

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY  
CO., LIMITED**

**(Registered in People's Republic of China)  
(Company reg no: 91320281772480518D)**

**FINANCIAL STATEMENTS  
31 DECEMBER 2017**

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
*(Registered in People's Republic of China)*

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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**SPECIAL AUDIT REPORT  
TO THE MEMBERS OF  
JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
*(Registered in People's Republic of China)*

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED, which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 5 to 36.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence and Other Ethical Responsibilities**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**Responsibilities of the Management for the Financial Statements**

The Management of the Company is responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with IFRSs. The Management is also responsible for such internal control as the Management determines is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



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## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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**Other Matters**

This report is made solely to the members of the Company as a body and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The engagement partner on the audit resulting in this independent auditors' report is Ho Mee Ling.



HML & CO.  
AF: 1325  
Chartered Accountants

Malaysia  
11 February 2019

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
*(Registered in People's Republic of China)*

**STATEMENT BY LEGAL REPRESENTATIVE**

I, HUANG MEI YU, the Legal Representative of JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED, duly appointed under the laws of the People's Republic of China, state that, in my opinion, the financial statements set out on pages 5 to 36 are drawn up in accordance with International Financial Reporting Standards ("IFRSs") so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and cash flows for the year then ended.



**HUANG MEI YU**  
**Legal Representative**  
JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED

People's Republic of China  
11 February 2019

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
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**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2017**

*(Amounts are presented in RMB unless otherwise indicated)*

	Note	2017 RMB	2016 RMB
<b>ASSETS</b>			
<b>NON-CURRENT ASSET</b>			
Property, plant and equipment	6	62,914,871	68,327,525
Deferred tax assets	7	1,395,973	1,004,047
Lease prepayment	8	16,133,680	16,133,680
		<u>80,444,524</u>	<u>85,465,252</u>
<b>CURRENT ASSETS</b>			
Inventories	9	77,090,685	60,844,377
Trade receivables	10	72,241,305	17,454,647
Other receivables and advance payments	11	51,465,644	46,701,826
VAT recoverable		-	1,363,320
Fixed deposits with bank		960,000	960,000
Cash and bank balances	12	10,442,111	21,358,299
		<u>212,199,745</u>	<u>148,682,469</u>
<b>TOTAL ASSETS</b>		<u>292,644,269</u>	<u>234,147,721</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	13	50,000,000	50,000,000
Accumulated losses		(19,949,226)	(36,040,403)
<b>TOTAL EQUITY</b>		<u>30,050,774</u>	<u>13,959,597</u>
<b>NON-CURRENT LIABILITY</b>			
Borrowings - Secured	14	5,000,000	5,000,000
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	45,836,662	36,738,447
Other payables, deposit received and accruals	16	62,293,414	35,552,824
Borrowings - Secured	14	146,000,000	141,000,000
Tax payable		3,463,419	1,896,853
		<u>257,593,495</u>	<u>215,188,124</u>
<b>TOTAL LIABILITIES</b>		<u>262,593,495</u>	<u>220,188,124</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>292,644,269</u>	<u>234,147,721</u>

The accompanying notes form an integral part of the financial statements.

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
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**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

*(Amounts are presented in RMB unless otherwise indicated)*

	Note	2017 RMB	2016 RMB
Revenue	17	574,525,944	380,413,045
Cost of sales		<u>(545,552,562)</u>	<u>(367,176,736)</u>
Gross profit		28,973,382	13,236,309
Other operating income		16,952,532	14,134,951
Administration expenses		(11,513,612)	(8,384,733)
Operating expense		<u>(7,707,554)</u>	<u>(6,954,743)</u>
Profit from operations	18	26,704,748	12,031,784
Finance costs	19	<u>(9,438,931)</u>	<u>(8,139,525)</u>
Profit before tax		17,265,817	3,892,259
Income tax expense	20	<u>(1,174,640)</u>	<u>(1,300,908)</u>
Profit and total comprehensive income for the year		<u><u>16,091,177</u></u>	<u><u>2,591,351</u></u>

The accompanying notes form an integral part of the financial statements.



**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
*(Amounts are presented in RMB unless otherwise indicated)*

	<b>Share capital RMB</b>	<b>Accumulated losses RMB</b>	<b>Total RMB</b>
As at 1 January 2016	50,000,000	(38,631,754)	11,368,246
Profit and total comprehensive income for the year	<u>-</u>	<u>2,591,351</u>	<u>2,591,351</u>
As at 31 December 2016	50,000,000	(36,040,403)	13,959,597
Profit and total comprehensive income for the year	<u>-</u>	<u>16,091,177</u>	<u>16,091,177</u>
As at 31 December 2017	<u>50,000,000</u>	<u>(19,949,226)</u>	<u>30,050,774</u>

The accompanying notes form an integral part of the financial statements.

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
*(Amounts are presented in RMB unless otherwise indicated)*

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	17,265,817	3,892,259
Adjustments for:		
Allowance for impairment losses	1,567,703	336,035
Depreciation of property, plant and equipment	12,528,422	12,413,280
Interest expense	9,438,931	8,139,525
Interest income	(132,064)	(538,797)
Loss/(Gain) on disposal of property, plant and equipment	1,181,763	(143,642)
Operating profit before working capital changes	41,850,572	24,098,660
(Increase)/Decrease in working capital:		
Inventories	(16,246,308)	(34,728,303)
Trade receivables	(55,828,018)	2,259,545
Other receivables and prepayments	(5,290,161)	(1,889,352)
VAT recoverable	1,363,320	(1,250,694)
Trade payables	9,098,215	(44,702,846)
Other payables, deposit received and accruals	26,740,590	13,326,070
Cash from/(used in) operations	1,688,210	(42,886,920)
Interest paid	(9,438,931)	(8,139,525)
Interest received	132,064	538,797
Tax paid	-	(76,907)
Net cash used in operating activities	(7,618,657)	(50,564,555)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(9,128,458)	(17,377,848)
Sales proceeds from disposal of property, plant and equipment	830,927	572,650
Changes in bank balances for restricted used	6,648,000	55,126,240
Net cash (used in)/from investing activities	(1,649,531)	38,321,042
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	122,000,000	146,000,000
Repayment of borrowings	(117,000,000)	(138,000,000)
Net cash from financing activities	5,000,000	8,000,000
Net decrease in cash and cash equivalents	(4,268,188)	(4,243,513)
Cash and cash equivalents at beginning of the year	7,318,299	11,561,812
Cash and cash equivalents at end of the year	3,050,111	7,318,299

The accompanying notes form an integral part of the financial statements.

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
*(Amounts are presented in RMB unless otherwise indicated)*

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Fixed deposits with bank	960,000	960,000
Cash and bank balances	10,442,111	21,358,299
	11,402,111	22,318,299
Less: Bank balances restricted for use (Note 12)	(8,352,000)	(15,000,000)
	<u>3,050,111</u>	<u>7,318,299</u>

The accompanying notes form an integral part of the financial statements.

**JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 GENERAL INFORMATION**

The Company is a limited liability company incorporated and domiciled in People's Republic of China.

The principal place of business is located at 5 Road, Songwengtou Yunting Town, Jiangyin City, China.

The Company is principally engaged in sales and manufacture of metals products.

The Company changed its name from Jiangyin Kemao Metal Products Co., Limited to JIANGSU KEMAO NEW MATERIALS TECHNOLOGY CO., LIMITED with effect from 27 September 2017.

The controlling party is Chen Chuan Du.

The financial statements of the Company are presented in Chinese Yuan or the Renminbi ("RMB"), the currency of the primary economic environment in which the entity operates (i.e., its functional currency).

**2 COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB").

**2.1 ADOPTION OF NEW AND AMENDED STANDARDS**

For the current year ended 31 December 2017, the Company has adopted all the following amendments to IFRSs that are effective for annual periods beginning on or after 1 January 2017:

(a) Amendments to IAS 7, Disclosure Initiative

(b) Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses

(c) Annual Improvement to IFRS Standards 2014 – 2016 Cycle: Amendments to IFRS 12, Disclosure of Interests in Other Entities

The adoption of the amendments to IAS 7 has required additional disclosures of changes in liabilities arising from financing activities in Note 16. Other than that, the adoption of the above amendments to IFRSs did not have any significant impact on the financial statements of the Company.

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**2.2 STANDARDS ISSUED BUT ARE NOT YET EFFECTIVE**

The Company has not early adopted the following new IFRSs, IFRICs and amendments to IFRSs that have been issued by the IASB but are not yet effective for the Company.

IFRSs, IFRICs and amendments to IFRSs effective for annual periods beginning on or after 1 January 2018

- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions
- IFRS 15, Revenue from Contracts with Customers
- Classifications to IFRS 15, Revenue from Contracts with Customers
- IFRS 9, Financial instruments
- IFRIC 22, Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40, Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle: Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle: Amendments to IAS 28, Investments in Associates and Joint Ventures

IFRSs, IFRICs and amendments to IFRSs effective for annual periods beginning on or after 1 January 2019

- IFRS 16, Leases
- IFRIC 23, Uncertainty Over Income Tax Treatments
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 9, Prepayment Features with Negative Compensation
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement

IFRSs, IFRICs and amendments to IFRSs effective for annual periods beginning on or after 1 January 2020

- Amendments to IFRS 3, Definition of a Business
- Amendments to IAS 1 and IAS 8, Definition of Material

IFRSs, IFRICs and amendments to IFRSs effective for annual periods beginning on or after 1 January 2021

- IFRS 17, Insurance Contract

IFRSs, IFRICs and amendments to IFRSs effective for annual periods beginning on or after a date yet to be confirmed.

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- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associates or Joint Venture

The Company will adopt the above IFRSs in the respective financial years when they become effective. The Management expect that the adoption of the standards above will have no material impact on the financial statements in the period of initial application.

### **3 BASIS OF PREPARATION**

The financial statements of the Company have been prepared on the historical cost basis other than as disclosed in Note 4.

The Management of the Company has used judgments, estimates and assumptions in recognising and measuring the reported amounts of assets and liabilities (including disclosures of contingent assets and contingent liabilities) at the end of the reporting period and the reported amounts of revenues and expenses during the reported period. As judgments and assumptions are applied in the measurement, the actual results may not coincide with the reported amounts. The areas involving significant judgments and estimation uncertainties are disclosed in Note 5.

### **4 SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 PROPERTY, PLANT AND EQUIPMENT**

##### Recognition and measurement

Freehold land and assets under construction are measured at cost less any accumulated impairment losses. Other items of property, plant and equipment are measured at costs less any accumulated depreciation and any accumulated impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The costs of self-constructed assets also include the costs of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss.

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Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives, as follows:

	Estimated useful lives	Estimated residual value as a percentage of cost
Electronic equipment	3 - 5 years	5%
Furniture and fittings	5 years	5%
Machinery and equipment	5 - 10 years	5%
Motor vehicles	4 - 5 years	5%

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period, and adjusted where appropriate.

**4.2 LEASED ASSETS**

Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

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Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

Operating lease: The Company as a lessee

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the statements of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

**4.3 IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL**

At each reporting date, the Company reviews the carrying amounts of its 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 it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairments loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



#### **4.4 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 bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### **4.5 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND DISTRIBUTIONS**

The Company classifies and presents an issued financial instrument (or its component parts), on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

##### **(a) Share Capital**

Ordinary shares and non-redeemable preference shares issued that carry no mandatory contractual obligation: (i) to deliver cash or another financial asset; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company, are classified as equity instruments.

When ordinary shares and other equity instruments are issued in a public offering or in a rights issue to existing shareholders, they are recorded at the issue price.

When ordinary shares and other equity instruments are issued as consideration transferred in a business combination or as settlement of an existing financial liability, they are measured at fair value at the date of the exchange transaction.

Transaction costs of an equity transaction are accounted for as a deduction from equity.

##### **(b) Compound Financial Instruments**

The Company evaluates the terms of an issued financial instrument to determine whether it contains both a liability and an equity component. The proceeds of a convertible bond or other compound instruments are allocated to the liability component measured at fair value, using the discounted cash flow method, and balance to the equity component. Transaction costs are allocated pro rata based on the relative carrying amounts. Any tax effect arising from temporary differences of the liability component is charged or credited to the equity component.

##### **(c) Distributions**

The Company establishes a distribution policy whereby cash dividends can only be paid out of retained profits.

Distributions to holders of an equity instrument are debited directly in equity, net of any related income tax benefit.

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A dividend declared is recognised as a liability only after it has been appropriately authorised, which is the date when the Management declares an interim dividend, or in the case of a proposed final dividend, the date the shareholders of the Company approve the proposed final dividend in an annual general meeting of shareholders.

**4.6 FINANCIAL INSTRUMENTS**

**(a) Initial Recognition and Measurement**

The Company recognises a financial asset or a financial liability (including derivative instruments) in the statement of financial position when, and only when, an entity in the Company becomes a party to the contractual provisions of the instrument.

If a contract, whether financial or non-financial, contains an embedded derivative, the Company assesses whether the embedded derivative shall be separated from the host contract on the basis of the economic characteristics and risks of the embedded derivative and the host contract at the date when the Company becomes a party to the contract. If the embedded derivative is not closely related to the host contract, it is separated from the host contract and accounted for as a stand-alone derivative. The Company does not make a subsequent reassessment of the contract unless there is a change in the terms of the contract that significantly modifies the expected cash flows or when there is a reclassification of a financial asset out of the fair value through profit or loss category.

On initial recognition, all financial assets and financial liabilities (including government loans at below market interest rates) are measured at fair value plus transaction costs if the financial asset or financial liability is not measured at fair value through profit or loss. For instruments measured at fair value through profit or loss, transaction costs are expensed to profit or loss when incurred.

**(b) Derecognition of Financial Instruments**

For derecognition purposes, the Company first determines whether a financial asset or a financial liability should be derecognised in its entirety as a single item or derecognised part-by-part of a single item or of a group of similar items.

A financial asset, whether as a single item or as a part, is derecognised when, and only when, the contractual rights to receive the cash flows from the financial asset expire, or when the Company transfers the contractual rights to receive cash flows of the financial asset, including circumstances when the Company acts only as a collecting agent of the transferee, and retains no significant risks and rewards of ownership of the financial asset or no continuing involvement in the control of the financial asset transferred.

A financial liability is derecognised when, and only when, it is legally extinguished, which is either when the obligation specified in the contract is discharged or cancelled or expires. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. For this purpose, the Company considers a modification as substantial if the present value of the revised cash flows of the modified terms discounted at the original effective interest rate is different by 10% or more when compared with the carrying amount of the original liability.

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**(c) Subsequent measurement of financial assets and financial liabilities**

For the purpose of subsequent measurement, the Company classifies trade and other receivables, advance payment, fixed deposits with bank, cash and bank balances in the category of loans and receivables. The Company has no other categories of financial assets.

After initial recognition, the Company measures financial assets in the loans and receivables category as at amortised cost using the effective interest method.

The Company's financial liabilities comprise trade and bills payables, other payables, deposit received, accrual and borrowings. After initial recognition, the Company measures all financial liabilities at amortised cost using the effective interest method.

**(d) Recognition of Gains and Losses**

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss only when the financial asset or financial liability is derecognised or impaired, and through the amortisation process of the instrument.

**(e) Impairment and Uncollectibility of Financial Assets**

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

**4.7 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of its short term commitments.

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**4.8 BORROWINGS COSTS**

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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 capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

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.

**4.9 PROVISIONS**

Provisions are recognised when the Company has a present obligation (legal or constructive) where as a result of a past event, and it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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**4.10 REVENUE AND OTHER INCOME**

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Interest income

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

**4.11 EMPLOYMENT BENEFITS**

Salaries, wages, bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees to the Company.

The employees of the Company are required to participate in a central pension scheme operated by the government. The Company are required to contribute a certain percentage of its payroll costs to the central pension scheme.

These contributions are charged to the statements of comprehensive income in the period to which the contributions relate. The Company's obligations under these plans are limited to the fixed percentage contributions payable.

**4.12 VALUE ADDED TAX (VAT)**

Revenues, expenses and assets are recognised net of the amount VAT, except where the amount of VAT incurred is not recoverable from the Tax Office. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown as inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the tax office is included as part of receivables or payables in the statement of financial position.

**4.13 INCOME TAX**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Company's liability for current tax is calculated using tax rates that have been enacted at the reporting date.

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Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities 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 tax levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**4.14 CONTINGENCIES**

**(i) Contingent liabilities**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(ii) Contingent assets**

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

**4.15 FAIR VALUE MEASUREMENTS**

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

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For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

### **4.16 FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

### **4.17 RELATED PARTIES**

A related party is defined as follows:

- a) A person or a close member of that person's family is related to the Company if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company.

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- b) An entity is related to the Company if any of the following conditions applies:
- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to others).
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint control venture of a member of a group of which the other entity is a member).
  - (iii) both entities are joint ventures of the same third party.
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) the entity is a past-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company

## **5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

Significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect in determining the amount recognised in the financial statements include the following:

### **5.1 GOING CONCERN ASSUMPTION**

The management assessed and concluded that it is appropriate to prepare this set of financial statements on a going concern basis. While the Company recorded a net current liabilities of RMB50,3903,750 as at 31 December 2017 (2016: RMB71,505,655), there is no reason for the management to believe that there is any significant uncertainty on the ability of the Company to continue as a going concern because the Company has renewed its short term borrowing subsequent to the year end.

### **5.2 LOSS ALLOWANCES OF FINANCIAL ASSETS**

The Company recognises impairment losses for receivables using the incurred loss model. At the end of each reporting period, the Company assesses whether there is any objective evidence that loans and receivables is impaired. Individually significant loans and receivables are tested for impairment separately by estimating the cash flows expected to be recoverable. The actual eventual losses may be different from the allowance made and this may affect the Company's financial position and results.



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**5.3 DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT**

The cost of an item of property, plant and equipment is depreciated on the straight-line method over its useful life. Estimates are applied in the selection of the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applied and this may lead to a change in recorded depreciation and value of property, plant and equipment.

**5.4 INVENTORIES**

Inventories are stated at the lower of cost and net realisable value (NRV). NRV for finished goods and work-in-progress are assessed with reference to existing prices at the reporting date less the estimated direct cost necessary to make the sale, which represent the Company's best estimation of the value recoverable through sale.

**5.5 MEASUREMENT OF INCOME TAXES**

Significant judgment is required in determining the Company's provision for current and deferred taxes. When the final outcome of the taxes payable is determined with the tax authorities, the amount might be different from the initial estimates of the taxes payable. Such differences may impact the current and deferred taxes in the period when such determination is made. The Company will adjust for the differences as over or under provision of current or deferred taxes in the current period in which those differences arise.

**6 PROPERTY, PLANT AND EQUIPMENT**

**2017**

	<b>As at 1 January 2017 RMB</b>	<b>Additions RMB</b>	<b>Disposals/ Reclassification RMB</b>	<b>As at 31 December 2017 RMB</b>
<b><u>Cost</u></b>				
Electronic equipment	1,228,705	1,759,760	-	2,988,465
Furniture and fittings	342,671	54,786	(177,607)	219,850
Machinery and equipment	132,891,804	5,647,960	7,015,658	145,555,422
Machinery and equipment in progress	6,838,051	-	(6,838,051)	-
Motor vehicles	2,545,782	1,665,952	(2,981,811)	1,229,923
	<u>143,847,013</u>	<u>9,128,458</u>	<u>(2,981,811)</u>	<u>149,993,660</u>

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	As at 1 January 2017 RMB	Charges for the year RMB	Disposals/ Reclassification RMB	As at 31 December 2017 RMB
<b><u>Accumulated Depreciation</u></b>				
Electronic equipment	685,829	514,542	-	1,200,371
Furniture and fittings	154,085	3,594	-	157,679
Machinery and equipment	73,759,749	11,712,299	-	85,472,048
Machinery and equipment in progress	-	-	-	-
Motor vehicles	919,825	297,987	(969,121)	248,691
	<u>75,519,488</u>	<u>12,528,422</u>	<u>(969,121)</u>	<u>87,078,789</u>

	2017 RMB	2016 RMB
<b><u>Carrying Amounts</u></b>		
Electronic equipment	1,788,094	542,876
Furniture and fittings	62,171	188,586
Machinery and equipment	60,083,374	59,132,055
Machinery and equipment in progress	-	6,838,051
Motor vehicles	981,232	1,625,957
	<u>62,914,871</u>	<u>68,327,525</u>

**2016**

	As at 1 January 2017 RMB	Additions RMB	Disposals/ Reclassification RMB	As at 31 December 2017 RMB
<b><u>Cost</u></b>				
Electronic equipment	838,639	390,066	-	1,228,705
Furniture and fittings	165,064	177,607	-	342,671
Machinery and equipment	124,986,945	8,751,013	(846,154)	132,891,804
Machinery and equipment in progress	-	6,838,051	-	6,838,051
Motor vehicles	1,324,671	1,221,111	-	2,545,782
	<u>127,315,319</u>	<u>17,377,848</u>	<u>(846,154)</u>	<u>143,847,013</u>

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	As at 1 January 2017 RMB	Charges for the year RMB	Disposals/ Reclassification RMB	As at 31 December 2017 RMB
<b><u>Accumulated Depreciation</u></b>				
Electronic equipment	522,101	163,728	-	685,829
Furniture and fittings	105,928	48,157	-	154,085
Machinery and equipment	62,495,357	11,681,538	(417,146)	73,759,749
Machinery and equipment in progress	-	-	-	-
Motor vehicles	399,968	519,857	-	919,825
	<u>63,523,354</u>	<u>12,413,280</u>	<u>(417,146)</u>	<u>75,519,488</u>

	2016 RMB	2015 RMB
<b><u>Carrying Amounts</u></b>		
Electronic equipment	542,876	316,538
Furniture and fittings	188,586	59,136
Machinery and equipment	59,132,055	62,491,588
Machinery and equipment in progress	6,838,051	-
Motor vehicles	1,625,957	924,703
	<u>68,327,525</u>	<u>63,791,965</u>

At 31 December 2017, certain machinery and equipment with carrying amount of RMB22,889,162 (2016: RMB26,325,804) were charged as securities for borrowings granted to the Company as disclosed in Note 14.

At 31 December 2017, machinery and equipment with carrying amount of RMB5,617,614 (2016: RMB5,869,432) were charged as securities for borrowings granted to a company controlled by a son of the controlling shareholder.

**7 DEFERRED TAX ASSETS**

	2017 RMB	2016 RMB
Balance at beginning of the year	1,004,047	920,039
Recognised in statement of comprehensive income (Note 20)	391,926	84,008
Balance at end of the year	<u>1,395,973</u>	<u>1,004,047</u>

The above deferred tax assets are attributable to collective allowance for impairment losses on trade receivables, other receivables and advance payments.

**8 LEASE PREPAYMENT**

Lease prepayments represent land and building use rights paid to a company controlled by a son of the controlling shareholder. Land and building use rights are carried at cost less any accumulated amortisation and any accumulated impairment losses. The cost of lease prepayment is charged to expense on a straight-line basis over the period of the rights.

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**9 INVENTORIES**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Raw material	25,286,483	20,955,514
Work in progress	19,849,437	28,390,292
Finished goods	31,954,765	11,498,571
	<u>77,090,685</u>	<u>60,844,377</u>
Inventories recognised as cost of sales in profit and loss	<u>545,552,562</u>	<u>367,176,736</u>

**10 TRADE RECEIVABLES**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Trade receivables	74,382,402	18,554,384
Less: Allowance for impairment	<u>(2,141,097)</u>	<u>(1,099,737)</u>
	<u>72,241,305</u>	<u>17,454,647</u>
Allowance for impairment loss:		
Balance at beginning of the year	1,099,737	1,037,205
Impairment loss recognised in profit or loss	<u>1,041,360</u>	<u>62,532</u>
Balance at end of the year	<u>2,141,097</u>	<u>1,099,737</u>
The currencies in which the trade receivables are demoninated:		
In RMB	52,757,585	2,350,651
In US Dollar	<u>19,483,720</u>	<u>15,103,996</u>
Balance at end of the year	<u>72,241,305</u>	<u>17,454,647</u>

**11 OTHER RECEIVABLES AND ADVANCE PAYMENTS**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Other receivables	4,042,478	11,558,823
Less: Allowance for impairment loss	<u>(136,433)</u>	<u>(47,925)</u>
	<u>3,906,045</u>	<u>11,510,898</u>
Advance payments	<u>50,865,961</u>	<u>38,059,455</u>
Less: Allowance for impairment loss	<u>(3,306,362)</u>	<u>(2,868,527)</u>
	<u>47,559,599</u>	<u>35,190,928</u>
	<u>51,465,644</u>	<u>46,701,826</u>

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	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Other receivables		
Allowance for impairment loss:		
Balance at beginning of the year	47,925	735,496
Additions/(Reversal) of impairment loss in profit or loss	<u>88,508</u>	<u>(687,571)</u>
Balance at end of the year	<u>136,433</u>	<u>47,925</u>
Advance payments		
Allowance for impairment loss:		
Balance at beginning of the year	2,868,527	1,907,453
Impairment loss recognised in profit or loss	<u>437,835</u>	<u>961,074</u>
Balance at end of the year	<u>3,306,362</u>	<u>2,868,527</u>

Included in other receivables are amounts of RMB753,734, RMB1,269,823 and RMB158,000 (2016: RMB5,749,467, RMB5,013,127 and Nil) owing from the controlling shareholder, a company controlled by a son of the controlling shareholder and close members of the family of the controlling shareholder respectively. These amounts are unsecured, interest free and repayable on demand.

**12 CASH AND BANK BALANCES**

Included in the bank balance is RMB8,352,000 (2016: RMB15,000,000) pledged for bills payables as disclosed in Note 15.

**13 SHARE CAPITAL**

The registered, issued and fully paid share capital of Jiangsu Kemao New Materials Technology Co., Limited is RMB50,000,000.

**14 BORROWINGS (SECURED)**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Repayable within one year	146,000,000	141,000,000
Repayable more than one year	<u>5,000,000</u>	<u>5,000,000</u>
	<u>151,000,000</u>	<u>146,000,000</u>

The term loans are denominated in RMB. Interest charged in the current year range from 5.40% to 6.90% (2016: 5.30% to 6.20%) per annum.

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As at 31 December 2017, term loans are secured by:

- i) machinery and equipment as disclosed in Note 6;
- ii) guarantee by Legal Representative and the controlling shareholder;
- iii) guarantee by a company controlled by a son of the controlling shareholder; and
- iv) guarantee by third parties.

**Reconciliation of liabilities arising from financing activities:**

	<b>2017 RMB</b>
Balance at beginning of the year	146,000,000
Financing cash flow (i)	<u>5,000,000</u>
Balance at end of the year	<u>151,000,000</u>

(i) The cash flows from short term borrowings make up the net amount of proceeds from and repayment of borrowing in the statement of cash flows.

**15 TRADE AND BILLS PAYABLES**

	<b>2017 RMB</b>	<b>2016 RMB</b>
Trade payables	37,484,662	21,738,447
Bills payables	<u>8,352,000</u>	<u>15,000,000</u>
	<u>45,836,662</u>	<u>36,738,447</u>

Bills payables are secured by bank balances as disclosed in Note 12.

**16 OTHER PAYABLES, DEPOSIT RECEIVED AND ACCRUALS**

	<b>2017 RMB</b>	<b>2016 RMB</b>
Other payables	16,183,179	5,701,633
Deposit received	38,802,628	24,086,136
Accruals	<u>5,997,672</u>	<u>5,765,055</u>
	<u>62,293,414</u>	<u>35,552,824</u>

**17 REVENUE**

	<b>2017 RMB</b>	<b>2016 RMB</b>
Sales revenue		
- Sales of goods	<u>574,525,944</u>	<u>380,413,045</u>

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**18 PROFIT FROM OPERATIONS**

Profit from operations is derived after charging/(crediting):

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Allowance for impairment losses	1,567,703	336,035
Depreciation of property, plant and equipment	12,528,422	12,413,280
Employee benefits (including key management personnel)		
- Wages, salaries and others	17,374,245	15,231,731
Loss on foreign exchange	1,006,118	-
Loss on disposal of property, plant and equipment	<u>1,181,763</u>	<u>-</u>
Gain on disposal of property, plant and equipment	-	(143,642)
Gain on foreign exchange	-	(1,170,611)
Interest income	<u>(132,064)</u>	<u>(538,797)</u>

**19 FINANCE COSTS**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Loan interest	<u>9,438,931</u>	<u>8,139,525</u>

**20 INCOME TAX EXPENSE**

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Current income tax	3,463,419	1,384,916
Over provision in prior years	(1,896,853)	-
Deferred taxation (Note 7)	<u>(391,926)</u>	<u>(84,008)</u>
	<u>1,174,640</u>	<u>1,300,908</u>

Current income tax represents People's Republic of China ("PRC") enterprise income tax ("EIT"). The provision for PRC EIT is calculated based on the PRC statutory income tax rate of 25% (2016: 25%) of the assessable income of the Company.

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Numerical reconciliation of income tax expense:

	<b>2017</b> <b>RMB</b>	<b>2016</b> <b>RMB</b>
Profit before taxation	<u>17,265,817</u>	<u>3,892,259</u>
Tax calculated at the tax rate of 25%	4,316,454	973,065
Expenses not deductible for tax purpose	273,789	327,843
Utilisation of previously unrecognised tax losses	(1,518,750)	-
Over provision in prior years	<u>(1,896,853)</u>	<u>-</u>
Tax charge	<u>1,174,640</u>	<u>1,300,908</u>

At the reporting date, the Company has tax losses of approximately RMBNil (2016: RMB6,075,000) that are available for offset against future taxable profits of the Company for which no deferred tax asset is recognised.

## **21 RELATED PARTY DISCLOSURE**

### **21.1 COMPENSATION OF KEY MANAGEMENT PERSONNEL**

	<b>2017</b> <b>RMB</b>	<b>2016</b> <b>RMB</b>
Short term benefits	<u>1,821,081</u>	<u>1,652,856</u>

Key management personnel comprise Legal Representatives of the Company and other senior management personnel in the Company, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

### **21.2 RELATED PARTY TRANSACTIONS**

In addition to the related party information disclosed in Notes 11 the financial statements, the following significant transactions between the Company and related parties took place at term agreed between the parties during the financial year:

	<b>2017</b> <b>RMB</b>	<b>2016</b> <b>RMB</b>
(Repayment of advances from)/Advances to a company controlled by a son of the controlling shareholder	(3,743,304)	3,943,974
Repayment of advances from the controlling shareholder	(4,995,733)	(27,790,363)
Advances to close members of the family of the controlling shareholder	<u>158,000</u>	<u>-</u>



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**22 FINANCIAL INSTRUMENTS**

The table below provides an analysis of financial instruments categorised as follows:

- a) Loans and receivables ("LR"); and
- b) Other financial liabilities measured at amortised cost ("OL")

	<b>Carrying Amount RMB</b>	<b>LR/(OL) RMB</b>
<b>2017</b>		
<b>Financial Assets</b>		
Trade receivables	72,241,305	72,241,305
Other receivables and advance payments	51,465,644	51,465,644
Fixed deposits with bank	960,000	960,000
Cash and bank balances	10,442,111	10,442,111
	<u>135,109,060</u>	<u>135,109,060</u>
<b>Financial Liabilities</b>		
Trade and bills payables	(45,836,662)	(45,836,662)
Other payables, deposits received and accruals	(62,293,414)	(62,293,414)
Borrowings	(151,000,000)	(151,000,000)
	<u>(259,130,076)</u>	<u>(259,130,076)</u>
<b>2016</b>		
<b>Financial Assets</b>		
Trade receivables	17,454,647	17,454,647
Other receivables and advance payments	46,701,826	46,701,826
Fixed deposit with bank	960,000	960,000
Cash and bank balances	21,358,299	21,358,299
	<u>86,474,772</u>	<u>86,474,772</u>
<b>Financial Liabilities</b>		
Trade and bills payables	(36,738,447)	(36,738,447)
Other payables, deposits received and accruals	(35,552,824)	(35,552,824)
Borrowings	(146,000,000)	(146,000,000)
	<u>(218,291,271)</u>	<u>(218,291,271)</u>

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**23 FAIR VALUE OF FINANCIAL INSTRUMENT**

The carrying amounts of receivables and payables, cash and cash equivalents and short term borrowings approximate their fair value due to the relatively short term nature of these financial instruments and insignificant impact of discounting.

**24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The financial risk management is integral to the development of the Company's business. The Company has in place the financial risk management policies to manage its exposure to a variety of risks to an acceptable level. The Company's principal financial risk management policies are as follows:

**a) Credit risk**

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers and deposits with financial institutions.

The Company has adopted a policy of only dealing with creditworthy counterparties. Management has a credit policy in place to control credit risk by dealing with creditworthy counterparties and deposit with financial institutions with good credit rating. The exposure to credit risk is monitored on an ongoing basis and action will be taken for long outstanding debts.

The carrying amounts of the financial assets recorded on the statement of financial position at the end of the financial year represent the Company's maximum exposure to credit risk.

The Company determines concentrations of credit risk by monitoring the country profile of its trade receivables on an ongoing basis. The credit risk concentration profiles of the Company's trade receivables at the end of financial year are as follows:

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
Local	52,757,585	2,350,651
Overseas	19,483,720	15,103,996
	<u>72,241,305</u>	<u>17,454,647</u>

In additions, 66% (2016: 62%) of the Company's advance payments was made to three (2016: one) supplier.

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The Company maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	<b>2017 RMB</b>	<b>2016 RMB</b>
Not past due	49,488,409	11,746,322
Past due 30 – 60 days	13,222,100	2,223,087
Past due 61 – 120 days	9,892,406	2,787,255
Past due more than 120 days	1,779,487	1,797,720
	<u>74,382,402</u>	<u>18,554,384</u>
Collective impairment	(2,141,097)	(1,099,737)
	<u>72,241,305</u>	<u>17,454,647</u>

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Company.

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables and short term borrowings.

The Company's funding requirements and liquidity risk are managed with the objective of meeting business obligations on a timely basis. The Company monitors its cash flows and ensures that sufficient funding is in place to meet the obligations as and when they fall due.

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments (including interest):

	<b>Carrying amount RMB</b>	<b>Contractual cash flows RMB</b>	<b>On demand or within a year RMB</b>
<b>2017</b>			
<i>Financial liabilities</i>			
Trade and bills payables	45,836,662	45,836,662	45,836,662
Other payables, deposit received and accruals	62,293,414	62,293,414	62,293,414
Borrowings	151,000,000	160,438,931	160,438,931
	<u>259,130,076</u>	<u>268,569,007</u>	<u>268,569,007</u>
<b>2016</b>			
<i>Financial liabilities</i>			
Trade and bills payables	36,738,447	36,738,447	36,738,447
Other payables, deposit received and accruals	35,552,824	35,552,824	35,552,824
Borrowings	146,000,000	154,139,525	154,139,525
	<u>218,291,271</u>	<u>226,430,796</u>	<u>226,430,796</u>

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c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Company's financial position or cash flows.

(i) Currency risk

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 currencies giving rise to this risk is primarily US Dollar ("USD").

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting year was:

	<b>2017 RMB</b>	<b>2016 RMB</b>
Trade receivables	19,483,720	15,103,996
Cash and bank balances	<u>742,718</u>	<u>1,410,202</u>
	<u>20,226,438</u>	<u>16,514,198</u>

Currency risk sensitivity analysis

A 7% (2016: 7%) strengthening of RMB against the USD at the end of the reporting year would have decreased profit before tax by RMB1,415,851 (2016: RMB1,155,994). A 7% (2016: 7%) weakening of RMB against the USD at the end of the reporting period would have had equal but opposite effect.

(ii) Interest rate risk

The Company's fixed rate deposits placed with financial institutions and borrowings are exposed to a risk of change in their fair value due to changes in market interest rates. The Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in market interest rates.

The Company manages the interest rate risk of its deposits with financial institutions by placing them at the most competitive interest rates obtainable, which yield better returns than cash at bank.

The Company manages its interest rate risk exposure from interest bearing borrowings by obtaining financing with the most favourable interest rates in the market.

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The interest rate profile of the Company's interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	<b>2017</b> <b>RMB</b>	<b>2016</b> <b>RMB</b>
<u>Fixed rate instruments</u>		
<u>Fixed deposits with bank</u>	960,000	960,000
<u>Borrowings</u>	<u>151,000,000</u>	<u>119,000,000</u>

**Interest rate risk sensitivity analysis**

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

**25 CAPITAL MANAGEMENT**

The Company's objectives of managing capital are to safeguard the Company's ability to continue in operations as a going concern and to provide fair returns for shareholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitor capital using gearing ratio. The Company's policy is to maintain a prudent level at gearing ratio.

The gearing ratios as at the end of the years are as follows:

	<b>2017</b> <b>RMB</b>	<b>2016</b> <b>RMB</b>
Total borrowings	151,000,000	146,000,000
Less: Fixed deposits with bank	(960,000)	(960,000)
Less: Cash and bank balances	<u>(10,442,111)</u>	<u>(21,358,299)</u>
Net debt	<u>139,597,889</u>	<u>123,681,701</u>
Total equity	<u>30,050,774</u>	<u>13,959,597</u>
 Gearing ratio	 <u>464.54%</u>	 <u>886.00%</u>

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**26 SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR**

- (a) Between 27 March 2018 and 7 June 2018, the Company has entered into 9 debts to equity conversion agreement with its trade creditors, the total amount of debt subject to conversion is RMB4,484,000.
- (b) On 30 July 2018, the Company has entered into debts to equity conversion agreement with its major shareholder, the total amount of debt subject to conversion is RMB34,329,000.
- (c) On 20 June 2018, all the shareholders of the Company transferred his or her entire interests in the Company to Jiang Yin Fuke New Materials Co., Ltd., a wholly foreign invested enterprise which is 100% owned by Global Newmat Sdn.Bhd (**GNSB**). On 31 August 2018, Kemao Industries Limited acquired GNSB. Consequently, Jiang Yin Fuke New Materials Co., Ltd, GNSB and Kemao Industries Limited become the immediate, intermediate and ultimate holding company of the Company respectively.

**27 AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS**

The financial statements of the Company were authorised for issue by the Legal Representative on 11 February 2019.

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**DETAILED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>2017</b> <b>RMB</b>	<b>2016</b> <b>RMB</b>
<b>REVENUE</b>	<u>574,525,944</u>	<u>380,413,045</u>
<b>LESS: COST OF SALES</b>		
Opening inventories	11,498,571	1,291,934
Cost of manufacturing	566,008,756	377,383,373
Closing inventories	<u>(31,954,765)</u>	<u>(11,498,571)</u>
	<u>545,552,562</u>	<u>367,176,736</u>
<b>GROSS PROFIT</b>	28,973,382	13,236,309
<b>ADD: OTHER OPERATING INCOME</b>		
Gain on disposal of property, plant and equipment	-	143,642
Gain on foreign exchange	-	1,170,611
Interest income	132,064	538,797
Other income	846,362	852,977
Scrap sales	<u>15,974,106</u>	<u>11,428,924</u>
	<u>16,952,532</u>	<u>14,134,951</u>
	45,925,914	27,371,260
<b>LESS: OPERATING EXPENSES</b>	<u>(28,660,097)</u>	<u>(23,479,001)</u>
<b>PROFIT BEFORE TAX</b>	<u>17,265,817</u>	<u>3,892,259</u>

*This Statement is prepared for the purpose of the Management's use only and does not form part of the statutory audited financial statements.*

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**MANUFACTURING ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
*(Amounts are presented in RMB unless otherwise indicated)*

	<b>2017</b>	<b>2016</b>
	<b>RMB</b>	<b>RMB</b>
<b>RAW MATERIALS</b>		
Opening inventories	20,955,514	12,346,907
Purchase	456,418,505	305,651,602
Custom duties	1,251,182	1,422,668
Freight charges	6,440,968	3,354,142
Value added taxes	882,661	274,973
Other raw materials	30,800,341	32,415,011
Closing inventories	<u>(25,286,483)</u>	<u>(20,955,514)</u>
	<u>491,462,688</u>	<u>334,509,789</u>
<b>WORK-IN-PROGRESS</b>		
Opening inventories	28,390,292	12,477,233
Closing inventories	<u>(19,849,437)</u>	<u>(28,390,292)</u>
	<u>8,540,855</u>	<u>(15,913,059)</u>
<b>FACTORY OVERHEADS</b>		
Depreciation of property, plant and equipment	12,175,733	11,838,206
Electricity charges	29,050,748	26,575,362
Gas	7,397,838	4,141,288
Other expenses	633,689	1,209,833
Processing fee	507,601	1,088,023
Repair and maintenance	320,109	203,240
Salaries and wages	14,470,000	12,531,731
Transportation	335,300	-
Water	<u>1,114,195</u>	<u>1,198,960</u>
	<u>66,005,213</u>	<u>58,786,643</u>
<b>COST OF MANUFACTURING</b>	<u><u>566,008,756</u></u>	<u><u>377,383,373</u></u>

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**OPERATING EXPENSES**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

*(Amounts are presented in RMB unless otherwise indicated)*

	<b>2017 RMB</b>	<b>2016 RMB</b>
<b>ADMINISTRATION EXPENSES</b>		
Accommodation	24,510	9,432
Advisory fees	-	20,650
Allowance for impairment losses	1,567,703	336,035
Depreciation of property, plant and equipment	352,689	575,074
Education funds	-	48,670
Entertainment	827,383	1,091,515
General expense	2,021,523	1,444,796
Loss on disposal of property, plant and equipment	1,181,763	-
Loss on foreign exchange	1,006,118	-
Office expenses	449,222	525,702
Processing fees	410,934	360,517
Quit rent and assessment	529,443	519,073
Social security charges	558,338	448,970
Telephone fee	55,691	93,678
Travel expenses	739,898	515,725
Upkeep of motor vehicles	321,570	423,202
Wages	1,450,000	1,300,000
Welfare	16,827	671,694
	<u>11,513,612</u>	<u>8,384,733</u>
<b>OPERATING EXPENSE</b>		
Exhibition fee	90,000	60,262
General expenses	172,467	-
Operating expenses	1,435,344	1,039,757
Transportation	4,555,498	4,454,724
Wages	1,454,245	1,400,000
	<u>7,707,554</u>	<u>6,954,743</u>
<b>FINANCE COSTS</b>		
Loan interest	9,438,931	8,139,525
	<u>9,438,931</u>	<u>8,139,525</u>
	<u>28,660,097</u>	<u>23,479,001</u>

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