and accounting seal)** this seal is used by the finance and accounting department to authenticate all documents and reports generated by the finance and accounting department. Therefore, the responsibility for the safe-keeping and proper use of this finance and accounting seal is entrusted to Kemao China's chief accountant who bears all responsibilities, including criminal liability, as a result of any misuse of the finance and accounting seal; and
  - (iv) **(invoice seal)** this seal is used by the finance and accounting department to authenticate invoices and tax receipts it issues to customers. Therefore, the responsibility for the safe-keeping and proper use of this seal is entrusted to Kemao China's chief accountant who bear all responsibilities, including criminal liability, as a result of any misuse this seal.

Each of these seals, like the Official Company Seal, is required to be kept in a designated locked safe. The key to each safe is kept by a delegated company officer who is responsible for the safe-keeping and proper use of the relevant seal.



## **10 DETAILS OF THE OFFER**

### **10.1 Offer**

Under this prospectus, we are offering 1,000,000 Shares at an issue price of \$0.50 per Share to raise \$500,000.

All Shares offered under this prospectus will rank equally with Shares on issue at the date of this prospectus. The rights and liabilities of the Shares are summarised in section 10.13.

### **10.2 Opening and Closing Dates of the Offer**

The opening date of the Offer will be 13 April 2019 and the Closing Date will be 26 April 2019 at 5:00pm WST, unless otherwise extended or closed early.

The Directors reserve the right to close the Offer early or extend the Closing Date (as the case may be), should it be considered by them necessary to do so.

### **10.3 Application for Shares**

Applications for Shares must be made by investors at the direction of the Company and must be made using the application form accompanying this prospectus.

Payment for the Shares must be made in full at the issue price of \$0.50 per Share. Completed application forms and accompanying cheques must be mailed to the share registry as follows:

| <b>Delivery by post</b>             | <b>Delivery by hand</b>             |
|-------------------------------------|-------------------------------------|
| Kemao Industries Limited            | Kemao Industries Limited            |
| C/- Advanced Share Registry Limited | C/- Advanced Share Registry Limited |
| PO Box 1156                         | 110 Stirling Highway                |
| Nedlands WA 6909                    | Nedlands WA 6009                    |

Cheques should be made payable to "Kemao Industries Limited – Share Offer Account" and crossed "Not Negotiable". Completed Application forms and cheques must reach the address set out above by no later than the Closing Date.

To pay via BPAY® please complete the online form available at [www.advancedshare.com.au/ipo.aspx](http://www.advancedshare.com.au/ipo.aspx). Payment details will then be forwarded to you.

### **10.4 Minimum subscription**

The minimum subscription under the Offer is \$500,000. No Shares will be issued under this prospectus unless the Company receives applications for that amount and conditional approval has been given by NSX for the Company to be admitted to the Official List.

If NSX does not grant permission for the quotation of the Shares within three months after the Lodgement Date or the minimum subscription has not been raised within 4 months after the Lodgement Date, the Company will either repay the application moneys to the Applicants or issue a supplementary or replacement prospectus to allow the Applicants one month to withdraw their application and be repaid their application money. No interest will be paid on this money.

### **10.5 Oversubscription**

The Company will not accept any oversubscription under the Offer.



## **10.6 Allocation and issue of Shares**

Applicants should read this prospectus in its entirety in order to make an informed decision on the prospects of the Company and the rights attaching to the Shares offered by this prospectus before deciding to apply for Shares.

The issue of Shares under the Offer will take place as soon as practicable after the Closing Date. Application moneys will be held in a separate subscription account until the Shares are issued. This account will be established and kept by the Company in trust for each Applicant. Any interest earned on the application monies will be for the benefit of the Company and will be retained by the Company irrespective of whether any shares are issued and each Applicant waives the right to claim any interest.

The Company reserves the right to reject any application or to allocate to any Applicant fewer Shares than the number applied for. The Company also reserves the right to reject or aggregate multiple applications in determining final allocations.

In the event an application is not accepted or accepted in part only, the relevant portion of the application moneys will be returned to Applicants, without interest.

The Company reserves the right not to proceed with the Offer or any part of it at any time before the allocation of the Shares to Applicants. If the Offer or any part of it is cancelled, all application moneys, or the relevant application moneys will be refunded.

The Company also reserves the right to close the Offer or any part of it early, or extend the Offer or any part of it, or accept late applications Forms either generally or in particular cases.

## **10.7 Not underwritten**

The Offer is not underwritten.

## **10.8 NSX Listing**

The Company applied to NSX on 8 April 2019 for admission to the Official List and for official quotation of its Shares on NSX. If NSX does not grant permission for the quotation of the Shares offered under this prospectus within three months after the Lodgement Date, or such longer period as is permitted by the Corporations Act, none of the Shares offered by this prospectus will be allotted or issued. In these circumstances, all applications will be dealt with in accordance with the Corporations Act, including the return of all application moneys without interest.

The fact that NSX may grant official quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or Shares now offered for subscription.

NSX takes no responsibility for the contents of this prospectus, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon any part of the content of this prospectus.

The Directors expect that trading of the Shares on the stock market conducted by NSX will commence as soon as practicable after approval for admission to the Official List of NSX is granted and all conditions (if any) applicable thereto have been fulfilled.

## **10.9 Sponsor for the listing**

Following the expiry of the exposure period, we will seek to appoint an NSX sponsor to comply with the relevant Listing Rules.





#### **10.10 Applicants outside Australia**

The distribution of this prospectus in jurisdictions outside Australia may be restricted by law and therefore persons who come into possession of this prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities law. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed to enable them to acquire Shares.

The return of a duly completed application form will be taken to constitute a representation and warranty that there has been no breach of such laws and that all necessary approvals and consents have been obtained.

#### **10.11 Foreign investor restrictions**

This prospectus does not constitute a public offer or invitation in any jurisdiction other than Australia. No action has been taken to register or qualify Shares that are offered under this prospectus or otherwise permit a public offering of the Shares in any jurisdiction outside Australia.

#### **10.12 Privacy**

The Company collects information about each Applicant provided on an application form for the purposes of processing the application and, if the application is successful, to administer the Applicant's security holding in the Company.

By submitting an application form, each Applicant agrees that the Company may use the information provided by the Applicant on the application form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related body corporates, agents, contractors and third-party service providers, including mailing houses and professional advisers, and to NSX and regulatory authorities.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register is also used to facilitate distribution payments and corporate communication (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the application form, the Company may not be able to accept or process your application. An Applicant has the right to gain access to the information that the Company holds about that person subject to certain exceptions under law. A fee may be charged for access. Such requests must be made in writing to the Company's registered office.

#### **10.13 Rights and liabilities attaching to Shares**

The Shares to be distributed under the Proposed Transaction will rank equally in all respects with existing Shares on issue.

Full details of the rights and liabilities attaching to the Shares are



- (a) set out in the Constitution, a copy of which can be inspected during office hours at the Company's registered office during the Offer period; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules and the general law.

The following is a summary of the more significant rights attaching to the Shares. This summary is not exhaustive and does not constitute a definite statement of the rights and liabilities of the Shareholders. To obtain such a statement, persons should seek independent legal advice.

(a) Voting

Every holder of the Shares present in person or by proxy, attorney or representative at a meeting of the Shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of the Shares who is present in person or by proxy, attorney or representative has one vote for every Share held by him or her. At any general meeting a resolution put to the vote of the meeting must be decided on a show of hands unless a poll is effectively demanded and the demand is not withdrawn.

(b) Dividends

Dividends are payable out of the Company's profits and are declared by the Directors.

The Shareholders are entitled to dividends as a result of ownership of their Shares in accordance with the Constitution.

(c) Transfer of Shares

A Shareholder may transfer all or any Shares by a market transfer in accordance with any computerised or electronic system established or recognised by the Listing Rules or the Corporations Act for the purpose of facilitating dealings in the Shares or by an instrument in writing in a form approved by NSX or in any other usual form or in any form approved by the Directors.

The Directors may refuse to register any transfer of Shares, where the Company is permitted or required to do so by the Listing Rules or the ASX Settlement Operating Rules or a Restriction Agreement.

(d) Meetings and notice

Each Shareholder is entitled to receive notice of and to attend general meetings for the Company and to receive all notices, accounts and other documents required to be sent to the Shareholders under the Constitution, the Corporations Act or the Listing Rules.

(e) Liquidation rights

The Company has issued only one class of shares, which all rank equally in the event of liquidation. Once all the liabilities of the Company are satisfied, a liquidator may, with the authority of a special resolution of the Shareholders divide among the Shareholders the whole or any part of the remaining assets of the Company. The liquidator can with the sanction of a special resolution of the Shareholders vest the whole or any part of the assets in trust for the benefit of shareholders as the liquidator thinks fit, but no shareholder of the Company can be compelled to accept



any shares or other securities in respect of which there is any liability.

(f) Shareholder liability

The Shares are fully paid shares and are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(g) Alteration to the Constitution

Pursuant to the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of shareholders present and voting at the general meeting. At least 28 days' written notice, specifying the intention to propose the resolution as a special resolution, must be given.

(h) Listing Rules

If the Company is admitted to the Official List of NSX, then despite anything in the Constitution, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the constitution to contain a provision or not to contain a provision the constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the constitution is or becomes inconsistent with the Listing Rules, the constitution is deemed not to contain that provision to the extent of the inconsistency.

#### 10.14 CHESS

The Company will apply to participate in the Clearing House Electronic Subregister System (**CHESS**), operated by ASX Settlement Pty Ltd (a wholly owned subsidiary of ASX), in accordance with the ASX Settlement Operating Rules. On admission to CHESS, the Company will operate an electronic issuer-sponsored subregister and an electronic CHESS subregister. These two subregisters together will make up the Company's principal register of securities.

Under CHESS, the Company will not issue certificates to Shareholders. Instead, Shareholders will receive holding statements that set out the number of Shares each Shareholder owns. If a Shareholder is broker-sponsored, ASX Settlement will send the Shareholder a CHESS statement. This statement will also advise investors of either their Holder Identification Number (**HIN**) in the case of a holding on the CHESS sub-register or Security Holder Reference Number (**SRN**) in the case of a holding on the issuer-sponsored sub-register.

A CHESS statement or issuer-sponsored statement will routinely be sent to Shareholders at the end of every calendar month during which the balance of their holding changes. A Shareholder may request a statement at any other time however a charge may be imposed for additional statements.

#### 10.15 Expenses of the Offer

The total estimated expenses of this Offer are estimated to be A\$760,000 consisting of the following:



| <b>Nature of Expense</b>                                | <b>\$</b>      |
|---|----------------|
| Fees and payments to ASIC and NSX                       | 115,000        |
| Legal fees  | 50,000         |
| Fees for accounting, audit and limited assurance report | 180,000        |
| Fee for Market Report                                   | 15,000         |
| Nominated Adviser                                       | 220,000        |
| Travelling expenses                                     | 30,000         |
| Prospectus drafting, design and printing                | 90,000         |
| Miscellaneous expenses                                  | 60,000         |
| <b>Total</b>  | <b>760,000</b> |

#### **10.16 Queries**

This prospectus provides information for investors to decide if they wish to invest in the Company and should be read in its entirety. If you have any questions about investing in the Company, please contact your stockbroker, financial planner, accountant, lawyer or other professional advisers.

Any questions regarding:

- (a) the Offer – please contact the Company Secretary on +61 413 041 820; and
- (b) the application form – please contact the Share Registry on 08 9389 8033 or at [admin@advancedshare.com.au](mailto:admin@advancedshare.com.au).



## **11 ADDITIONAL INFORMATION**

### **11.1 Continuous disclosure**

Upon admission to the official list of NSX the Company will be required to notify NSX of information which may have a material effect on the price or value of the Company's Shares. To comply with its continuous disclosure obligations, the Company has adopted a continuous disclosure policy as part of its corporate governance plan (available on [www.kemao-tinplate.com](http://www.kemao-tinplate.com)) and will conduct regular board meetings with continuous disclosure a standing agenda item.

### **11.2 Taxation**

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All prospective investors in the Company are urged to take independent financial advice about the taxation and any other consequences of investing in the Company.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to taxation and any other consequences of investing in the Company.

### **11.3 Interests of experts and advisers**

Except for the parties disclosed in section 11.5 of this prospectus, no expert, promoter or any other person named in this prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, has now, or has had, in the two-year period ending on the date of this prospectus, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer.

### **11.4 Consents**

Each of the parties disclosed in section 11.5 of this prospectus:

- (a) has given and has not, before the date of lodgement of this prospectus with ASIC, withdrawn his or her written consent:
  - (i) to be named in this prospectus in the form and context which it is named; and
  - (ii) where applicable, to the inclusion in this prospectus of the statement(s) and/or reports (if any) by that person in the form and context in which it appears in this prospectus;
- (b) has not caused or authorised the issue of this prospectus;
- (c) has not made any statement in this prospectus or any statement on which a statement in this prospectus is based, other than specified below; and
- (d) to the maximum extent permitted by law, expressly disclaims all liability in respect



of, makes no representation regarding, and takes no responsibility for, any part of this prospectus, other than the references to his or her name and the statement(s) and/or report(s) (if any) specified below and included in this prospectus with the consent of that person.

### 11.5 Named parties

| Named party                                 | Role to the Company in connection with its application to list on NSX: | Statement/Report the named party is responsible for:   | Fees that the Company has paid or will pay for services <sup>1</sup> : |
|---|--|--|--|
| Biztrack Consultants Private Limited        | Nominated Adviser  | N/A  | \$220,000  |
| Darun Consulting                            | Independent market researcher  | China's Tinplate Industry Overview dated September 2018 which forms the basis of the Industry Overview in section 6. | \$15,000   |
| Fujian Utrust Law Firm                      | Chinese Legal Adviser  | Overview of Chinese legal framework in Annexure A and the Legal Due Diligence Report.                                | \$20,000   |
| HML & Co., Chartered Accountants (Malaysia) | Special auditor to Kemao China   | Financial Information in section 8.  | \$60,000   |
| MGI Perth Audit Services Pty Ltd            | Independent Accountant   | Independent limited assurance report in section 8.   | \$20,000   |
| MinterEllison                               | Solicitors to the Company in relation to this prospectus <sup>2</sup>  | N/A  | \$25,000   |

1. Amounts exclude GST. None of these named parties has provided other professional services to the Company during the last two years.
2. MinterEllison was appointed to act in a specific capacity to advise and guide the Company on Australian regulatory requirements in relation to this prospectus and other disclosure issues. They did not carry out any Australian due diligence enquiries, as this responsibility was tasked to the Company's company secretary and its nominated adviser.



## 12 DIRECTORS' STATEMENT

The Directors state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this prospectus are not misleading or deceptive and that in respect to any other statements made in this prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in this prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this prospectus with the ASIC, or to the Directors knowledge, before any issue of the Shares pursuant to this prospectus.

Each Director has consented to the lodgement of this prospectus with the ASIC and has not withdrawn that consent.

Signed for and on behalf of  
**KEMAO INDUSTRIES LIMITED**

A handwritten signature in black ink, appearing to read 'Xuekun Li'.

**Xuekun Li**  
**Company Secretary**





## 13 GLOSSARY

Unless the context otherwise permits or unless otherwise stated, each key term used in this prospectus has the meaning ascribed to it in the table below:

| Key term                         | Ascribed meaning   |
|----------------------------------|--|
| “≈”                              | Indicates an approximate figure.   |
| “A\$”, “\$” or “AUD”             | The Australian Dollar.   |
| “Applicant”                      | An applicant who submits an application form to subscribe for Shares under the Offer.  |
| “ASIC”                           | Australian Securities and Investments Commission.  |
| “ASX Settlement”                 | ASX Settlement Pty Limited (can 008 504 532), a wholly owned subsidiary of ASX Limited.  |
| “ASX Settlement Operating Rules” | The operating rules of ASX Settlement.   |
| “CHESS”                          | The Clearing House Electronic Subregister System operated by ASX Settlement.   |
| “Closing Date”                   | Closing date of the Offer, being 26 April 2019 or another date as determined by the Directors.   |
| “Company” or “We”                | Kemao Industries Limited (ACN 625 928 216) and may include its subsidiaries where the context requires.  |
| “Constitution”                   | The constitution of the Company.   |
| “Corporations Act”               | The <i>Corporations Act 2001</i> (Cth).  |
| “Darun Consulting”               | Guangzhou Darun Consulting Co., Ltd.   |
| “Director”                       | A director of the Company.   |
| “EBIT”                           | Earnings before interest and taxes.  |
| “Exposure Period”                | A period of seven days from the Lodgement Date which may be extended by ASIC for a further period of seven days.   |
| “Fumao”                          | Fumao Textile Fabric Co., Ltd, a company majority owned by Mr CHEN Dong, Executive Director of the Company and General Manager of Kemao China.                             |
| “Fuke”                           | Jiang Yin Fuke New Materials Co., Ltd, a company registered on 30 November 2017 as an investment holding company for the sole purpose of setting up the listing structure. |
| “GNSB”                           | Global Newmat Sdn.Bhd., a company registered in Malaysia on 3 October 2017 as an investment holding company for the sole purpose of setting up the listing structure.      |
| “Group”                          | The Company and its subsidiaries.  |
| “HNTE”                           | High and new technology enterprise.  |
| “Kemao China”                    | Jiangsu Kemao New Materials Technology Co., Ltd <江苏科茂新材料科技有限公司>.   |
| “Lease Agreement”                | A lease agreement entered into between Kemao China and Fumao on 10 November 2012.  |



|                                     |  |
|-------------------------------------|--|
| <b>"Legal Due Diligence Report"</b> | An independent legal due diligence report prepared by Fujian Utrust Law Firm on Kemao China dated 25 March 2019. |
| <b>"Listing Rules"</b>              | The Listing Rules of NSX, as amended from time to time.  |
| <b>"Lodgement Date"</b>             | 5 April 2019, being the date that the Replaced Prospectus was lodged with ASIC.                                  |
| <b>"Market Report"</b>              | An independent market research report prepared by Darun Consulting dated 3 April 2019.                           |
| <b>"NSX"</b>                        | NSX Limited (ABN 98 008 624 691) or, where the context so require, the securities exchange which it operates.    |
| <b>"Offer"</b>                      | An offer of 1,000,000 Shares at an issue price of \$0.50 per Share to raise \$500,000.                           |
| <b>"Official List"</b>              | The list of issuers maintained by NSX in accordance with the Listing Rules.                                      |
| <b>"Original Shareholders"</b>      | Has the meaning given in section 5.1.  |
| <b>"Replaced Prospectus"</b>        | The prospectus lodged with ASIC on 5 April 2019 which is superseded and replaced with this prospectus.           |
| <b>"Restructuring"</b>              | Has the meaning given in section 5.1.  |
| <b>"RMB" or "Yuan"</b>              | Renminbi or the Chinese Yuan, the official currency of China, often indicated by the symbol "¥".                 |
| <b>"R&amp;D"</b>                    | Research and development.  |
| <b>"Share"</b>                      | One fully paid ordinary share in the Company.  |
| <b>"Shareholder"</b>                | A shareholder of the Company, that is, a holder of a Share.  |
| <b>"Shareholder Loan"</b>           | Has the meaning given to it in section 5.1.  |
| <b>"Share Registry"</b>             | Advanced Share Registry Limited (ABN 14 127 175 946).  |
| <b>"USD"</b>                        | The US Dollar, the official currency of the United States.   |
| <b>"WFOE"</b>                       | A wholly foreign owned enterprise incorporated in China.   |
| <b>"WST"</b>                        | Western Standard Time in Perth, Western Australia.   |



## 14 CORPORATE DIRECTORY

### **Directors**

LEONG Chong Peng, *non-executive chair*  
CHEN Dong, *executive director*  
CHEN Fang, *executive director*  
ZHOU Jianping, *non-executive director*  
LAM Long Huy, *non-executive director*

### **Company Secretary**

LI Xuekun

### **Website**

[www.kemao-tinplate.com](http://www.kemao-tinplate.com)

### **Email address**

[info@kmgroun.cn](mailto:info@kmgroun.cn)

### **Registered Office in Australia**

20/217 Hay Street  
Subiaco WA 6008

### **Registered address in China**

No 5 Songwentou Road  
Yunting Town, Jiangyin city  
Jiangsu Province 214422 CHINA

### **Solicitor to the Company in relation to this prospectus**

MinterEllison  
10<sup>th</sup> Floor, 25 Grenfell Street  
Adelaide SA 5000

### **Counsel as to Chinese law**

Fujian Utrust Law Firm  
Unit N, 21st Floor, Huangda Mansion  
No.28 Houdaixi Road  
Xiamen CHINA

### **Investigating accountant**

MGI Perth Audit Services Pty Ltd  
322 Hay St  
Subiaco WA 6008

### **Auditors**

HML & Co. Chartered Accountants  
No.1-23B Jalan Desa 1/3, Desa Aman Puri  
52100 Kuala Lumpur  
MALAYSIA

### **Nominated adviser for the Listing**

Biztrack Consultants Private Limited  
Room 703 Kowloon Building  
555 Nathan Road  
Hong Kong

### **Share Registry\***

Advanced Share Registry  
110 Stirling Highway  
Nedlands WA 6009  
Tel: +61 8 9389 8033  
Fax: +61 8 9262 3723

### **Independent Market Researcher**

Guangzhou Darun Consulting Co., Ltd  
Room 604, North Tower, JinBin Dragon-Fly  
Building, No.49 Hua Xia Road  
Zhu Jiang New Town, Guangzhou CHINA

\*These persons were not involved in the preparation of this prospectus and have not made any statement included in this prospectus nor is there any statement made in this prospectus on the basis of any statement made by these persons. These persons did not consent to being named in this prospectus and did not authorise or cause the issue of this prospectus.



## 15 ANNEXURE A – OVERVIEW OF CHINA’S LEGAL FRAMEWORK

This section is prepared by our counsel for Chinese law, Fujian Utrust Law Firm. It contains a brief outline of the legal framework and key laws and regulations of China which are relevant to us and our shareholders. This summary is non-exhaustive and you should seek your own advice if necessary.

### 15.1 China’s legal system

The legal system of China is based on its Constitution (**Chinese Constitution**) and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents in China.

The National People’s Congress of China (**NPC**) and the Standing Committee of the NPC (**Standing Committee**) are empowered by the Chinese Constitution to exercise the legislative powers of the State including the power to amend the Chinese Constitution and to enact and amend primary laws.

The State Council of China (**State Council**) is the highest organ of State administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations.

The power to interpret laws is vested by the Chinese Constitution in the Standing Committee. In cases where the limits of articles of laws need to be further defined or additional stipulations need to be made, the Standing Committee shall provide interpretations or make stipulations by means of decrees.

At the regional level, the people’s congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the local people’s government may promulgate administrative rules and directives applicable to their own administrative areas. However, these local laws and regulations may not be in conflict with the Chinese Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

### 15.2 Judicial system

The People’s Courts are the judicial organs of China. The People’s Courts comprise the Supreme People’s Court, the local level of the People’s Courts, military courts and other special People’s Courts. The local People’s Courts are divided into three levels, namely, the Lower People’s Courts, Intermediate People’s Courts and Higher People’s Courts. The Lower People’s Courts are divided into civil, criminal and administrative divisions. The Intermediate People’s Courts have divisions similar to those of the basic People’s Courts and, where the circumstances so warrant, may have other special divisions such as intellectual property divisions. The Higher People’s Courts deal with significant impact cases, in civil, criminal and administrative divisions. The judicial functions of the People’s Courts at lower levels are subject to supervision of the People’s Courts at higher levels. The Supreme People’s Court is the highest judicial organ of China. It supervises the administration of justice by the People’s Courts of all levels.

The People’s Courts adopt a two-tier final appeal system. A party may before the taking effect of a judgement or order appeal against the judgement or order of the first instance of a local People’s Court to the People’s Court at the next higher level. Judgements or orders of the



second instance of the same level and at the next higher level are final and binding.

A foreign individual or foreign enterprise is accorded the same litigation rights and obligations as a Chinese citizen or legal person. But if the courts of a foreign country impose restrictions on the civil litigation rights of Chinese citizens, legal persons and other organisations, the People's Courts of China shall follow the principle of reciprocity regarding the civil litigation rights of the citizens, legal persons and organisations of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a People's Court or an award made by an arbitration body in China, the aggrieved party may apply to the People's Court to enforce the judgement, order or award.

A party seeking to enforce a judgement or order of a People's Court against a party who or whose property is not within China may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order.

China has not concluded or acceded to any international convention on recognition and enforcement of foreign courts' judgements. Nonetheless, enforcement of judgements of a foreign court is possible in principle but it may be difficult to do so. To enforce a judgement of a foreign court in China, it is necessary to demonstrate either that:

- (a) there is a bilateral enforcement treaty between China and the country where the judgement originates; or
- (b) reciprocity between China and the country, meaning that the foreign jurisdiction from which the judgement originates enforces Chinese judgement.

Australia does not have such a reciprocal arrangement with China. When considering an application to enforce a foreign judgement (such as a judgement by an Australian court), the Chinese court will examine the judgement in substance in accordance with China's Law of Civil Procedure. In a case where the judgement violates basic principles of Chinese laws or it conflicts with the state sovereignty, security or social public interests, the foreign judgement will not be recognised or enforced. One practical issue which the Chinese court will examine is whether the Chinese party has been duly served with the summons of the foreign proceedings in China.

### **15.3 Arbitration and enforcement of arbitral awards**

Under the Arbitration Law of China, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

China has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (**New York Convention**) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain specific circumstances. Under the terms of China's accession to the New York Convention, China would recognise and enforce foreign arbitral awards only if the foreign arbitral award is made:

- (a) by an arbitration committee from a state which recognises arbitral awards from



China; and

- (b) in relation to disputes considered under Chinese laws as disputes arising from contractual and non-contractual mercantile (or commercial) legal relations.

#### 15.4 Foreign exchange control and payments by a Chinese entity to a foreign entity

The Regulations on Administration of Foreign Exchange of the People's Republic of China of January 1996 and the subsequent amendments in 1997 and in 2008 by the State Council set out the regulatory framework on foreign exchange of China (**Foreign Exchange Regulations**). In accordance with the Foreign Exchange Regulations, the Chinese Yuan (or the RMB) can be freely exchanged for settling current accounts transactions, including trading and service-related foreign exchange transactions and dividend distributions. This means that Kemao China can, subject to satisfying certain conditions and procedures set out in the section below, freely exchange funds denominated in Chinese Yuan to foreign currency to pay dividends to the Company.

Foreign exchange for purposes of direct investments, loans or securities investments outside of China is restricted and requires the prior approval of the State Administration of Foreign Exchange. In 2016, the People's Bank of China issued the directive Measures for the Administration of Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions. This directive, which came into effect in July 2017, directs all banks and financial institutions in China to report cash and other foreign currency transactions in excess of certain set amounts. It also directs that the State Administration of Foreign Exchange will supervise all overseas direct investments by Chinese entities in excess of US\$50 million.

This means that in the future, if the Company proposes to make investments outside of China or for its Chinese subsidiaries to make loans to the Company using Chinese Yuan denominated funds the Group earns or raises in China, exchanging foreign currency for any of these purposes will be restricted and require prior approval of the State Administration of Foreign Exchange.

#### 15.5 Taxation

The applicable income tax laws, regulations, notices and decisions related to foreign invested enterprises (**FIE**) and their investors within China (collectively, the **Applicable Foreign Enterprises Tax Law**) include the following:

- (a) Enterprise Income Tax Law

The enterprise income tax in China is calculated based on the taxable income determined under Chinese accounting standards and regulations.

In March 2007, the NPC enacted a new Enterprise Income Tax Law (**EIT Law**), which came into effect on 1 January 2008. The new tax law imposes a unified income tax rate of 25% on all domestic invested enterprises (**DIE**) and FIEs unless they qualify under certain limited exceptions. The new tax law permits companies to continue to enjoy their preferential tax treatment under the prior tax regime until such treatment expires in accordance with its terms, on the condition that such preferential tax treatment is available under the "grandfather clause" of the new tax law.

The EIT Law provides that a withholding tax of 10% is normally applicable to dividends payable to a "non-resident enterprise" to the extent such dividends are derived from sources within China, or a lower tax rate on the condition that China





has a tax treaty with the national jurisdiction which the “non-resident enterprise” is subject to.

Under the EIT Law and its implementing rules, an enterprise established outside of China with “de facto management bodies” within China is considered a resident enterprise and will be subject to enterprise income tax at the rate of 25% on worldwide income. The implementing rules define the term “de facto management bodies” as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties or other such management functions of an enterprise. This definition was further defined under the Notice Regarding the Determination of Chinese Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies dated 22 April 2009 issued by the State Administration of Taxation (**Circular 82**).

This means that:

- (i) Kemao China (or any of the Company’s Chinese subsidiaries), being a DIE and not having received any preferential tax treatment, is subject to enterprise income tax at a rate of 25% of its worldwide income; and
  - (ii) should the Company directly earn income in China (i.e., not income earned by its Chinese subsidiaries) in the future, if:
    - (A) the Company, notwithstanding it being a foreign entity, is deemed by the relevant tax authorities in China to have a “de facto management body” within China (i.e., that the Company is a Chinese tax resident enterprise), the Company will be subject to enterprise income tax at a rate of 25% of its worldwide income; or
    - (B) if the Company is deemed by the relevant tax authorities in China as not being a Chinese tax resident enterprise, its Chinese-sourced income will either be subject to a withholding tax at a rate of 10% (if it is determined that the Company does not have a permanent establishment in China) or be subject to enterprise income tax at a rate of 25% (if it is determined that Company has a permanent establishment in China).
- (b) Tax treaty benefits on dividends received from China

Under the EIT Law, dividends paid by a FIE (including a WFOE) to its immediate parent company outside China are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. In October 2009, the State Administration of Taxation issued the Circular on How to Interpret and Recognise the “Beneficial Owner” in Tax Agreements (**Circular 601**), and certain other related rules. Under these rules:

- (i) non-resident enterprises which cannot provide valid supporting documents as to its beneficial owners may not be permitted to enjoy tax treaty benefits;
- (ii) beneficial owners refer to individuals, enterprises or other organisations



which are normally engaged in the enterprise's substantive operations;  
and

- (iii) Conduit companies or companies established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in actual operations such as manufacturing, sales or management shall be expressly excluded as being a beneficial owner.

(c) Value Added Tax

The current Provisional Regulations of the People's Republic of China Concerning Value Added Tax promulgated on 13 December 1993 and amended on 5 November 2008, provide that value added tax is imposed on goods sold in or imported into China and on processing, repair and replacement services provided within China. Value added tax payable in China is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold. In respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(d) Business Tax

The current Provisional Regulations of the People's Republic of China on Business Tax, promulgated on 13 December 1993 and amended on 5 November 2008, provide that any business that provides services, or assigns intangible assets or sells immovable property is liable to pay a business tax at a rate ranging from 3% to 5% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(e) HNTE criteria and tax incentives

The income tax reduction for high and new technology enterprises (**HNTEs**) is a key tax incentive available under current China tax laws and plays an important role in encouraging investment in high-tech and R&D areas. The criteria for qualifying as a HNTE was last modified in 2016 by the *Administrative Measures for Certification of High and New Technology Enterprises Circular (Circular 32)*. Pursuant to Circular 32, the key requirements for a company to qualify as a HNTE are as follows:

- (i) A HNTE shall maintain ownership of the technological intellectual property that is essential to the enterprise's production of products or provision of services. Such ownership may derive from proprietary R&D, purchase, donation, acquisition or other means, but intellectual property made available to an enterprise through an exclusive licensing arrangement would no longer qualify.
- (ii) The company must maintain a minimum percentage of R&D personnel of 10% of the enterprise's total employees.
- (iii) The company must achieve an R&D expense ratio of:
  - (A) 5% for enterprises with an annual sales revenue of less than RMB50 million;
  - (B) 4% for enterprises with an annual sales revenue of between



RMB50 million and RMB200 million; and

- (C) 3% for enterprises with an annual sales revenue of more than RMB200 million.

Companies meeting HNTTE status can reduce their corporate income tax rate from 25% to 15% and will be subject to an annual filing with the relevant authorities, providing the year's intellectual property status, R&D personnel, R&D expenses, sales revenue and other information. If a HNTTE fails to meet the prescribed criteria in a particular year, or completes its annual filing for two years, the HNTTE qualification will be revoked and the income tax benefit received in the relevant years may be clawed back. The relevant authorities may also conduct random reviews and investigations on certified HNTTEs.

## 15.6 Intellectual property law

### *Patent Law*

Patents, utility models and industrial design are covered by the Patent Law of the People's Republic of China promulgated on 12 March 1984 and as amended from time to time (**Patent Law**). The State Intellectual Property Office (**SIPO**) is responsible for the examination of foreign and domestic patent applications, registering semiconductor layout-designs under the Patent Law as well as coordinating domestic foreign-related intellectual property protection issues involving copyrights, trademarks and patents. Provincial offices generally handle the administrative enforcement of patent complaints and the promotion of other intellectual property works.

The term of protection is 20 years for invention patents (which is equivalent to Australian standard patents) and 10 years for utility models (i.e. lower level inventions) and designs.

Certain types of subject matters are not able to be patented in China, for example, scientific discoveries, rules and methods for intellectual activities, and designs that are mainly used for marking the pattern, or colour or a combination of the two, of prints.

### *Trademark Law*

The Trademark Law of the People's Republic of China promulgated on 23 August 1982 and as amended from time (**Trademark Law**) sets out the basic protection of trademark, the definition of registered trademark, the right holders, and the content of rights as well as penalty provisions. The Trademark Office under the State Administration on Industry and Commerce (**SAIC**) maintains authority over trademark registration and enforcement of trademark, trade name and special geographical indication protection in accordance with the Trademark Law of the People's Republic of China. SAIC has the power to investigate cases. When an infringement is determined, SAIC can order a cessation of the sales of infringing items and stop further infringement, as well as order the destruction of infringing marks or products, impose fines, and remove machines used to produce counterfeit goods.

The protection period for a registered trademark is 10 years

### *Copyright Law*

Copyright protection is mainly regulated by the Copyright Law of the People's Republic of China, which was promulgated on 7 September 1990 and amended on 27 October 2001 and 26 February 2010 (**Copyright Law**). The National Copyright Administration of China (**NCAC**)



is responsible for copyright administration and enforcement, including the drafting of the outline of national copyright strategy and the policy of copyright protection and administration. It is also responsible for nationwide copyright issues, including investigation of infringement cases, administration of foreign-related copyright issues, development of foreign-related arbitration rules and supervision of administrative authorities under the Copyright Law. Although registration of copyright is mandatory, copyright owners can voluntarily register with NCAC to establish evidence of copyright ownership.

Software copyright protection is regulated by the Regulations on Computer Software Protection.

#### *Trade secrets*

Trade secrets are technical or management information that is unknown to the public, but which is of practical value and can bring economic benefits. In China, trade secrets do not require registration. The principal law governing trade secrets is the Law of the People's Republic of China Against Unfair Competition and the principal administrative enforcement agency is the Fair Trade Bureau of SAIC.

#### *International treaties*

China joined the WIPO, a specialised agency of the United Nations, by acceding to the Convention establishing the World Intellectual Property Organisation (**WIPO Convention**) on 3 March 1980, and which came into force on 3 June 1980. As a member of WIPO, China is a party to a number of international treaties administered by WIPO. SIPO administers all of China's obligations under the WIPO Convention and other WIPO-administered treaties to which China is a party and has acceded to.

One of these international treaties is the *Strasbourg Agreement Concerning the International Patent Classification* (**Strasbourg Agreement**) which establishes the International Patent Classification (**IPC**). The IPC divides technology into eight section with approximately 70,000 subdivisions. China's accession date for and the effective date of the Strasbourg Agreement was 17 June 1996 and 19 June 1997. Therefore, since 19 June 1997, China adopts the IPC for patent registrations in China.

### **15.7 Employment contract law**

Under the Employment Contract Law of the People's Republic of China which came into effect on 1 January 2008, an employer must sign an employment contract with an employee upon, or within one month from, the time the employee commences service with the employer. There are three types of employment contracts, namely:

- (a) an employment contract with fixed term, under which employment terminates on the fixed date agreed;
- (b) an employment contract with indefinite term, under which the date of termination of employment is not explicitly provided and thus remains indefinite; and
- (c) an employment contract termination subject to consummation of certain work, under which employment is terminated upon consummation of certain work.

An employment contract shall be deemed to be an employment contract with indefinite term if:

- (a) an employer signs an employment contract with fixed term with the same employee two times consecutively; or



- (b) an employer fails to sign any written employment contract with an employee after one year from the date the employee commences service with the employer.

An employer who fails to sign a written employment contract with an employee within one month after the employee commences service with the employer and still does not sign an employment agreement after one year, has to pay that employee double the salary.

## 15.8 Work safety law

The Work Safety Law of the People's Republic of China promulgated in 2002 and amended in 2014 (**Work Safety Law**) provides the main legal framework for the rights and responsibilities of workers, employers and government agencies in creating and maintaining a safe workplace. The Work Safety Law places the onus on employers to protect employees and guarantee a safe working environment, and gives workers and trade union officials the right to monitor and participate in the management of work safety. Some of the key provisions are:

- (a) Workers have the right to participate in the management of work safety through the trade union. When a company changes its work safety guidelines it should take into account the suggestions of the trade union (Article 5).
- (b) Employers must also provide safety training, and not allow any worker who has not had proper training to work on the job site (Article 25).
- (c) Employers must provide employees with proper safety equipment suitable to the nature of their work and keep that equipment up-to-date and in working order (Articles 32, 33).
- (d) Employers must purchase work-related injury insurance for all employees (Article 48).
- (e) Workers cannot be fired or retaliated against for criticising or reporting their employer for work safety concerns, or for refusing orders to perform unsafe work (Article 51).
- (f) Employees have right to stop any work they deem to be unsafe. Employers may not cut the pay, benefits, or dismiss any worker who stops work for reasons of safety (Article 52).
- (g) The trade union may monitor workplace safety conditions, raise suggestions, and participate in the investigation into workplace accidents (Article 57).

It is the responsibility of local government officials, under the overall supervision of the Ministry of Emergency Management (**MEM**) to ensure that all workplaces comply with work safety regulations. The MEM was established in March 2018 to oversee the management of a wide range of natural and man-made disasters when the old State Administration of Work Safety was formally dissolved at the same time.



## 16 ANNEXURE B – “IF NOT, WHY NOT” STATEMENT

| No.  | Y/N | If not, why not   |
|--|-----|---|
| <b>Principle 1: Lay solid foundations for management and oversight</b> |     |   |
| 1.1  | Y   | The Board has formally adopted a board charter which sets out the respective roles and responsibilities of the board and management, and those matters expressly reserved to the Board and those delegated to management.   |
| 1.2  | Y   | The entire Board will carry out appropriate checks before appointing a person or putting forward to security holders a candidate for election, as a Director. The Board will provide Shareholders with all material information in the possession of the Company for Shareholders to decide on whether to elect or re-elect a Director.<br><br>The Company's board charter sets out the processes to appoint or remove a Director.  |
| 1.3  | Y   | Each Director is required to sign a letter of appointment setting out the terms of his or her appointment. As the Company's operating business is currently located in China, all senior executives are employed by Kemao China on a full-time basis and have signed employment contracts under relevant labour laws of China.  |
| 1.4  | Y   | Our Company Secretary is appointed and removed by the Board and is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.   |
| 1.5  | N   | The Board supports workplace diversity, including gender diversity but considers that the Company is not of a size or maturity to justify a formal diversity policy. The Board's priority has been to ensure that its members have the appropriate level of experience and skills to manage the Company at its early stages of operations rather than focusing on gender and other diversity factors. The Board currently consists of two female directors and three male directors.  |
| 1.6  | Y   | As set out in the Company's board charter, to ensure the Directors and the Board work efficiently and effectively in achieving their responsibilities, the chair will meet with each Director at least annually to discuss individual performance and ideas for improvement. The Board will also, at least annually, meet to discuss and evaluate its own performance for that financial year so as to make improvements for the following year.<br><br>The Company will disclose whether a performance evaluation was undertaken in each reporting period in accordance with this process.   |
| 1.7  | N   | The Board considers that given the size of the Company and the Board, it is not efficient or beneficial for the Company to introduce an evaluation policy for the senior executives. The Board monitors the overall corporate governance of the Company. The Company may in the future adopt a formal evaluation process for the senior executives as the Company grows and increases in size and activity.   |
| <b>Principle 2: Structure the board to add value</b>                   |     |   |
| 2.1  | Y   | The Board has a remuneration and nomination committee that is chaired by Mr ZHOU Jianping (Non-Executive Director) and consists of two other members, Mr Bill LAM (Non-Executive Director) and Ms CHEN Dong (Executive Director). The committee undertakes the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors. Where appropriate, independent consultants will be engaged to identify possible new candidates for the Board either as addition to the Board to supplement its current skills and experience or as part of succession planning for the Board. |

**Principle 1: Lay solid foundations for management and oversight****Principle 2: Structure the board to add value**





- 2.2 Y The Company complies with this recommendation.

The skills matrix setting out the mix of skills and diversity that the Board currently has is set out below:

|                                       | LEONG<br>Chong Peng<br>(Sharon) | LAM Long<br>Huy (Bill) | CHEN<br>Dong | CHEN<br>Fang | ZHOU<br>Jianping |
|---------------------------------------|---------------------------------|------------------------|--------------|--------------|------------------|
| Corporate governance                  | ✓                               | ✓                      |              |              |                  |
| General and administrative management |                                 |                        | ✓            | ✓            | ✓                |
| Sales and marketing                   |                                 |                        | ✓            |              | ✓                |
| Risk management                       | ✓                               | ✓                      |              |              |                  |
| Financial management                  | ✓                               | ✓                      |              |              |                  |
| Entrepreneurship                      |                                 |                        | ✓            | ✓            |                  |

- 2.3 Y As of the date of this corporate governance statement, the Board comprises of three independent Non-Executive Directors and two Executive Directors. The Directors were appointed on 28 May 2018 and are subject to re-election at the next annual general meeting.

- 2.5 Y Currently, the chair of the Board is Ms LEONG Chong Peng (Sharon) who is an independent non-executive director. The Company does not currently have a CEO. The person that performs the role of the CEO is Mr CHEN Dong, our Executive Director and also the General Manager of Kemao China.

- 2.6 Y The Board has put in place a programme in which all new directors will be assessed by the Company's nominated adviser as to the extent of his or her awareness of his or her responsibilities as a director of a company which is listed on NSX, and where such awareness is insufficient, to undergo such training or induction as may be recommended by the nominated adviser.

The present members of the Board are aware of their personal responsibilities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively and, if so requested by a Director, the Company will bear reasonable costs and expenses of any continuing education programme or course which a Director may request to attend.

Finally, the Board intends to appoint as Director a person who has the necessary skills and knowledge to perform his or her intended role and who is aware of his or her personal responsibility for his or her own continual education.

### Principle 3: Act ethically and responsibly

- 3.1 Y The Company has adopted a Code of Conduct applicable to all Directors, senior executives and employees.

### Principle 4: Safeguard integrity in corporate reporting

- 4.1 Y The board has an audit committee that is chaired by Ms LEONG Chong Peng (Sharon) (non-



executive Director) and consists of two other members, Mr LAM Long Huy (Bill) and Mr ZHOU Jianping, both of whom are non-executive Directors. The committees in consultation with the incumbent external auditor, undertakes the selection and proper application of accounting policies, the integrity of financial reporting, the identification and management of risk and review of the operation of the internal control systems.

The board will maintain regular communication with the external auditor and monitor its performance on a yearly basis. Currently, the Board considers the Company's financial affairs not to be of such complexity as to justify the rotation of the audit partner.

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- |     |   |  |
|-----|---|--|
| 4.2 | Y | The Board will receive an annual assurance in the form of a declaration from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) as required by the Corporations Act 2001. |
|-----|---|--|
- 
- |     |   |  |
|-----|---|--|
| 4.3 | Y | It is the Company's policy, and a term of our auditor's appointment, for the engagement partner or personnel of sufficient seniority who was involved in the conduct of the audit to be present at the annual general meeting be available to answer questions about the conduct of the audit and the preparation and content of the auditors' report. |
|-----|---|--|
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**Principle 5: Make timely and balanced disclosure**

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|-----|---|--|
| 5.1 | Y | The Company will, upon listing on the NSX, establish a continuous disclosure policy to ensure compliance with the listing rules of the Exchange. The board and senior management will work closely with and will consult the Company's listing adviser to ensure it fulfils its continuous disclosure obligations. |
|-----|---|--|
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**Principle 6: Respect the rights of security holders**

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- |     |   |   |
|-----|---|---|
| 6.1 | Y | The Company maintains a company website ( <a href="http://www.kemao-tinplate.com">www.kemao-tinplate.com</a> ). The website contains information about the Company and its operating subsidiaries. An updated Corporate Governance Statement will also be published on the website. |
|-----|---|---|
- 
- |     |   |   |
|-----|---|---|
| 6.2 | Y | The Company implement an active investor relations programme. We outsource our investor relations functions to our nominated adviser who designates one of its personnel to act as our investor relations officer tasked to attend all communication with you. The e-mail address of the investor relations officer is <a href="mailto:info@kmgroun.cn">info@kmgroun.cn</a> . We encourage you to write to us with any query. |
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| 6.3 | Y | The Board has adopted a shareholder Communication Policy and will provide Shareholders with opportunities to have questions addressed at shareholders' meetings. A copy of the Shareholder Communication Policy is available on the Company's website. |
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| 6.4 | Y | The Company's security registry has in place and has implemented a system in which security holders are given the option to receive communication from, and send communication to, the entity and its security registry electronically. |
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**Principle 7: Recognise and manage risk**

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| 7.1 | Y | The Board has a risk management committee that is chaired by Mr LAM Long Huy (Bill) (Non-Executive Director) and consists of two other members, Mr ZHOU Jianping (Non-Executive Director) and Mr CHEN Dong (Executive Director). The committee will oversee the risk management for the Company, taking into account key material risks faced by the Company as identified by the Board and how these risks or, if the risks materialises, its possible impact can be minimised.<br><br>The Board will ensure that risk management is included on the agenda of meetings of the board. |
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| 7.2 | Y | The board will review the entity's risk management framework at least annually to satisfy itself that it continues to be sound. The first review will be carried out for the financial |
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year ending on 31 December 2019, the first reporting period since incorporation.

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- 7.3 Y The Company does not have an internal audit function.
- The primary responsibility for risk management and internal controls on a day-to-day basis at the operations level vests with the Board. The Board will ensure that risk management is included on the agenda of meetings of the Board for discussion.
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- 7.4 Y Material risks which the Company is exposed to and how it manages or intend to manage these risks are disclosed in the prospectus. The Board will continue to monitor the Company's exposure to these risks (or for any other risks the Company may become expose to in the future) and disclose them in the Company's annual report.
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**Principle 8: Remunerate fairly and responsibly**

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- 8.1 Y The Board has a remuneration and nomination committee that is chaired by Mr ZHOU
- 8.2 Jianping (Non-Executive Director) and consists of two other members, Mr Bill LAM (Non-Executive Director) and Ms CHEN Dong (Executive Director).
- The Company adopts the following policies and practices regarding the remuneration of Executive Directors, Non-Executive Directors and senior executives:
- Executive Directors and Non-Executive Directors are paid only Directors' fees. The policies and practices for payment of Director fees to Non-Executive Directors are the same as those for Executive Directors.
  - The Board sets and determines the remuneration for senior executives and will do so having regard to prevailing levels paid to executives performing similar roles at comparable companies.
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- 8.3 N/A This Recommendation is not applicable as the Company does not have an equity-based remuneration scheme.
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**Kemao Industries Limited**

ACN 625 928 216 | NSX Code: KEM

## **SUPPLEMENTARY PROSPECTUS**

### **IMPORTANT NOTICE**

This is a supplementary prospectus (**Supplementary Prospectus**) and is intended to be read with the replacement prospectus issued by Kemao Industries Limited ACN 625 928 216 dated 12 April (**Prospectus**).

This Supplementary Prospectus is dated 26 April 2019 and a copy of this Supplementary Prospectus was lodged with ASIC on that date. ASIC, NSX and their respective officers take no responsibility for the content of this Supplementary Prospectus.

Other than as set out below, all details of the Prospectus remain unchanged.

Unless otherwise defined, capitalised terms used in this Supplementary Prospectus have the meanings given to them in the Prospectus.

## 1. EXTENSION OF THE OFFER PERIOD

The purpose of this Supplementary Prospectus is to extend the Closing Date of the Offer to 5.00pm (WST) Friday, 17 May 2019. Accordingly, the key dates as set out on page 1 of the Prospectus and references to each corresponding date in the Prospectus have been updated as follows:

|  |               |
|--|---------------|
| This Supplementary Prospectus lodged with ASIC | 26 April 2019 |
| Closing Date of the Offer                      | 17 May 2019   |
| Issue of shares under the Prospectus           | 21 May 2019   |
| Expected date for quotation of Shares on NSX   | 28 May 2019   |

*These dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without prior notice. The quotation of Shares is subject to confirmation from NSX.*

## 2. APPLICATIONS

The new Application Form attached to or accompanying this Supplementary Prospectus may be used for Applications for New Shares. Applications made on the previous application form attached to or accompanying the Prospectus will still be accepted, and such application forms previously received by the Company are not invalidated.

The Supplementary Application Form contains detailed instructions on how it is to be completed.

## 3. DIRECTORS' AUTHORISATION

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director has consented to the lodgement of this Supplementary Prospectus with ASIC and has not withdrawn that consent.



**Xuekun LI**

Company Secretary

For and on behalf of Kemao Industries Limited 26 April 2019





## INSTRUCTIONS FOR COMPLETION OF THIS APPLICATION FORM

### YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM

Please complete all relevant sections of this Application Form using BLOCK LETTERS

The below instructions are cross-referenced to each section of the Application Form.

#### 1 Number of Shares

Insert the number of Shares you wish to apply for in section 1. Your application must be a minimum of 4,000 Shares (\$2,000.00).

#### 2 Payment Amount

Enter into section 2 the total amount payable. Multiply the number of Shares applied for by \$0.50 – the application price per Share.

#### 3 Name(s) in which the Shares are to be registered

Note that ONLY legal entities can hold Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person.

#### CORRECT FORMS OF REGISTRABLE TITLE

| Type of Investor            | Correct Form of Registration                                  | Incorrect Form of Registration  |
|-----------------------------|---|---------------------------------|
| Trusts                      | Mr John Richard Sample<br><Sample Family A/C>                 | John Sample Family Trust        |
| Superannuation Funds        | Mr John Sample & Mrs Anne Sample<br><Sample Family Super A/C> | John & Anne Superannuation Fund |
| Partnerships                | Mr John Sample &<br>Mr Richard Sample<br><Sample & Son A/C>   | John Sample & Son               |
| Clubs/Unincorporated Bodies | Mr John Sample<br>< Food Help Club A/C>                       | Food Help Club                  |
| Deceased Estates            | Mr John Sample<br><Estate Late Anne Sample A/C>               | Anne Sample (Deceased)          |

#### 4 Postal Address

Enter into section 4 the postal address to be used for all written correspondence. Only one address can be recorded against a holding. With exception to annual reports, all communications to you from the Company will be mailed to the person(s) and address shown. Annual reports will be made available online when they are released. Should you wish to receive a hard copy of the annual report you must notify the Share Registry. You can notify any change to your communication preferences by visiting the registry website – [www.advancedshare.com.au](http://www.advancedshare.com.au)

#### 5 CHESSE Holders

If you are sponsored by a stockbroker or other participant and you wish to have your allocation directed into your HIN, please complete the details in section 5.

#### 6 Email Address

You may elect to receive communications despatched by Kemao Industries Limited electronically (where legally permissible), such as the Company's annual report.

#### 7 TFN/ABN/Exemption

If you wish to have your Tax File Number, ABN or Exemption registered against your holding, please enter the details in section 7. Collection of TFN's is authorised by taxation laws but quotation is not compulsory and it will not affect your Application Form.

#### 8 PAYMENT DETAILS

By making your payment, you confirm that you agree to all of the terms and conditions of the Kemao Industries Limited. Offer as outlined in this Application Form and within the Prospectus.

Your cheque should be made payable to "KEMAO INDUSTRIES LIMITED – SHARE OFFER ACCOUNT" in Australian currency, crossed "NOT NEGOTIABLE" and drawn on an Australian branch of a financial institution. Please complete your cheque with the details overleaf and ensure that you submit the correct amount, as incorrect payments may result in your Application being rejected.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be presented and may result in your Application being rejected. Paperclip (do not staple) your cheque(s) to the Application Form. Cash will not be accepted. A receipt for payment will not be forwarded.

If the amount you pay is insufficient to pay for the number of Shares you apply for, you will be taken to have applied for such lower number of Shares as that amount will pay for, or your Application will be rejected.

#### 9 Contact Details

Please enter contact details where we may reach you between the hours of 9:00am and 5:00pm should we need to speak to you about your application.

#### 10 Declaration

Before completing the Application Form the Applicant(s) should read the Prospectus in full. By lodging the Application Form, the Applicant(s) agrees that this Application is for Shares in the Company upon and subject to the terms of the Prospectus, agrees to take any number of Shares equal to or less than the number of Shares indicated in Section 1 that may be issued to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign this Application Form.

#### Privacy Statement

Personal information is collected on this form by ASW, as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by ASW, or you would like to correct information that is inaccurate, incorrect or out of date, please contact ASW. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting ASW. You can contact ASW using the details provided on the front of this form.

#### HOW TO LODGE YOUR APPLICATION FORM

Mail or deliver your completed Application Form with your cheque to the following address.

##### Mailing Address

Kemao Industries Limited  
C/- Advanced Share Registry  
PO Box 1156  
Nedlands, WA 6909

##### Hand Delivery (Please do not use this address for mailing purposes)

Kemao Industries Limited  
C/- Advanced Share Registry  
110 Stirling Highway  
Nedlands, WA 6009