

KEMAO INDUSTRIES LIMITED

ACN 625 928 216

THIRD SUPPLEMENTARY PROSPECTUS

1 IMPORTANT INFORMATION

This is a third supplementary prospectus and is intended to be read together with the replacement prospectus dated 12 April 2019 which replaces the original prospectus dated 5 April 2019 (**Original Prospectus**), the first supplementary prospectus dated 26 April 2019 and the second supplementary prospectus (the **First Refresh Document**) dated 5 July 2019 (together the **Replacement Prospectus**) issued by Kemao Industries Limited (ACN 625 928 216) (**Company**) in respect of the offer of 1,000,000 shares at \$0.50 each with a minimum subscription of \$500,000.

This supplementary prospectus is dated 4 October 2019 and a copy of this document was lodged with ASIC on that date. ASIC, NSX, SSX and their respective officers take no responsibility for the contents of this supplementary prospectus.

This supplementary prospectus is a refresh document as defined in section 734(3H) of the Corporations Act and has been lodged with ASIC in accordance with section 724(3G) of the Act.

This supplementary prospectus should be read together with the Replacement Prospectus. Other than as set out below, all details of the Replacement Prospectus remain unchanged. To the extent of any inconsistency between this supplementary prospectus and the Replacement Prospectus, this supplementary prospectus will prevail. Unless otherwise defined, capitalised terms used in this supplementary prospectus have the meanings given to them in the Replacement Prospectus.

This supplementary prospectus and the Replacement Prospectus can be accessed on the Company's website at www.kemao-tinplate.com. The Company will send a copy of this supplementary prospectus to all applicants who have applied for Shares under the Replacement Prospectus as at the date of this supplementary prospectus.

This supplementary prospectus and the Replacement Prospectus are important documents that must be read in conjunction with each other. Investors should read them all in their entirety and consult their professional advisor if they do not understand any aspects of these documents.

2 BACKGROUND AND PURPOSE OF THIS SUPPLEMENTARY PROSPECTUS

2.1 Background

In the First Refresh Document, the Company refreshed its quotation condition to 5 October 2019, extended its offer period to close on 16 August 2019 and offered one-month withdrawal rights to investors who had applied for Shares under the Offer. The First Refresh Document also advised the investors that the Company's decision at the time to redirect its proposed listing from NSX to SSX following the Company receiving a letter from NSX advising the Company that it was not considering listing applications by companies whose main businesses operate in the People's Republic of China and therefore would not consider the Company's listing application further.

This supplementary prospectus dated 4 October 2019 is intended to be read together with the replacement prospectus dated 12 April 2019 as supplemented by the first supplementary prospectus dated 26 April 2019 and second supplementary prospectus dated 5 July 2019 issued by the Company.

Following the lodgement of the First Refresh Document, the Company submitted an initial listing application with SSX (pending the provision of additional supporting documents) by email on 12 July 2019 and paid the prescribed listing application fee on 17 July 2019.

On 24 July 2019, NSX sent a letter to Biztrack Consultants clarifying its position regarding listing applications from companies whose main businesses operate in the People's Republic of China. The letter reiterates the range of factors NSX considers in assessing suitability for listing and clarifies that the requirements for companies from emerging markets, including PRC, are sufficient, appropriate and compelling presence and business connection with Australia and the company has a business model and structure that is investible by Australian investors.

Following receipt of this letter, Biztrack Consultants consulted NSX regarding possibilities of continuing the review of the Company's listing application. In response, NSX set out the following request of information regarding the status and activities of the Company:

- (a) the past up take/progress of the capital raising (how much of the offer had been raised, how many applications etc) under the Replacement Prospectus;
- (b) financial information and accounts for the period to 30 June 2019;
- (c) any new orders for clients in Australia to the three described in the Replacement Prospectus; and
- (d) an in-country independent legal opinion from a qualified practitioner for any non-Australian operating entities in the structure that confirms corporate ownership and structure, searches on Directors and related entities from all relevant sources, and a declaration of the existence or other historic, current or pending legal matters outstanding for the relevant entities and its Directors.

The Company carefully evaluated the prospect of a future listing on the NSX and SSX and considered that a listing on the NSX would be a preferred outcome for the investors given its better market liquidity compared with SSX. Hence, the Company has decided to continue its listing application with NSX in light of its recent discussions with NSX.

In accordance with the Corporations Act, if a person offers securities under a disclosure document such as a prospectus and the disclosure document states or implies that the securities are to be quoted on a financial market such as the NSX and the securities are not then admitted to quotation within three months after the date of the disclosure document, then the issue of securities would be void and any subscription amounts would have to be returned to the applicants. Additionally, also in accordance with the Corporations Act, if a person offers securities under a disclosure document, such as a prospectus, and the disclosure document states a minimum subscription amount must be raised before any securities will be issued, then the minimum subscription must be received within four months after the date of the disclosure document, otherwise any subscription amounts must be returned to the applicants or otherwise the applicants must be given a supplementary disclosure document and the opportunity to withdraw their application (see Section 6 below for details). The Corporations Act allows companies to refresh the timing of the minimum subscription and quotation conditions, so that they commence from the date of a refresh document (such as this supplementary prospectus) such that the respective 3 and 4 month periods commence from the date that the refresh document is lodged with NSX. The Corporation Act implements a variety of conditions that must apply to the refresh document and the actions of the company which seeks to rely upon it. This supplementary prospectus addresses those requirements.

2.2 Purpose

This supplementary prospectus has been prepared for the purpose of:

- (a) advising that at the date of this supplementary prospectus:
 - (i) the Company's Shares have not been admitted to quotation on the NSX; and
 - (ii) the Company has not issued any Shares pursuant to the Replacement Prospectus;
- (b) refreshing:
 - (i) the period for admission to quotation of Shares offered under the Replacement Prospectus to three months from the date of this supplementary prospectus; and
 - (ii) the period to raise the Minimum Subscription from four months from the date of the Replacement Prospectus to four months from the date of this supplementary prospectus,in accordance with section 724(3G)(d) of the Corporations Act; and
- (c) providing updates relevant to each of the four items NSX requested.

3 UPDATE ON QUOTATION CONDITION

An application for admission to quotation of the Shares was made within seven days after the date of the Original Prospectus. The Shares have not been admitted to quotation as at the date of this supplementary prospectus.

4 STATUS OF THE OFFER

At the date of this supplementary prospectus, the Company has received 15 valid applications for 1,000,000 Shares totalling \$500,000 and has raised the Minimum Subscription provided for in the Replacement Prospectus. No applications received have been processed and no Shares have been issued pursuant to the Replacement Prospectus.

5 CLOSING DATE

Even though the Company has raised the Minimum Subscription as at the date of this supplementary prospectus, the Company has decided to extend the Closing Date to 6 November 2019 to give the Company the capacity to raise more money in the event that the funds raised under the Replacement Prospectus become insufficient to satisfy the Minimum Subscription Condition as a result of investors exercising their rights offered in section 6 below and withdraw their application moneys.

Accordingly, references to the Closing Date in the Replacement Prospectus are amended and the timetable to the Offer set out on page 1 of the Replacement Prospectus is deleted and replaced with the following timetable:

Timetable to the Offer

| | |
|--|------------------|
| Opening date of the Offer | 13 April 2019 |
| Date of this supplementary prospectus | 4 October 2019 |
| Closing Date of the Offer | 6 November 2019 |
| Issue of Shares under the prospectus | 13 November 2019 |
| Expected date for quotation of Shares on NSX | 18 November 2019 |

Note:

1. The above dates are indicative only.
2. The Company reserves the right to extend the Closing Date or (after 4 November 2019) close the Offer early without prior notice.
3. The quotation of Shares is subject to confirmation from NSX.

6 RIGHT TO WITHDRAW APPLICATIONS

In accordance with the Corporations Act, where the Quotation Condition is not satisfied, the Company must give applicants who have previously submitted an application form (under the Replacement Prospectus) a copy of this supplementary prospectus and one month to withdraw their application and be repaid. The Offer will remain open until at least the end of that withdrawal period.

Any repayments made by the Company pursuant to an applicant exercising their right to withdraw their application will be made in full without interest.

An applicant who wishes to withdraw their application and obtain a refund must submit a written request to the Company at either of the addresses set out below so that it is received within one month of the date of this supplementary prospectus (i.e. by close of business on 4 November 2019).

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

The details for the payment of the refund cheque and address to which it should be sent as set out in the written request must correspond to the details contained in the application form lodged by the applicant.

7 APPLICATIONS

7.1 Investors who have NOT previously submitted an application form

Applications for Shares under the Offer must be made using the application form attached to or accompanying this supplementary prospectus (**Application Form**). Applications must not be made on the application form attached to or accompanying any of the previous supplementary or replacement prospectuses.

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

This supplementary prospectus dated 4 October 2019 is intended to be read together with the replacement prospectus dated 12 April 2019 as supplemented by the first supplementary prospectus dated 26 April 2019 and second supplementary prospectus dated 5 July 2019 issued by the Company.

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 in section 6 by no later than the Closing Date.

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

The Company reserves the right to close the Offer early.

7.2 Applicants who HAVE previously submitted an application form AND DO NOT want to withdraw their application

Applicants in this category do not need to complete a further Application Form in order to receive their Shares. However, such applicants may lodge an Application Form if they wish to apply for additional Shares in accordance with the instructions set out above for investors who have not previously submitted an application form.

7.3 Applicants who HAVE previously submitted an application form and WANT TO withdraw their application

Applicants in this category may withdraw their applications and be repaid any application moneys upon written request to the Company in the manner set out in section 6 of this supplementary prospectus.

8 FINANCIAL INFORMATION FOR HALF YEAR ENDED 30 JUNE 2019

The Company has prepared audited financial information for the half year ended 30 June 2019. The audited accounts are included in the updated Limited Assurance Report prepared by MGI Perth in Annexure A.

9 UPDATE ON ORDERS FROM AUSTRALIAN CUSTOMERS

As at the date of this supplementary prospectus, we have three ongoing customers in Australia, Jet Technologies Australia since 2015, and A.C.C. Austpac Chemicals & Commodities, Marpac Pty Ltd and Morris McMahon & Co since 2018.

Jet Technologies has made five purchase orders of tinplate in the last three years including one recent order in 26 June 2019 for 360 tonnes which will be delivered in three instalments before November.

Austpac Chemicals & Commodities, Marpac and Morris McMahon became our customers in 2018 following our marketing trips to Australia. We have since completed one order each for Morris McMahon and Marpac, and two orders for Austpac Chemicals & Commodities all have been delivered and completed. Both Morris McMahon and Marpac sought price quotes following the first order but have yet to place another order. Price for Tinplate varies due to fluctuations in raw material costs, hence companies prefer to place orders when they consider the price is at the right level.

10 INDEPENDENT LEGAL OPINIONS FOR NON-AUSTRALIAN ENTITIES

In response to NSX’s email, Biztrack has independently engaged Beijing Yingke Law Firm (Shanghai) to issue a legal opinion on the Group’s Chinese entities (refer to section 5.1 of the Replacement Prospectus for the Group’s corporate structure). Subject to documents provided and reviewed and other assumptions and qualifications normally contained in such legal opinions, Yingke’s legal opinion confirms that, as at 3 September 2019:

This supplementary prospectus dated 4 October 2019 is intended to be read together with the replacement prospectus dated 12 April 2019 as supplemented by the first supplementary prospectus dated 26 April 2019 and second supplementary prospectus dated 5 July 2019 issued by the Company.

- (a) Kemao China and WFOE are duly registered and validly existing and their capital structures are as disclosed in the Replacement Prospectus;
- (b) Kemao China has two affiliate companies namely:
 - (i) Jiangyin Fumao Textile Chemical Fibre Co., Limited; and
 - (ii) Jiangyin Haotian Shanghai Import and Export Co., Ltd,
 both of which are disclosed in the Replacement Prospectus;
- (c) there's no litigation search results for the WFOE or either of the affiliate companies;
- (d) Kemao China has no current litigations but had five historic litigation results which have all been concluded; and
- (e) there's no litigation search results for any of the directors of Kemao China, WFOE or either of the affiliate companies.

In addition to NSX's requirements, Biztrack Consultants has also obtained an independent legal opinion from K.H. Boo Advocates & Solicitors in Malaysia on the Group's Malaysian entity, Global Newmat Sdn. Bhd (1249348-W) (**GNSB**). GNSB is an investment holding company for the sole purpose of setting up the listing structure and is not an operating entity. Subject to documents provided and reviewed and other assumptions and qualifications normally contained in such legal opinions, Low & K.H. Boo's legal opinion confirms that, as at 4 October 2019, GNSB is duly registered and validly existing and its capital structure is as disclosed in the Replacement Prospectus.

11 ADDITIONAL DISCLOSURE TO THE REPLACEMENT PROSPECTUS

Since June 2019, Kemao China purchased approximately 2,197 tonnes of finished tinplate products from Haotian Shengshi Import and Export Trade Co., Ltd (**Haotian**). The purchase price is yet to be paid.

As disclosed in section 9.9 of the Replacement Prospectus, Haotian is 40% owned by Chen Dong and 10% owned by Chen Fang, who are key management personnel of Kemao China and executive Directors of the Company. Haotian is therefore a related party to the Group. The purchase of tinplate from Haotian is a way that management of Kemao China have introduced to establish longer business relationship with smaller clients.

Producing small orders in-house results in significantly higher unit cost which the business sometimes cannot cover from revenue earned on these orders. In these situations, Kemao China decided to purchase tinplate from Haotian with a lower cost of goods sold which satisfies demand from smaller clients and profits from the transaction at the same time. The arrangement between Kemao China and Haotian is established purely based on these commercial reasons.

As at the date of this supplementary prospectus, apart from information disclosed in this supplementary prospectus, the Directors are not aware of any other new circumstance that is materially adverse from the point of view of an investor which need to be disclosed in this supplementary prospectus.

12 CONSENTS

Beijing Yingke Law Firm (Shanghai), Low & K.H. Boo Advocates & Solicitors and each named party identified at section 11.5 of the Replacement Prospectus have given and have not, before lodgement of this supplementary prospectus with ASIC, withdrawn consent to the

This supplementary prospectus dated 4 October 2019 is intended to be read together with the replacement prospectus dated 12 April 2019 as supplemented by the first supplementary prospectus dated 26 April 2019 and second supplementary prospectus dated 5 July 2019 issued by the Company.

inclusion of the statements attributable to them in the Replacement Prospectus and in this supplementary prospectus in the form and context in which the statements appear. Each named party has not caused or authorised the issue of this supplementary prospectus.

13 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.



Xuekun Li

Company Secretary

For and on behalf of Kemao Industries Limited

4 October 2019

4 October 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 30 June 2019.

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

The Historical Financial Information has been prepared for inclusion in the updated prospectus dated 4 October 2019 which supplements the replacement prospectus dated 12 April 2019, the first supplementary prospectus dated 26 April 2019 and the second supplementary prospectus dated 5 July 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 (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 2017, 31 December 2018 and the six months ended 30 June 2019;
- The Consolidated Statement of Comprehensive Income for Kemao Industries Ltd for the period 28 May 2018 (date of incorporation) to 31 December 2018 and the six months ended 30 June 2019;
- The Statement of Financial Position of Jiangsu Kemao New Material Technology Co. Ltd as at 31 December 2017, 31 December 2018 and June 2019;
- The Consolidated Statement of Financial Position of Kemao Industries Ltd as at 31 December 2018 and 30 June 2019; and
- The Consolidated Statement of Changes in Equity of Kemao Industries Ltd for the six months ended 30 June 2019.

- The Consolidated Statement of Cash Flows of Kemao Industries Ltd for the six months ended 30 June 2019 and year ended 31 December 2018; and
- The Statement of Cash Flows for Jiangsu Kemao New Materials Technology Co. Ltd for the years ended 31 December 2017, 2018 and six months ended 30 June 2019.

(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 2017, 31 December 2018 and 30 June 2019, as taken from the Reserve Bank of Australia. The relevant rates used were:

| | |
|------------------|----------------------|
| 31 December 2017 | \$1 AUD = RMB 5.0842 |
| 31 December 2018 | \$1 AUD = RMB 4.8548 |
| 30 June 2019 | \$1 AUD = RMB 4.8181 |

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 2017, 2018 and six months ended 30 June 2019 (the 'financial reports'), which were audited by HML & Co in accordance with International Standards on Auditing.

HML & Co issued unmodified audit opinion of the financial reports for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019.

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 30 June 2019; and
- the Pro Forma Consolidated Statement of Changes in Equity of the Group for the six months ended 30 June 2019.

(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 2017, 31 December 2018 and six months ended 30 June 2019;
- The Consolidated Statement of Comprehensive Income for Kemao Industries Ltd for the period 28 May 2018 (date of incorporation) to 31 December 2018 and the six months ended 30 June 2019;
- The Statement of Financial Position of Jiangsu Kemao New Materials Technology Co. Ltd as at 31 December 2017, 31 December 2018 and 30 June 2019;
- The Consolidated Statement of Financial Position of Kemao Industries Ltd as at 31 December 2018 and 30 June 2019; and
- The Consolidated Statement of Changes in Equity of Kemao Industries Ltd for the six months ended 30 June 2019.

- The Consolidated Statement of Cash Flows of Kemao Industries Ltd for the period ended 31 December 2018 and six months ended 30 June 2019.
- The Statement of Cash Flows for Jiangsu Kemao New Materials Technology Co. Ltd for the years ended 31 December 2017, 2018 and six months ended 30 June 2019.

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 30 June 2019; and
- the Pro Forma Consolidated Statement of Changes in Equity of the Group for the six months ended 30 June 2019.

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 October 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 Annexure A of the third supplementary 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 SIX MONTHS ENDED 30 JUNE 2019 AND YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

| | Kemao Industries Ltd Consolidated Group | Jiangsu Kemao New Materials Technology Co., Ltd Company | Kemao Industries Ltd Consolidated Group | Jiangsu Kemao New Materials Technology Co., Ltd Company | Jiangsu Kemao New Materials Technology Co., Ltd Company |
|--|--|--|--|--|--|
| | 30 June 2019 AUD \$ | 30 June 2019 AUD \$ | 31 Dec 2018 AUD \$ | 31 Dec 2018 AUD \$ | 31 Dec 2017 AUD \$ |
| Revenue from Continuing operations | 77,904,867 | 77,904,867 | 136,773,195 | 136,773,195 | 113,002,231 |
| Cost of sales | (73,748,951) | (73,748,951) | (129,356,599) | (129,356,599) | (107,303,521) |
| Gross profit | 4,155,916 | 4,155,916 | 7,416,596 | 7,416,596 | 5,698,710 |
| Other operating income | 2,961,401 | 2,961,401 | 5,381,263 | 7,374,526 | 3,334,356 |
| Administration expenses | (3,926,620) | (3,926,560) | (6,914,117) | (6,905,913) | (2,264,587) |
| Operating expenses | (573,995) | (573,995) | (1,358,439) | (1,358,439) | (1,515,982) |
| Profit from operations | 2,616,702 | 2,616,762 | 4,525,303 | 6,526,770 | 5,252,498 |
| Finance costs | (964,156) | (1,142,978) | (1,795,519) | (1,795,519) | (1,856,522) |
| Profit before tax | 1,652,546 | 1,473,784 | 2,729,784 | 4,731,251 | 3,395,975 |
| Income tax expense | (21,795) | (21,795) | 4,239 | 4,239 | (231,037) |
| Profit for the year | 1,630,751 | 1,451,989 | 2,734,023 | 4,735,490 | 3,164,938 |
| Other comprehensive income | | | | | |
| Foreign exchange differences | 124,037 | 86,477 | 321,023 | 86,130 | - |
| Total comprehensive income for the year | 1,754,788 | 1,538,465 | 3,055,046 | 4,821,620 | 3,164,938 |

APPENDIX 2:

KEMAO INDUSTRIES LTD
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019 AND 31 DECEMBER 2018 AND 31 DECEMBER 2017

| | Kemao Industries Limited Consolidated Group 30 June 2019 AUD \$ | Kemao Industries Limited Consolidated Group 31 Dec 2018 AUD \$ | Jiangsu Kemao New Materials Technology Co., Ltd 31 Dec 2018 AUD \$ | Jiangsu Kemao New Materials Technology Co., Ltd 31 Dec 2017 AUD \$ |
|---|--|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and bank balances | 7,756,167 | 5,036,891 | 5,036,402 | 2,053,836 |
| Trade receivables | 22,973,381 | 15,770,239 | 15,770,238 | 14,208,982 |
| Inventories | 23,327,593 | 24,847,854 | 24,847,854 | 15,162,796 |
| Fixed deposits with bank | 99,624 | 197,742 | 197,742 | 188,820 |
| Other receivables and advance payments | 10,232,635 | 9,356,855 | 9,356,377 | 10,122,663 |
| Tax recoverable | 329,368 | 400,191 | 400,191 | - |
| VAT recoverable | (147,102) | 552,106 | 552,106 | - |
| Total Current Assets | 64,571,666 | 56,161,877 | 56,160,910 | 41,737,096 |
| Non-Current Assets | | | | |
| Property, plant and equipment | 11,725,322 | 11,861,619 | 11,861,619 | 12,374,586 |
| Deferred tax assets | 408,794 | 341,097 | 341,097 | 274,571 |
| Lease prepayment | - | 2,769,369 | 2,769,369 | 3,173,298 |
| Total Non-Current Assets | 12,134,116 | 14,972,086 | 14,972,085 | 15,822,455 |
| TOTAL ASSETS | 76,705,782 | 71,133,963 | 71,132,995 | 57,559,551 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Trade and bills payables | 12,549,595 | 11,172,514 | 11,172,172 | 9,015,511 |
| Other payables, deposit received and accruals | 16,812,916 | 12,329,734 | 12,320,905 | 12,252,353 |
| Borrowings - secured | 29,264,648 | 29,455,384 | 29,455,384 | 28,716,416 |
| Tax payable | - | - | - | 681,212 |
| Total Current Liabilities | 58,627,159 | 52,957,632 | 52,948,461 | 50,665,492 |
| Non-Current Liabilities | | | | |
| Amount owing to ultimate holding company | - | - | 5,041,630 | - |
| Borrowings - Secured | 1,037,753 | 1,029,909 | 1,029,909 | 983,439 |
| Other payables | 1,148,701 | 1,101,466 | 1,101,466 | - |
| Total Non-Current Liabilities | 2,186,454 | 2,131,374 | 7,173,005 | 983,439 |
| TOTAL LIABILITIES | 60,813,613 | 55,089,007 | 60,121,466 | 51,648,931 |
| NET ASSETS | 15,892,169 | 16,044,956 | 11,011,529 | 5,910,620 |
| EQUITY | | | | |
| Share capital | 17,099,086 | 17,099,086 | 10,299,085 | 9,834,389 |
| Accumulated losses | (1,651,977) | (1,375,153) | 626,314 | (3,923,769) |
| Exchange difference | 445,060 | 321,023 | 86,130 | - |
| TOTAL EQUITY | 15,892,169 | 16,044,956 | 11,011,529 | 5,910,620 |

KEMAO INDUSTRIES LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

| | Note | Jiangsu Kemao New Materials Technology Co., Ltd Company | Kemao Industries Limited Group 30 JUN 2019 | Subsequent Event Adjustments | Pro-Forma Adjustments | Pro-Forma Adjustments | Pro-Forma After Issue | Pro-Forma After Issue |
|---|------|--|---|------------------------------------|--------------------------|--------------------------|--------------------------|----------------------------|
| | | 30 JUN 2019 AUD \$ | 30 JUN 2019 AUD \$ | AUD \$ | AUD \$0 AUD \$ | AUD \$500,000 AUD \$ | AUD \$0 AUD \$ | AUD \$500,000 AUD \$ |
| ASSETS | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and bank balances | 2 | 7,255,736 | 7,756,167 | | (320,000) | 180,000 | 7,436,167 | 7,936,167 |
| Trade receivables | | 22,973,381 | 22,973,381 | | | | 22,973,381 | 22,973,381 |
| Inventories | | 23,327,593 | 23,327,593 | | | | 23,327,593 | 23,327,593 |
| Fixed deposits with bank | | 99,624 | 99,624 | | | | 99,624 | 99,624 |
| Other receivables and advance payments | | 10,232,157 | 10,232,635 | | | | 10,232,635 | 10,232,635 |
| Tax recoverable | | 329,368 | 329,368 | | | | 329,368 | 329,368 |
| VAT recoverable | | (147,102) | (147,102) | | | | (147,102) | (147,102) |
| Total Current Assets | | 64,070,757 | 64,571,666 | - | (320,000) | 180,000 | 64,251,666 | 64,751,666 |
| Non-Current Assets | | | | | | | | |
| Property, plant and equipment | | 11,725,322 | 11,725,322 | | | | 11,725,322 | 11,725,322 |
| Deferred tax assets | | 408,794 | 408,794 | | | | 408,794 | 408,794 |
| Total Non-Current Assets | | 12,134,116 | 12,134,116 | - | - | - | 12,134,116 | 12,134,116 |
| TOTAL ASSETS | | 76,204,873 | 76,705,782 | - | (320,000) | 180,000 | 76,385,782 | 76,885,782 |
| LIABILITIES | | | | | | | | |
| Current Liabilities | | | | | | | | |
| Trade and bills payables | | 12,549,252 | 12,549,595 | | | | 12,549,595 | 12,549,595 |
| Other payables, deposit received and accruals | | 16,304,267 | 16,812,916 | | | | 16,812,916 | 16,812,916 |
| Borrowings - secured | | 29,264,648 | 29,264,648 | | | | 29,264,648 | 29,264,648 |
| | | 58,118,166 | 58,627,159 | - | - | - | 58,627,159 | 58,627,159 |
| Non-Current Liabilities | | | | | | | | |
| Amount owing to ultimate holding company | | 5,257,833 | - | | | | - | - |
| Borrowings - Secured | | 1,037,753 | 1,037,753 | | | | 1,037,753 | 1,037,753 |
| Other payables | | 1,148,701 | 1,148,701 | | | | 1,148,701 | 1,148,701 |
| | | 7,444,288 | 2,186,454 | - | - | - | 2,186,454 | 2,186,454 |
| TOTAL LIABILITIES | | 65,562,454 | 60,813,613 | - | - | - | 60,813,613 | 60,813,613 |
| NET ASSETS | | 10,642,419 | 15,892,169 | - | (320,000) | 180,000 | 15,572,169 | 16,072,169 |
| EQUITY | | | | | | | | |
| Contributed equity | 3 | 10,299,085 | 17,099,086 | | - | 500,000 | 17,099,086 | 17,599,086 |
| Accumulated losses | 4 | 170,728 | (1,651,977) | | (320,000) | (320,000) | (1,971,977) | (1,971,977) |
| Exchange difference | | 172,607 | 445,060 | | - | - | 445,060 | 445,060 |
| TOTAL EQUITY | | 10,642,419 | 15,892,169 | - | (320,000) | 180,000 | 15,572,169 | 16,072,169 |

APPENDIX 3:

KEMAO INDUSTRIES LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2019

| | Jiangsu Kemao New Materials Technology Co., Ltd Company | Kemao Industries Limited Group | Subsequent Event Adjustments | Pro-Forma Adjustments | Pro-Forma Adjustments | Pro-Forma After Issue | Pro-Forma After Issue |
|--|--|---|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 30 JUN 2019 | 30 JUN 2019 | | AUD \$0 | AUD \$500,000 | AUD \$0 | AUD \$500,000 |
| | AUD \$ | AUD \$ | AUD \$ | AUD \$ | AUD \$ | AUD \$ | AUD \$ |
| Opening Balance 1 January 2019 | | | | | | | |
| - Contributed Equity | 10,299,085 | 17,099,086 | - | - | 500,000 | 17,099,086 | 17,599,086 |
| - Retained Earnings | 626,314 | (1,375,153) | - | - | - | (1,375,153) | (1,375,153) |
| - Adjustment on initial application of IFRS 16 | (1,907,575) | (1,907,575) | - | - | - | (1,907,575) | (1,907,575) |
| - Exchange difference | 86,130 | 321,023 | - | - | - | 321,023 | 321,023 |
| | 9,103,954 | 14,137,381 | - | - | - | 14,137,381 | 14,137,381 |
| Comprehensive Income for the period | | | | | | | |
| Profit / (Loss) for the period attributable to owners of the company | 1,451,989 | 1,630,751 | - | (320,000) | (320,000) | 1,310,751 | 1,310,751 |
| Profit / (Loss) for the period attributable to non-controlling interests | - | - | - | - | - | - | - |
| Foreign Exchange Differences | 86,477 | 124,037 | - | - | - | 124,037 | 124,037 |
| Total comprehensive loss attributed to members | 1,538,465 | 1,754,788 | - | (320,000) | (320,000) | 1,434,788 | 1,434,788 |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Shares issued during the year less transaction costs | - | - | - | - | 500,000 | - | 500,000 |
| Non-controlling interest capital contributions | - | - | - | - | - | - | - |
| Total transactions with owners | - | - | - | - | 500,000 | - | 500,000 |
| Closing balance at 30 June 2019 | 10,642,419 | 15,892,169 | - | (320,000) | 180,000 | 15,572,169 | 16,072,169 |

APPENDIX 4:

KEMAO INDUSTRIES LTD STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND YEARS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

| | Kemao Industries Ltd Consolidated Group 30 June 2019 AUD \$ | Jiangsu Kemao New Materials Technology Co., Ltd Company 30 June 2019 AUD \$ | Kemao Industries Ltd Consolidated Group 31 Dec 2018 AUD \$ | Jiangsu Kemao New Materials Technology Co., Ltd Company 31 Dec 2018 AUD \$ | Jiangsu Kemao New Materials Technology Co., Ltd Company 31 Dec 2017 AUD \$ |
|--|--|---|---|--|--|
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | |
| Receipts from Customers | 72,603,316 | 72,603,316 | 141,820,810 | 141,820,810 | 102,334,980 |
| Payments to Suppliers and Employees | (69,118,556) | (69,118,556) | (142,460,579) | (142,460,068) | (102,009,153) |
| Interest Received | 68,254 | 68,254 | 36,206 | 36,206 | 25,489 |
| Interest Paid | (925,088) | (925,088) | (1,795,519) | (1,795,519) | (1,821,730) |
| Taxation Paid | (12,972) | (12,972) | (1,142,056) | (1,142,054) | - |
| Net cash provided by operating activities | 2,614,953 | 2,614,953 | (3,541,137) | (3,540,625) | (1,470,414) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Payments for purchase of property, plant & equipment | (104,174) | (104,174) | (1,515,175) | (1,515,175) | (1,761,808) |
| Proceeds from sale of property, plant & equipment | - | - | 34,582 | 34,582 | 160,370 |
| Change in bank balances for restricted use | (2,200,977) | (2,200,977) | (1,317,797) | (1,317,797) | 1,283,076 |
| Net cash provided by investing activities | (2,305,151) | (2,305,151) | (2,798,390) | (2,798,390) | (318,362) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from borrowings | 15,446,917 | 15,446,917 | 23,467,055 | 23,467,055 | 23,546,214 |
| Repayment of borrowings | (15,864,401) | (15,864,401) | (24,073,962) | (24,073,962) | (22,581,205) |
| Advance from Ultimate Holding Company | - | - | - | 6,944,832 | - |
| Advance from other payables | - | - | 1,517,266 | 1,517,266 | - |
| Capital contributions | - | - | 6,801,000 | - | - |
| Net cash provided by financing activities | (417,484) | (417,484) | 7,711,360 | 7,855,191 | 965,009 |
| Effect of Foreign Exchange translation | 516,981 | 17,159 | 200,756 | 55,924 | (31,648) |
| Net increase (decrease) in cash held | 409,299 | (90,523) | 1,572,590 | 1,572,100 | (855,416) |
| Opening balance of cash and cash equivalents | 2,172,509 | 2,172,020 | 599,920 | 599,920 | 1,455,335 |
| Closing balance of cash and cash equivalents | 2,581,808 | 2,081,497 | 2,172,509 | 2,172,020 | 599,920 |
| Cash and cash equivalents comprise: | | | | | |
| Fixed deposits | 99,624 | 99,624 | 197,742 | 197,742 | 188,820 |
| Cash and bank balances | 7,756,047 | 7,255,736 | 5,036,891 | 5,036,401 | 2,053,836 |
| Bank balances restricted for use | (5,273,863) | (5,273,863) | (3,062,124) | (3,062,123) | (1,642,736) |
| | 2,581,808 | 2,081,497 | 2,172,509 | 2,172,020 | 599,920 |

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 revenue 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 a 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 assets 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 New Materials Technology Co., Ltd Company 30 June 2019 AUD \$ | Kemao Industries Limited Group 30 June 2019 AUD \$ | Pro Forma After Issue AUD \$ | Pro Forma After Issue AUD \$ |
|--|---|---|------------------------------------|------------------------------------|
| Cash and bank balances | 7,255,736 | 7,756,167 | 7,436,167 | 7,936,167 |
| Audited balance at 30 June 2019 | | | 7,756,167 | 7,756,167 |
| Proceeds from Share issued under this Prospectus | | | - | 500,000 |
| NSX share listing costs | | | (320,000) | (320,000) |
| Pro Forma Balance | | | 7,436,167 | 7,936,167 |

NOTE 3: CONTRIBUTED EQUITY

| | Jiangsu Kemao New Materials Technology Co., Ltd Company 30 June 2019 AUD \$ | Kemao Industries Limited Group 30 June 2019 AUD \$ | Pro Forma After Issue AUD \$ | Pro Forma After Issue AUD \$ |
|---|---|---|------------------------------------|------------------------------------|
| Contributed equity | 10,299,085 | 17,099,086 | 17,099,086 | 17,599,086 |
| Audited balance at 30 June 2019 | | | 17,099,086 | 17,099,086 |
| Proceeds from Shares issued under this Prospectus | | | - | 500,000 |
| Pro Forma Balance | | | 17,099,086 | 17,599,086 |

NOTE 4: ACCUMULATED LOSSES

| | Jiangsu Kemao New Materials Technology Co., Ltd Company 30 June 2019 AUD \$ | Kemao Industries Limited Group 30 June 2019 AUD \$ | Pro-Forma After Issue AUD \$0 AUD \$ | Pro-Forma After Issue AUD \$500,000 AUD \$ |
|-------------------------------------|---|---|---|---|
| Accumulated profits (losses) | 170,728 | (1,651,977) | (1,971,977) | (1,971,977) |
| Audited balance at 30 June 2019 | | | (1,651,977) | (1,651,977) |
| NSX share listing costs | | | (320,000) | (320,000) |
| Pro Forma Balance | | | (1,971,977) | (1,971,977) |

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.