

# **Kemao Industries Limited**

**and its controlled entities**

**ACN: 625 928 216**

**Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

# **Kemao Industries Limited**

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**For the Year Ended 31 December 2019**

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## **Directors' Report**

**31 December 2019**

The directors present their report, together with the consolidated financial statements of Kemao Industries Limited and its controlled entities ("the Group") for the financial year ended 31 December 2019.

### **Information of directors**

The names of each person who has been a director during the year and to the date of this report are:

**LEONG Chong Peng, B.Comm** (*Non-executive Chairperson*)

#### **Experience and expertise**

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

#### **Current directorships in other listed companies**

None

#### **Former directorships in other Australian public companies in the last 3 years**

The Yima Trading Company Ltd (from 30 November 2017 – 14 May 2019)

#### **Special responsibilities**

Finance and corporate management. Ms Leong is the Chairperson of the Audit Committee.

#### **Interest in shares and options in the Company**

None

**LAM Long Huy, B.Bus (Major)** (*Non-executive Director*)

#### **Experience and expertise**

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

#### **Current directorships in other listed companies**

Non-executive director of Jiajiafu Modern Agriculture Limited (ASX:JJF)

## Kemao Industries Limited

### Directors' Report

31 December 2019

<b>Former directorships in other Australian public companies in the last 3 years</b>	Non-executive director of Sanhe Building Materials Technology Company Limited from 2015 to 2017.
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<b>Special responsibilities</b>	Finance and corporate management. Mr Lam is the Chairperson of the Risk Management Committee, a member of the Audit Committee, and Nomination and Remuneration Committee.
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<b>Interest in shares and options in the Company</b>	None
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#### **CHEN Dong** (*Managing Director*)

<b>Experience and expertise</b>	Mr CHEN joined Kemao New Materials Technology Co. Ltd (Kemao China) in 2016 as the company's legal representative and in 2018 he became the General Manager. He is responsible for executing the Group's business plans, maintaining business relationship with overseas customers and managing the growth of the Group's export business. He has more than 18 years of experience in the manufacturing sector. He founded Jiangyin Fumao Chemical Fiber Factory in 2003 and has been acting as its general manager. Prior to this, he acted as the general manager of Jiangyin Maosheng Textile Manufacturing from 2000 to 2003. He was a recipient of Jiangyin outstanding entrepreneur award and is currently the vice president of Jiangyin Chamber of Commerce.
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<b>Current directorships in other listed companies</b>	None
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<b>Former directorships in other Australian public companies in the last 3 years</b>	None
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<b>Special responsibilities</b>	Business development. Mr Chen is a member of the Risk Management Committee.
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<b>Interest in shares and options in the Company</b>	55,130,000 shares
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#### **CHEN Fang** (*Executive- Director*)

<b>Experience and expertise</b>	Ms CHEN joined Kemao China in 2011 and is currently Chief Business Development Officer of Kemao China. She started as a management trainee in the company and was responsible for managing the manufacturing operations. She is now responsible for the company's overall marketing, raw material procurement and day-to-day management of sales activities. She plans and implements marketing strategies for the purposes of identifying and developing new customers and business opportunities internationally. She was a recipient of Wuxi City's Development and Innovation Talents Award.
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<b>Current directorships in other listed companies</b>	None
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<b>Former directorships in other Australian public companies in the last 3 years</b>	None
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## **Directors' Report**

**31 December 2019**

<b>Special responsibilities</b>	Business development. Ms Chen is a member of the Nomination and Remuneration Committee.
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<b>Interest in shares and options in the Company</b>	10,000,000 shares
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### **ZHOU Jianping (Non-executive Director)**

<b>Experience and expertise</b>	Mr Zhou was a founder of an insulating materials business and acted as the chairperson and general manager between 2000 and 2009. From 2010 until now, he is the chair and general manager of an insulation material technology company that he founded in 2010. The company runs a successful business producing insulated fire-resistant mica tapes which are sold internationally. In 2017, he was chairperson of Jiangsu Lefu Family Technology Co., Ltd. The company manufactures graphene heating films using its own patented technology which are used for floor heating, steam rooms, foot bath buckets, floor mats, movable heaters, etc. The company has six production bases and more than a hundred franchise stores in China.
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<b>Current directorships in other listed companies</b>	None
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<b>Former directorships in other Australian public companies in the last 3 years</b>	None
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<b>Special responsibilities</b>	Industry research and marketing. Mr Zhou is the Chairperson of the Nomination and Remuneration Committee, and a member of the Audit Committee and the Risk Management Committee.
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<b>Interest in shares and options in the Company</b>	None
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Directors have been in office since the incorporation of the Company on 28 May 2018 to the date of this report unless otherwise stated.

### **Company secretary**

The following person held the position of Company Secretary at the end of the financial year:

Ms LI Xuekun, ACCA, ACIS, was appointed company secretary on 28 May 2018. Ms Li is a chartered company secretary and a qualified accountant with more than 20 years' experience in financial accounting and corporate governance. She worked as an audit manager at the China practice of a Big-Four international accounting firm where she was involved in audits both for periodic financial reporting and for initial public offerings. She relocated to and commenced her career in Australia in 2006. She is the founder and a director of INP Perth Pty Ltd, a boutique firm providing financial and corporate services. She is the company secretary of Energy Metals Limited (ASX:EME) , Australian Uranium Mining Limited (ASX:AYM) and a few private companies.

### **Principal activities**

The principal activities of the Group during the financial year were the production and supply of tinplate products in China, other Asian regions, Europe, and the Middle East.

No significant change in the nature of these activities occurred during the year.

### **Operating results**

The consolidated profit after tax amounted to \$563,000 (2018: \$ 2,734,000).

## **Directors' Report**

**31 December 2019**

### **Review of operations**

In 2019 the Group had a significant sales growth both domestically and overseas since its brand and products had increasingly gained acknowledgement around the world. With higher production capacity and the superiority of its products, the Group established an aim to further expand its global market share in advanced industries, such as food & beverage and pressurised containers.

Additionally, the Group continued to focus on research and development, enhance its production management and upgrade its plant and equipment to ensure stable and efficient production.

### **Review of Financial Conditions**

The net assets of the Group were \$14,971,000 at 31 December 2019 (31 December 2018: \$16,045,000).

### **Share options granted to directors and senior management**

During and since the end of the financial year, no share options were granted to the directors.

### **Significant changes in state of affairs**

The Company completed an initial public offering of 1,000,000 shares at an offer price of \$0.50 per share to raise \$500,000 in May 2019 ("the Offer").

### **Matters or circumstances arising after the end of the year**

The Company was listed on the National Stock Exchange of Australia on 10 January 2020 (NSX: KEM).

### **Future developments and results**

The Group would continue to develop its tin-plate manufacturing in China and expand in overseas markets. The Group expect to use funds raised under the Offer for the development of the Australia business for the next two years, which will cover business development and marketing costs and other corporate expenses.

### **Environmental matters**

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

The Group's Chinese operating subsidiary is subject to regulations under the relevant Chinese environmental law. The environmental protection provisions, most recently amended in January 2015, allow the relevant environmental agencies to enforce stricter penalties and seize property of illegal polluters. Company executives of polluters may also be held personally liable and subject to prison sentence of 15 days. There is no cap on fines and, in extreme cases, a polluter can be forced to immediately shut down its operations.

Chinese environmental regulations are subject to frequent change. Its manufacturing operations have not been significantly affected by environmental laws and regulations.

### **Meetings of directors**

During the financial year, one meeting of directors (including committees of directors) was held. Attendances by each director during the year were as follows. No committee meetings were held during the financial year.

	<b>Directors' Meetings</b>	
	<b>Number eligible to attend</b>	<b>Number attended</b>
Ms LEONG Chong Peng	1	1
Mr LAM Long Huy	1	1
Mr CHEN Dong	1	1
Ms CHEN Fang	1	1
Mr ZHOU Jianping	1	1

### **Shares Under Option**

At 31 December 2019, there were no shares under option.

### **Shares Issued on Exercise of Options**

There were no shares issued on exercise of options during the financial year and up to the date of this report.

### **Dividends**

No dividends were paid or declared during the year. No recommendation for payment of dividends has been made.

## **Directors' Report**

**31 December 2019**

### **Indemnification and insurance of officers and auditors**

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

No indemnities have been given to the Auditor. The Company has not paid insurance premiums to the directors and officers for the financial year.

### **Proceedings on behalf of company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring material proceedings on behalf of the Company and Group, or to intervene in any proceedings to which the Company and Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company and Group with leave of the Court under section 237 of the Corporations Act 2001.

### **Non-audit Services**

MGI Perth Audit Services Pty Ltd consented to and was appointed as the Group's auditors on 18 November 2019.

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important. Non-audit services were provided by the Group's current auditors, MGI Perth Audit Services Pty Ltd as detailed below. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

	31 December 2019 \$	31 December 2018 \$
Preparation of Limited Assurance Report for inclusion in the Kemao Industries Limited prospectus.	17,700	-
-		
Total auditor's remuneration for non-audit services	17,700	-

### **Auditor's independence declaration**

The lead auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 31 December 2019 has been received and can be found on page 7 of the financial report.

### **REMUNERATION REPORT (AUDITED)**

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Company's key management personnel for the financial year ended 31 December 2019. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity. The prescribed details for each person covered by this report are detailed below under the following headings:

- remuneration policy
- key management personnel emoluments
- service agreements
- options granted as part of remuneration
- share-based compensation
- securities policy

#### **Directors and Key Management Personnel ("KMP")**

LEONG Chong Peng	Non-Executive Chairman
CHEN Dong	Managing Director
CHEN Fang	Executive Director
LAM Long Huy	Non-Executive Director
ZHOU Jianping	Non-Executive Director

## Kemao Industries Limited

### Directors' Report

31 December 2019

#### Remuneration Policy

The remuneration policy of the Group has been designed to align directors' objectives with shareholders and business objectives. The Board of Kemao Industries Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the business, as well as create goal congruence between directors, executives and shareholders. The Board's policy for determining the nature and amount of remuneration for Board members of the Company is as follows:

The Board is responsible for determining and reviewing the compensation of the directors and the Executive Directors are responsible for determining and reviewing the remuneration of senior executives. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Group's operations. The Board of Directors assesses market rates and seeks the advice of external advisers, where necessary, in connection with the structure of remuneration packages. The Board also recommends levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum fixed by members of the Company in general meeting.

There is no direct relationship between the Company's Remuneration Policy and its performance. However, in determining the remuneration to be paid in each subsequent financial year, the Board may consider to link with the Company's performance.

#### Key Management Personnel Emoluments

The Group's policy for determining the nature and amount of emoluments of key management personnel is that directors are to be paid by salaries or consulting fees at commercial rates for professional services performed.

Details of the nature and amount of each element of the emoluments of each director of Kemao Industries Limited are set out in the following tables.

		<b>Short-Term Benefits</b>		<b>Post-Employment</b>	<b>Share-Based Payment</b>	<b>Total</b>
		Directors Fees	Cash Salary, Consulting Fees	Super-annuation	Options	
<b>Non-Executive Directors</b>		\$	\$	\$	\$	\$
LEONG C. P.	2019	24,000	-	-	-	24,000
	2018	14,000	-	-	-	14,000
LAM L. H.	2019	20,000	-	-	-	20,000
	2018	11,667	-	-	-	11,667
ZHOU J.P.	2019	10,000	-	-	-	10,000
	2018	5,833	-	-	-	5,833
<b>Executive Directors</b>						
CHEN. D	2019	1,000	-	-	-	1,000
	2018	583	-	-	-	583
CHEN.F	2019	1,000	-	-	-	1,000
	2018	583	-	-	-	583
Total	2019	56,000	-	-	-	56,000
	2018	32,666	-	-	-	32,666

#### Service Agreements

On appointment to the Board, all directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms of appointment, including compensation relevant to the office of director. Remuneration and other terms of employment for the directors are also formalised in service agreements as summarised below.



## **Directors' Report**

**31 December 2019**

LEONG C. P.

On 28 May 2018, Ms Leong was appointed as the Non-executive Chairman. According to a letter of appointment, Ms Leong is entitled to a director's fee of \$24,000 per annum.

LAM L.H.

On 28 May 2018, Mr Lam was appointed as a Non-executive Director. According to a letter of appointment, Mr Lam is entitled to a director's fee of \$20,000 per annum.

ZHOU J.P.

On 28 May 2018, Mr Zhou was appointed as a Non-executive Director. According to a letter of appointment, Mr Zhou is entitled to a director's fee of \$10,000 per annum.

CHEN D.

On 28 May 2018, Mr Chen was appointed as an Executive Director. According to a letter of appointment, Mr Chen is entitled to a director's fee of \$1,000 per annum.

CHEN F.

On 28 May 2018, Ms Chen was appointed as an Executive Director. According to a letter of appointment, Ms Chen is entitled to a director's fee of \$1,000 per annum.

### **Options granted as part of remuneration**

There were no options issued during the year to any of the KMP.

### **Share-based compensation**

No shares in the Company were provided as remuneration to directors of Kemao Industries Limited.

### **Securities Policy**

The Company has implemented a policy on trading in the Company's securities designed to ensure that all directors, senior management and employees of the Company act ethically and do not use confidential inside information for personal gain. The policy states acceptable and unacceptable times for trading in Company securities and outlines the responsibility of directors, senior management and employees to ensure that trading complies with the Corporations Act 2001, the National Stock Exchange of Australia (NSX) Listing Rules and Company Policy.

Any transaction conducted by Directors with regards to shares of the Company requires notification to the NSX. Each Director has entered into an agreement to provide any such information with regards to Company dealings directly to the Company Secretary promptly to allow the Company to notify the NSX within the required reporting timeframes.

### **Shares provided on exercise of options**

No ordinary shares in the Company were provided as a result of the exercise of remuneration options to directors of Kemao Industries Limited and key management of the Company during the year (2018: nil).

### **End of Remuneration Report (Audited).**

Signed in accordance with a resolution of the Board of Directors:



Director: .....  
LEONG Chong Peng

Dated this 31 March 2020

## KEMAO INDUSTRIES LIMITED AND CONTROLLED ENTITIES

### AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF KEMAO INDUSTRIES LIMITED AND CONTROLLED ENTITIES

As lead auditor for the audit of Kemao Industries Limited and Controlled Entities for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

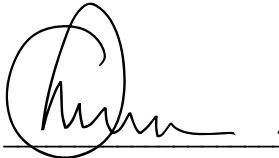
- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**Name of Firm:**

  
MGI Perth Audit Services Pty Ltd

Chartered Accountants

**Name of Auditor:**



Clayton Lawrence  
Director

**Address:**

Level 1, 322 Hay Street, Subiaco, Western Australia

**Dated this**

31<sup>st</sup> day of March 2020

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

		2019 000's	2018 000's
	Note	\$	\$
Revenue	5	161,365	137,395
Other income	5	5,497	4,759
Cost of sales		(153,890)	(129,357)
Administrative expenses		(9,139)	(6,913)
Operating expenses		(1,268)	(1,358)
Finance expenses		(2,273)	(1,796)
<b>Profit before income tax</b>		<b>292</b>	<b>2,730</b>
Income tax expense	7	271	4
<b>Profit from continuing operations</b>		<b>563</b>	<b>2,734</b>
<b>Profit for the year</b>	6	<b>563</b>	<b>2,734</b>
<b>Other comprehensive income, net of income tax</b>			
Exchange differences on translating foreign controlled entities		246	600
<b>Other comprehensive income for the year, net of tax</b>		<b>246</b>	<b>600</b>
<b>Total comprehensive income for the year</b>		<b>809</b>	<b>3,334</b>
Profit attributable to:			
Members of the parent entity		563	2,734
Total comprehensive income attributable to:			
Members of the parent entity		809	3,334
Earnings per share for profit attributable to ordinary equity holders of the Company	21	0.56c	2.71c

## Consolidated Statement of Financial Position

As At 31 December 2019

		2019 000's \$	2018 000's \$
	Note		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	8,646	5,037
Trade receivables	9	15,916	15,564
Inventories	10	26,418	24,848
Fixed deposits with banks	8	196	198
Other financial assets	11	2,024	588
Current tax receivable	12	136	952
Advance payments	14	12,630	8,975
<b>TOTAL CURRENT ASSETS</b>		<b>65,966</b>	<b>56,162</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	11,171	11,861
Deferred tax assets	12	585	341
Right-of-use asset	15	856	-
Lease prepayments		-	2,769
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12,612</b>	<b>14,971</b>
<b>TOTAL ASSETS</b>		<b>78,578</b>	<b>71,133</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	32,974	23,502
Borrowings	17	28,439	29,455
<b>TOTAL CURRENT LIABILITIES</b>		<b>61,413</b>	<b>52,957</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	17	1,023	1,030
Other liabilities	18	1,171	1,101
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,194</b>	<b>2,131</b>
<b>TOTAL LIABILITIES</b>		<b>63,607</b>	<b>55,088</b>
<b>NET ASSETS</b>		<b>14,971</b>	<b>16,045</b>
<b>EQUITY</b>			
Issued capital	19	16,743	16,743
Retained earnings		(2,647)	(1,375)
Reserves		875	677
<b>TOTAL EQUITY</b>		<b>14,971</b>	<b>16,045</b>

The accompanying notes form part of these financial statements.

## Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019

2019

	Ordinary Shares 000's \$	Retained Earnings 000's \$	Foreign Currency Translation Reserve 000's \$	Total 000's \$
<b>Balance at 1 January 2019</b>	16,743	(1,327)	629	16,045
Change in accounting policy to reflect the retrospective adjustments - adoption of AASB 16	-	(1,883)	-	(1,883)
<b>Balance at 1 January 2019 restated</b>	16,743	(3,210)	629	14,162
Profit attributable to members of the parent entity	-	563	-	563
Total other comprehensive income for the year	-	-	246	246
	-	563	246	809
<b>Balance at 31 December 2019</b>	16,743	(2,647)	875	14,971

2018

	Ordinary Shares 000's \$	Retained Earnings 000's \$	Foreign Currency Translation Reserve 000's \$	Total 000's \$
<b>Balance at 1 January 2018</b>	9,943	(4,061)	29	5,911
Profit attributable to members of the parent entity	-	2,734	-	2,734
Total other comprehensive income for the year	-	-	600	600
	-	2,734	600	3,334
<b>Transactions with owners in their capacity as owners</b>				
Contribution of equity	6,800	-	-	6,800
<b>Balance at 31 December 2018</b>	16,743	(1,327)	629	16,045

## Consolidated Statement of Cash Flows

For the Year Ended 31 December 2019

		2019	2018
		000's	000's
Note		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
	Receipts from customers	160,825	141,821
	Payments to suppliers and employees	(152,774)	(142,461)
	Interest paid	(2,273)	(1,796)
	Income taxes paid	21	(1,142)
	Interest received	148	37
29	Net cash provided by/(used in) operating activities	5,947	(3,541)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
	Proceeds from sale of plant and equipment	38	35
	Purchase of property, plant and equipment	(1,889)	(1,515)
	Change in bank balances for restricted use	(1,823)	(1,318)
	Net cash (used in) investing activities	(3,674)	(2,798)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
	Proceeds from issue of shares	-	6,801
	Proceeds from borrowings	28,947	23,467
	Repayment of borrowings	(29,780)	(24,074)
	Other financing inflows	435	1,517
	Net cash provided by/(used in) financing activities	(398)	7,711
	Net increase in cash and cash equivalents held	1,875	1,372
	Cash and cash equivalents at beginning of year	2,173	600
	Effects of exchange rate changes on cash and cash equivalents	(39)	201
8	Cash and cash equivalents at end of financial year	4,009	2,173

## **Notes to the Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

The financial report covers Kemao Industries Limited and its controlled entities ('the Group'). Kemao Industries Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 30 March 2020.

Comparatives are consistent with prior years, unless otherwise stated.

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and, accordingly amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

### **1 Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001*.

These financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **2 Change in Accounting Policy**

#### **Leases - Adoption of AASB 16**

The Group has adopted AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method from 1 January 2019 and therefore the comparative information for the year ended 31 December 2018 has not been restated and has been prepared in accordance with AASB 117 *Leases* and associated Accounting Interpretations.

#### **Impact of adoption of AASB 16**

The impact of adopting AASB 16 is described below:

#### **The Group as a lessee**

Under AASB 117, the Group assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Group or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the consolidated statement of financial position (except for short-term leases and leases of low value assets).

The Group has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised in the statement of profit or loss on a straight line basis.

#### *Practical expedients used on transition*

AASB 16 includes a number of practical expedients which can be used on transition, the Group has used the following expedients:

- contracts which had previously been assessed as not containing leases under AASB 117 were not

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 2 Change in Accounting Policy (continued)

##### Leases - Adoption of AASB 16 (continued)

##### Impact of adoption of AASB 16 (continued)

re-assessed on transition to AASB 16;

- lease liabilities have been discounted using the Group's incremental borrowing rate at 1 January 2019;
- right-of-use assets at 1 January 2019 have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments;
- a single discount rate was applied to all leases with similar characteristics;
- the right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 31 December 2019 rather than perform impairment testing of the right-of-use asset;
- excluded leases with an expiry date prior to 31 December 2019 from the consolidated statement of financial position and lease expenses for these leases have been recorded on a straight-line basis over the remaining term; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

##### Financial statement impact of adoption of AASB 16

The Group has recognised right-of-use assets of \$4,306,305 at 1 January 2019, for leases previously classified as operating leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 January 2019 was 7.00%.

	000's \$
Adjustment to lease prepayment on application AASB 16	(2,769)
Recognise right-of-use asset	886
<b>Adjustment to opening retained earnings</b>	<b><u>(1,883)</u></b>



## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies

##### (a) Basis for consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a December financial year end.

A list of controlled entities is contained in Note 26 to the financial statements.

##### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

##### (b) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 3 Summary of Significant Accounting Policies (continued)

#### (b) Income Tax (continued)

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

#### (c) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### (d) Revenue and other income

##### Revenue from contracts with customers

For current year

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

##### Statement of financial position balances relating to revenue recognition

##### Contract assets and liabilities

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer.

When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or the before payment is due, the Group presents the contract as a contract asset, unless the Group's rights to that amount of consideration are unconditional, in which case the Group recognises a receivable.

When an amount of consideration is received from a customer prior to the entity transferring a good or service to the customer, the Group presents the contract as a contract liability.

##### Contract cost assets

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (d) Revenue and other income (continued)

###### Statement of financial position balances relating to revenue recognition (continued)

The Group recognises assets relating to the costs of obtaining a contract and the costs incurred to fulfil a contract or set up / mobilisation costs that are directly related to the contract provided they will be recovered through performance of the contract.

###### *Costs to obtain a contract*

Costs to obtain a contract are only capitalised when they are directly related to a contract and it is probable that they will be recovered in the future. Costs incurred that would have been incurred regardless of whether the contract was won are expensed, unless those costs are explicitly chargeable to the customer in any case (whether or not the contract is won).

The capitalised costs are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

###### *Set-up / mobilisation costs*

Costs required to set up the contract, including mobilisation costs, are capitalised provided that it is probable that they will be recovered in the future and that they do not include expenses that would normally have been incurred by the Group if the contract had not been obtained. They are recognised as an expense on the basis of the proportion of actual output to estimated output under each contract. If the above conditions are not met, these costs are taken directly to profit or loss as incurred.

###### *Costs to fulfil a contract*

Where costs are incurred to fulfil a contract, they are accounted for under the relevant accounting standard (if appropriate), otherwise if the costs relate directly to a contract, the costs generate or enhance resources of the Group that will be used to satisfy performance obligations in the future and the costs are expected to be recovered then they are capitalised as contract costs assets and released to the profit or loss on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates.

###### Other income

Other income is recognised on an accruals basis when the Group is entitled to it.

##### (e) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

##### (f) Goods and services tax (GST) & Value Added Tax (VAT)

Revenue, 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 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

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (f) Goods and services tax (GST) & Value Added Tax (VAT) (continued)

Receivables and payable are stated inclusive of GST or VAT.

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

##### (g) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the first-in-first-out basis and is net of any rebates and discounts received. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

##### (h) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment.

###### Plant and equipment

Plant and equipment are measured using the cost model.

###### Depreciation

Property, plant and equipment, is depreciated on a straight-line basis over the assets useful life to the Group, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Plant and Equipment	10% to 33%
Furniture, Fixtures and Fittings	10% to 20%
Motor Vehicles	20%
Computer Equipment	20% to 33%
Leasehold improvements	33%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

##### (i) Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (i) Financial instruments (continued)

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

##### **Financial assets**

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

All income and expenses relating to financial assets are recognised in the consolidated statement of profit or loss and other comprehensive income in the 'finance income' or 'finance costs' line item respectively.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

The Group's trade and other receivables fall into this category of financial instruments.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future
- designated by the Group to be carried at fair value through profit or loss upon initial recognition or
- which are derivatives not qualifying for hedge accounting.

The Group has some derivatives which are designated as financial assets at fair value through profit or loss.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (i) Financial instruments (continued)

###### Financial assets (continued)

Assets included within this category are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

###### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

###### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired. Although the Group uses derivative financial instruments in economic hedges of currency and interest rate risk, it does not hedge account for these transactions.

The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

###### Impairment of Financial Assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

###### *Financial assets at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

###### *Available-for-sale financial assets*

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (i) Financial instruments (continued)

###### Impairment of Financial Assets (continued)

reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

For current year

Financial instruments are recognised initially on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

###### Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

###### *Classification*

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through profit or loss - FVTPL
- fair value through other comprehensive income - equity instrument (FVOCI - equity)
- fair value through other comprehensive income - debt investments (FVOCI - debt)

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

###### *Amortised cost*

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment. Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (i) Financial instruments (continued)

###### Financial assets (continued)

on derecognition is recognised in profit or loss.

###### *Fair value through other comprehensive income*

###### Equity instruments

The Group has a number of strategic investments in listed and unlisted entities over which they do not have significant influence nor control. The Group has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to retained earnings and is not reclassified to profit or loss.

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI.

###### Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

Net gains or losses, including any interest or dividend income are recognised in profit or loss (refer to hedging accounting policy for derivatives designated as hedging instruments.)

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

The Group's financial assets measured at FVTPL comprise derivatives in the consolidated statement of financial position.

###### *Impairment of financial assets*

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for all debt instruments not held at fair value through profit or loss.

When determining whether the credit risk of a financial assets has increased significant since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk. The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse to the Group to



## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (j) Impairment of non-financial assets (continued)

actions such as realising security (if any is held); or

- the financial assets is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

##### *Trade receivables and contract assets*

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

##### **Financial liabilities**

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and finance lease liabilities.

##### (j) Impairment of non-financial assets

At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

Where an indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss. Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (k) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

##### (l) Right-of-use asset

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

##### (m) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements.

##### (n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

##### (o) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (p) 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.

##### (q) Foreign currency transactions and balances

###### Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

###### Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(q) Foreign currency transactions and balances (continued)**

###### **Group companies (continued)**

in the consolidated statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

###### **Foreign operations**

The translation of foreign operations with different functional currency from Australian dollars is performed as follows:

- Assets and liabilities (including goodwill and fair value adjustments on acquisition) for each consolidated statement of financial position presented are translated at the closing rate at the date of the statement;
- Income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at the rate at the date of the transaction (or an average rate if that rate approximates the rate at the date of transaction);
- All resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange difference related to that foreign operation recognised in other comprehensive income is reclassified from equity to profit or loss.

##### **(r) Segment Reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operation in other economic environments. The group monitors and reports on the location of sales between China and Overseas markets.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 3 Summary of Significant Accounting Policies (continued)

#### (s) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Group where the standard is relevant:

Standard Name	Effective date for entity	Requirements	Impact
AASB 2018-6 Amendments to Australian Account Standards - Definition of a business	01 January 2020	This standard amends AASB 3 to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.	The Directors have determined that there will be no impact on the financial position of the company as a result of the change.
AASB 17 Insurance Contracts	01 January 2021	This standard will change insurance accounting in Australia, the level of impact will vary depending on the type of insurance entity and the current systems in place. AASB 17 treats insurance products with similar risks in the same manner, regardless of whether they are labelled as 'general', 'life' or 'health' insurance. Some products offered by life insurance entities may now qualify for a simpler way of determining their insurance liabilities. AASB 17 requires an insurer to recognise profits as it delivers insurance services (rather than when it receives premiums) and to provide information about insurance contract profits the company expects to recognise in the future. Insurer will reflect the time value of money in expected payments to settle incurred claims and will measure their insurance contracts based only on the obligations created by these contracts.	The Directors have determined that there will be no impact on the financial position of the company as a result of the change.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 3 Summary of Significant Accounting Policies (continued)

#### (s) New Accounting Standards and Interpretations (continued)

Standard Name	Effective date for entity	Requirements	Impact
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	01 January 2020	<p>The revised conceptual framework:</p> <ul style="list-style-type: none"> <li>• Reintroduces the terms stewardship and prudence.</li> <li>• Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces but does not change the distinction between a liability and an equity instrument.</li> <li>• Removes from the asset and liability definitions references to the expected flow of economic benefits—this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement.</li> <li>• Discusses historical cost and current value measures and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability.</li> <li>• States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability.</li> <li>• Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.</li> </ul>	The Directors have determined that there will be no impact on the financial position of the company as a result of the change.
AASB 2019 -3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	01 January 2020	<p>This standard amends AASB 7, AASB 9 and AASB 139 to modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the interest rate benchmark reform. In addition, the amendments require entities to provide additional information about their hedging relationships that are directly affected by these uncertainties</p>	The Directors have determined that there will be no impact on the financial position of the company as a result of the change.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 4 Critical Accounting Estimates and Judgments

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

##### **Key estimates - impairment of property, plant and equipment**

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

##### **Key estimates - fair value of financial instruments**

The Group has certain financial assets and liabilities which are measured at fair value. Where fair value has not able to be determined based on quoted price, a valuation model has been used. The inputs to these models are observable, where possible, however these techniques involve significant estimates and therefore fair value of the instruments could be affected by changes in these assumptions and inputs.

##### **Key estimates - revenue recognition**

When determining the nature, timing and amount of revenue to be recognised, the following critical estimates and judgements were applied and are considered to be those that have the most significant effect on revenue recognition.

##### **Key estimates - receivables**

The receivables at reporting date have been reviewed to assess impairment in accordance with the simplified approach in AASB 9.

##### **Key judgments - taxes**

###### *Deferred tax assets*

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset based on budgets, current and future expected economic conditions.

#### 5 Revenue and Other Income

##### **Revenue from continuing operations**

	<b>2019</b>	<b>2018</b>
	<b>000's</b>	<b>000's</b>
	<b>\$</b>	<b>\$</b>
Revenue from contracts with customers		
- sale of goods	<b>161,365</b>	137,395

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 5 Revenue and Other Income (continued)

Other Income		
- scrap sales	5,311	4,669
- interest income	148	36
- other	38	54
	<b>5,497</b>	<b>4,759</b>

#### 6 Result for the Year

The result for the year includes the following specific expenses:

	2019 000's \$	2018 000's \$
Employee benefits expense	3,518	3,257
Depreciation expenses	2,425	2,465
Transportation	898	902
General expenses	643	211
Consultancy fees	593	412
Impairment of receivables:		
- Bad debts	1,001	210



## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 7 Income Tax Expense

(a) The major components of tax expense (income) comprise:

	2019 000's \$	2018 000's \$
Current tax expense		
Foreign income tax - current period	(271)	(4)
	<u>(271)</u>	<u>(4)</u>

(b) Reconciliation of income tax to accounting profit:

	2019 000's \$	2018 000's \$
Profit	292	2,729
Tax	25.00%	25.00%
	<u>73</u>	<u>682</u>
Add:		
Tax effect of:		
- other non-allowable items	199	303
- under (over) provision for income tax in prior year	(21)	28
	<u>251</u>	<u>1,013</u>
Less:		
Tax effect of:		
- tax incentives received	522	910
- revenue not subject to tax	-	107
	<u>(271)</u>	<u>(4)</u>
Income tax attributable to parent entity	<u>(271)</u>	<u>(4)</u>
Income tax expense	<u>(271)</u>	<u>(4)</u>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 8 Cash and Cash Equivalents

	2019 000's \$	2018 000's \$
Cash at bank and in hand	8,646	5,037

#### Reconciliation of cash

Cash and Cash equivalents reported in the consolidated statement of cash flows are reconciled to the equivalent items in the consolidated statement of financial position as follows:

	2019 000's \$	2018 000's \$
Cash and cash equivalents	8,646	5,037
Fixed deposits with banks	196	198
Bank balances restricted for use	(4,833)	(3,062)
<b>Balance as per consolidated statement of cash flows</b>	<b>4,009</b>	<b>2,173</b>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 9 Trade receivables

	2019 000's \$	2018 000's \$
CURRENT		
Trade receivables	17,287	16,227
Provision for impairment	(a) (1,371)	(663)
<b>Total current trade and other receivables</b>	<b>15,916</b>	<b>15,564</b>

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

#### (a) Impairment of receivables

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 31 December 2019 is determined as follows, the expected credit losses incorporate forward looking information.

31 December 2019	Current	< 30 days overdue	< 60 days overdue	> 180 days overdue	Total
Expected loss rate (%)	2.00	10.00	30.00	100.00	
Gross carrying amount (\$)	11,653,738	3,905,357	1,401,281	327,125	17,287,501
ECL provision	(233,280)	(390,536)	(420,384)	(327,125)	(1,371,325)

#### (b) Collateral held as security

The Group does not hold any collateral over any receivables balances.

### 10 Inventories

	2019 000's \$	2018 000's \$
CURRENT		
At cost:		
Raw materials and consumables	5,674	11,015
Work in progress	15,169	4,019
Finished goods	5,575	9,814
	<b>26,418</b>	<b>24,848</b>

Write downs of inventories to net realisable value during the year were \$ NIL

# Notes to the Consolidated Financial Statements

## For the Year Ended 31 December 2019

### 11 Other Financial Assets

	2019 000's \$	2018 000's \$
CURRENT		
Note receivables	351	206
Other receivables and advance payments	1,817	450
Provision for impairment	(144)	(68)
<b>Total</b>	<b>2,024</b>	<b>588</b>

### 12 Tax assets and liabilities

	2019 000's \$	2018 000's \$
Current tax	78	400
VAT recoverable	58	552
<b>Current tax receivable</b>	<b>136</b>	<b>952</b>

### Deferred tax assets

Expenses deductible in a future year:  
- Provision for Impairment

Opening Balance 000's \$	Charged to Income 000's \$	Closing Balance 000's \$
275	66	341
<b>275</b>	<b>66</b>	<b>341</b>

**Balance at 31 December 2018**

Expenses deductible in a future year:  
- Provision for Impairment

Opening Balance 000's \$	Charged to Income 000's \$	Closing Balance 000's \$
341	244	585
<b>341</b>	<b>244</b>	<b>585</b>

**Balance at 31 December 2019**

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 13 Property, plant and equipment

	2019 000's \$	2018 000's \$
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	33,516	31,905
Accumulated depreciation	(22,479)	(20,307)
Total plant and equipment	11,037	11,598
Furniture, fixtures and fittings		
At cost	62	58
Accumulated depreciation	(41)	(35)
Total furniture, fixtures and fittings	21	23
Motor vehicles		
At cost	101	215
Accumulated depreciation	(63)	(65)
Total motor vehicles	38	150
Leasehold Improvements		
At cost	134	109
Accumulated amortisation	(59)	(19)
Total leasehold improvements	75	90
Total plant and equipment	11,171	11,861
<b>Total property, plant and equipment</b>	<b>11,171</b>	<b>11,861</b>

#### (a) Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment 000's \$	Furniture, Fixtures and Fittings 000's \$	Motor Vehicles 000's \$	Leasehold Improvements 000's \$	Total 000's \$
<b>Year ended 31 December 2019</b>					
Balance at the beginning of year	11,598	23	150	90	11,861
Additions	1,857	5	-	26	1,888
Disposals	-	-	(84)	-	(84)
Depreciation expense	(2,349)	(6)	(29)	(41)	(2,425)
Foreign exchange movements	(69)	(1)	1	-	(69)
<b>Balance at the end of the year</b>	<b>11,037</b>	<b>21</b>	<b>38</b>	<b>75</b>	<b>11,171</b>

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 13 Property, plant and equipment (continued)

##### (a) Movements in carrying amounts of property, plant and equipment (continued)

	Plant and Equipment 000's \$	Furniture, Fixtures and Fittings 000's \$	Motor Vehicles 000's \$	Leasehold Improvements 000's \$	Total 000's \$
<b>Year ended 31 December 2018</b>					
Balance at the beginning of year	12,169	12	193	-	12,374
Additions	1,731	12	12	107	1,862
Disposals	(446)	-	(127)	-	(573)
Depreciation expense	(2,410)	(2)	(35)	(18)	(2,465)
Foreign exchange movements	554	1	107	1	663
<b>Balance at the end of the year</b>	<b>11,598</b>	<b>23</b>	<b>150</b>	<b>90</b>	<b>11,861</b>

#### 14 Other non-financial assets

	2019 000's \$	2018 000's \$
<b>CURRENT</b>		
Advance payments	12,630	8,975

Advance payments represent payments made to the groups main supplier for the purchase of raw materials. According to the supplier's policy the group is required to make payment prior to the purchase of goods.

#### 15 Right-of-use assets

	2019 000's \$
<b>Year ended 31 December 2019</b>	
Balance at beginning of the year	887
Amortisation	(31)
<b>Balance at end of year</b>	<b>856</b>

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 December 2019**

**16 Trade and Other Payables**

	2019 000's \$	2018 000's \$
CURRENT		
Trade payables	15,317	11,181
Sundry payables and accrued expenses	632	540
Payroll payables	942	334
Payment received in advance	13,102	9,455
Other payables	2,981	1,991
	<u>32,974</u>	<u>23,501</u>

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 17 Borrowings

	2019 000's \$	2018 000's \$
CURRENT		
Secured liabilities:		
Bank loans	28,439	29,455
	2019 000's \$	2018 000's \$
NON-CURRENT		
Secured liabilities:		
Bank loans	1,023	1,030
<b>Total borrowings</b>	<b>29,462</b>	<b>30,485</b>

#### Summary of borrowings

As at 31 December 2019 borrowings as secured by:

- 1) Machinery and equipment
- 2) Guarantee by Legal Representatives and the controlling shareholders of Kemao Industries Limited
- 3) Guarantee by a company controlled by a related party of Kemao Industries Limited
- 4) Guarantees provided by a third party

#### Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

### 18 Other Liabilities

	2019 000's \$	2018 000's \$
NON-CURRENT		
Amount owing to a related party	1,171	1,101

Other payable is amount owing to related party represent advance from controlling shareholder of the company which is unsecured, interest free and repayable within 5 years.



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 19 Issued Capital

	2019 000's \$	2018 000's \$
Paid up capital	16,743	16,743

#### (a) Ordinary shares

	2019 No.	2018 No.
At the beginning of the reporting period	101,000,000	101,000,000

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

#### (b) Capital Management

The key objectives of the Company when managing capital is to safeguard its ability to continue as a going concern and maintain optimal benefits to stakeholders. The Company defines capital as its equity and net debt.

There has been no change to capital risk management policies during the year.

The Company manages its capital structure and makes funding decisions based on the prevailing economic environment and has a number of tools available to manage capital risk. These include maintaining a diversified debt portfolio, the ability to adjust the size and timing of dividends paid to shareholders and the issue of new shares.

The Board monitors a range of financial metrics including return on capital employed and gearing ratios. A key objective of the Company's capital risk management is to maintain compliance with the covenants attached to the Company's debts. Throughout the year, the Company has complied with these covenants.

### 20 Reserves

#### (a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 21 Earnings per Share

(a) Reconciliation of earnings to profit or loss from continuing operations

	2019 000's \$	2018 000's \$
Profit from continuing operations	563	2,734

(b) Earnings used to calculate overall earnings per share

	2019 000's \$	2018 000's \$
Earnings used to calculate overall earnings per share	563	2,734

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2019 No.	2018 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	101,000,000	101,000,000

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 22 Segment Information

##### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the location of sales between China and Overseas markets.

##### (a) Accounting policies adopted

Unless stated below, all amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

##### (b) Segment performance

	China sales		Overseas sales		Unallocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	000's	000's	000's	000's	000's	000's	000's	000's
	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUE</b>								
Revenue from external customers	102,872	95,965	58,493	41,430	-	-	161,365	137,395
Other revenue	-	-	-	-	5,497	4,759	5,497	4,759
<b>Total segment revenue</b>	<b>102,872</b>	<b>95,965</b>	<b>58,493</b>	<b>41,430</b>	<b>5,497</b>	<b>4,759</b>	<b>166,862</b>	<b>142,154</b>
Cost of sales	98,000	90,297	55,890	39,060	-	-	153,890	129,357
Other expenses	-	-	-	-	12,403	10,054	12,403	10,054
<b>Segment operating profit</b>	<b>4,872</b>	<b>5,668</b>	<b>2,603</b>	<b>2,370</b>	<b>(6,906)</b>	<b>(5,295)</b>	<b>569</b>	<b>2,743</b>

##### (c) Reconciliations

*Reconciliation of segment revenue to consolidated statement of profit or loss and other comprehensive income*

	2019	2018
	000's	000's
	\$	\$
Total segment revenue	161,365	137,395
Other revenue	5,497	4,759
<b>Total revenue</b>	<b>166,862</b>	<b>142,154</b>

**Notes to the Consolidated Financial Statements**  
For the Year Ended 31 December 2019

22 Operating segments (continued)

(d) Segment assets and liabilities

	China sales		Overseas sales		Unallocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	000's	000's	000's	000's	000's	000's	000's	000's
	\$	\$	\$	\$	\$	\$	\$	\$
Segment assets	12,277	12,317	3,639	3,245	62,662	55,571	78,578	71,133
Segment liabilities	-	-	-	-	63,607	55,088	63,607	55,088
Segment net assets	12,277	12,317	3,639	3,245	(945)	483	14,971	16,045

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 December 2019**

#### **23 Financial Risk Management**

The Group is exposed to a variety of financial risks through its use of financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below:

##### **Specific risks**

- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

##### **Financial instruments used**

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Trade and other payables
- Fixed rate bank loans

##### **Objectives, policies and processes**

The Board of Directors have overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Mitigation strategies for specific risks faced are described below:

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 December 2019**

#### **23 Financial Risk Management (continued)**

##### **Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the consolidated statement of financial position due to the effect of discounting.

##### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

##### *Trade receivables and contract assets*

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group review includes external ratings, if they are available, financial statements, credit agency information and industry information. Credit limits are established for each customer and the utilisation of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

The Board receives monthly reports summarising the turnover, trade receivables balance and aging profile of each of

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 23 Financial Risk Management (continued)

the key customers individually and the Group's other customers analysed by industry sector as well as a list of customers currently transacting on a prepayment basis or who have balances in excess of their credit limits.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which the customers operate.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties.

On a geographical basis, the Group has significant credit risk exposures in Australia, the Middle East, Europe and China given the location of its operations in those regions.

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Past due but not impaired (days overdue)	Past due but not impaired (days overdue)	Past due but not impaired (days overdue)	Past due but not impaired (days overdue)	Past due but not impaired (days overdue)	Past due but not impaired (days overdue)
	Gross amount 000's	Past due and impaired 000's	> 30 000's	60-180 000's	> 180 000's	Within initial trade terms 000's
	\$	\$	\$	\$	\$	\$
<b>2019</b>						
Trade receivables	17,288	1,371	3,515	981	-	11,421
Other receivables	2,168	144	74	-	-	1,950
Total	19,456	1,515	3,589	981	-	13,371
<b>2018</b>						
Trade receivables	16,226	663	1,719	142	-	13,702
Other receivables	652	68	-	58	-	526
Total	16,878	731	1,719	200	-	14,228

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

All of these financial assets are considered to have low credit risk and therefore the impairment provision recognised during the period was limited to 12 months expected credit losses. Management consider 'low' credit risk for bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer is expected to meet their contractual cash flow obligations in the relevant term.

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

## 23 Financial Risk Management (continued)

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

#### (i) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in Chinese Reminbi and US Dollars.

To mitigate the Group's exposure to foreign currency risk, non-Australian Dollar cash flows are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies. The policy is to hedge between -% and -% of forecast foreign currency cash flows

Whilst these forward contracts are economic hedges of the cash flow risk, the Group does not apply hedge accounting to these transactions. The implications of this decision are that unrealised foreign exchange gains and losses are recognised in profit and loss in the period in which they occur.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

Forward exchange contracts are mainly entered into for significant long term foreign currency exposures that are not expected to be offset by other currency transactions.

In order to monitor the effectiveness of this policy, the Board receives a monthly report showing the settlement date of transactions denominated in non-Australian Dollar currencies and expected cash reserves in that currency.

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows,

	<b>2019</b>
	<b>000's</b>
	<b>\$</b>
<b>2019</b>	
Nominal amounts	
Financial assets	<b>26,281</b>
Financial liabilities	<b>(62,069)</b>
<b>Short-term exposure</b>	<b>(35,788)</b>
Financial liabilities	<b>(1,023)</b>
<b>2018</b>	
Nominal amounts	
Financial assets	21,386
Financial liabilities	(54,050)
<b>Short-term exposure</b>	<b>(32,664)</b>
Financial liabilities	<b>(1,030)</b>



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 23 Financial Risk Management (continued)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Renminbi – Australian Dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

It assumes a +/- 8% change of the Australian Dollar / Renminbi exchange rate for the year ended 31 December 2019 (31 December 2018: 2%). These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

The year end rate is 4.89 Renminbi.

The sensitivity analysis is based on the foreign currency financial instruments held at the reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the Australian Dollar had strengthened and weakened against the Renminbi (31 December 2018: 8%) and 8% respectively then this would have had the following impact:

	2019		2018	
	+8%	-8%	+2%	-2%
<b>RMB</b>				
Net results	(42)	46	(93)	95
Equity	(42)	46	(93)	95

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

#### (ii) Interest rate risk

The Group is exposed to interest rate risk as funds are borrowed at fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.

	2019	2018
	000's	000's
	\$	\$
<b>Fixed rate instruments</b>		
Borrowings	29,462	30,485

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 23 Financial Risk Management (continued)

interest rates of +2.00% and -2.00% (2018: +2.00%/-2.00%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions and economist reports.

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

	2019		2018	
	+2.00%	-2.00%	+2.00%	-2.00%
	\$	\$	\$	\$
Net results	(559,775)	559,775	(599,733)	599,733
Equity	(559,775)	559,775	(559,775)	599,733

#### 24 Key Management Personnel Remuneration

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the remuneration report within the Directors' Report.

Key management personnel remuneration included within employee expenses for the year is shown below:

	2019 000's	2018 000's
	\$	\$
Short-term employee benefits	405	424

#### 25 Auditors' Remuneration

	2019 000's	2018 000's
	\$	\$
Remuneration of the auditor MGI Perth Audit Services Pty Ltd, for:)		
- auditing or reviewing the financial statements	7	-
- expenses	2	-
- other services	18	-
	<hr/> 27	<hr/> -
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	36	35
<b>Total</b>	<hr/> <b>63</b> <hr/>	<hr/> <b>35</b> <hr/>

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 26 Interests in Subsidiaries

#### (a) Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup> 2019	Percentage Owned (%) <sup>*</sup> 2018
<b>Subsidiaries:</b>			
Global Newmat Sdn. Bhd.	Malaysia	100	100
Jiangyin Fuke New Materials Co. Ltd.	China	100	100
Jiangsu Kemao New Materials Technology Co. Ltd.	China	100	100

\*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

### 27 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 December 2019 (31 December 2018:None).

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 28 Related Parties

**(a) The Group's main related parties are as follows:**

Key management personnel - refer to Note 24.

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

**(b) Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	Purchases	Advances	Balance outstanding Owed to the company	Owed by the company
	000's	000's	000's	000's
	\$	\$	\$	\$
<b>KMP related parties</b>				
Controlling shareholder	-	(993)	-	3,377
<b>Other related parties</b>				
Company controlled by a related party	18,805	198,285	-	680

**(c) Loans to/from related parties**

Included in other receivables are amounts of \$779,120 owing from the controlling shareholder, a company controlled by the son of the controlling shareholder and close members of the family of the controlling shareholder. These amounts are unsecured, interest free and repayable on demand.

Other payable is amount owing to related party represents advance from the controlling shareholder which is unsecured, interest free and repayable within 5 years.

Included in other payables are amounts of \$2,206,809 and \$98,733 owing to the controlling shareholder of the company and related party respectively. These amounts are unsecured, interest free and repayable on demand.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

### 29 Cash Flow Information

#### (a) Reconciliation of result for the year to cash flows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2019 000's \$	2018 000's \$
Profit for the year	563	2,734
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- amortisation	27	544
- depreciation	2,425	2,466
- loss on disposal of property, plant and equipment	46	93
- impairment of receivables	1,001	210
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(467)	138
- (increase)/decrease in other assets	(5,423)	(542)
- (increase)/decrease in inventories	(1,768)	(8,808)
- increase/(decrease) in trade and other payables	6,374	766
- increase/(decrease) in income taxes payable	(250)	(1,142)
- increase/(decrease) in other payables	3,419	-
Cash flows from operations	<u>5,947</u>	<u>(3,541)</u>

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2019

#### 30 Parent entity

The following information has been extracted from the books and records of the parent, Kemao Industries Limited and has been prepared in accordance with Australian Accounting Standards.

The financial information for the parent entity, Kemao Industries Limited has been prepared on the same basis as the consolidated financial statements.

	2019 000's \$	2018 000's \$
<b>Consolidated Statement of Financial Position</b>		
Assets		
Current assets	5,349	4,849
Non-current assets	1	1
Total Assets	5,350	4,850
Liabilities		
Current liabilities	509	9
Total Liabilities	509	9
Equity		
Issued capital	6,801	6,801
Retained earnings	(1,960)	(1,960)
Total Equity	4,841	4,841
<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit or loss for the year	-	(1,960)
<b>Total comprehensive income</b>	-	(1,960)

#### 31 Events Occurring After the Reporting Date

On 10 January 2020 the company was listed on the National Stock Exchange (NSX).

#### 32 Statutory Information

The registered office of the company is:

Kemao Industries Limited  
20/217 Hay Street  
SUBIACO WA 6008  
AUSTRALIA

The principal place of business is:

5 Songwentou Road  
Yunting Town  
JIANGYIN CITY  
CHINA

## **Directors' Declaration**

The directors of the Company declare that:

1. the financial statements and notes for the year ended 31 December 2019 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, which, as stated in basis of preparation Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position and performance of the consolidated group;
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director .....  
LEONG Chong Peng

Dated this 31 March 2020

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEMAO INDUSTRIES LIMITED FOR THE YEAR ENDED 31 DECEMBER 2019

### Report on the Audit of the Financial Report

#### Opinion

We have audited the accompanying financial report of Kemao Industries Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the consolidated entity comprising Kemao Industries Limited and the entities it controlled at the year's end or from time to time during the year.

In our opinion, the accompanying financial report of Kemao Industries Limited and its Controlled Entities, is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (c) the financial report also complies with the *International Financial Reporting Standards* as disclosed in Note 1.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of Kemao Industries Limited in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kemao Industries Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Audit Strategy for Overseas Operations</i></p> <p>The Group's structure comprises largely of trading operations in China. Component auditors were engaged to audit Jiangsu Kemao New Materials Technology Co. Ltd. Co-ordination between ourselves as the lead auditors and the component auditors was crucial to ensuring the audit plan could be executed effectively and in a timely manner.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>Understanding the operations of trading subsidiaries, including their operating locations and the environment in which they operate.</li> <li>Engaging with component auditor to complete audit of the material operations located in China.</li> <li>Assessing whether the component auditor has sufficient skills and competence to conduct the audit of trading components within the Group.</li> <li>Providing detailed group audit instructions agreed with the component auditor to ensure alignment in our audit approach and to capture relevant information required for our audit of the Group.</li> <li>Perform a detailed review of the component auditors work papers to ensure appropriate audit procedures had been carried out and sufficient appropriate audit evidence had been obtained. Where any work was deemed deficient in this regard, we perform our own audit procedures to mitigate any deemed deficiencies.</li> </ul>
<p><i>Revenue Recognition</i></p> <p>The Group's main source of revenue is from the manufacture of tin and related products. Revenue recognition was identified as a key audit matter due to the significance of revenue to the financial report and the judgement required in assessing whether the adoption of AASB 15 Revenue from Contract with Customers has an impact on revenue recognition.</p>	<p>We assessed the accounting policy for revenue recognition for compliance with the accounting standards and performed testing to ensure that revenue had been accounted for in accordance with the accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with the accounting standards, and that revenue has been accounted for in accordance with the accounting policy.</p> <p>We performed substantive tests on revenue by tracing sales transactions through to relevant supporting documentation.</p> <p>Evaluated the occurrence of sales revenue by seeking direct confirmation from a number of the Group's customers.</p> <p>Performed analytical procedures on revenue, cost of sales and gross profit percentages both within the audit period and between years to identify trends</p>

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and assess whether these are in accordance with our expectations and understanding of the Group.

No material differences were identified.

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## **Other Information**

The directors of Kemao Industries Limited are responsible for the other information. The other information comprises the information in the annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

## **Responsibilities of the Directors for the Financial Report**

The directors of Kemao Industries Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply with *International Financial Reporting Standards*.

In preparing the financial report, the directors are 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the Australian Auditing Standards 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included on pages 5 to 7 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Kemao Industries Limited for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of Kemao Industries Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Matters relating to the electronic presentation of the audited financial report**

This auditor's report relates to the financial report of Kemao Industries Limited and Controlled Entities for the year ended 31 December 2019 included on Kemao Industries Limited's web site. The directors of the Company are responsible for the integrity Kemao Industries Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

**Name of Firm:**

  
MGI Perth Audit Services Pty Ltd

Chartered Accountants

**Name of Auditor:**



Clayton Lawrence

**Address:**

Level 1, 322 Hay Street, Subiaco, Western Australia

**Dated this**

31st day of March 2020