



# 2019 Annual Report

**Beroni Group Limited**

**ACN: 613 077 526**

**NSX Code: BTG**

**OTCQX Code: BNIGF**





# **Beroni Group Limited and Its Subsidiaries**

**ABN 20 613 077 526**

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

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## A MESSAGE FROM THE CHAIRMAN

Dear Fellow Shareholders

On behalf of the Board and Management of Beroni Group Limited (“Beroni” or the “Company”), I am pleased to present the 2019 Annual Report.

In 2019, Beroni has completed a few milestones in terms of implementing our global business strategy. In the USA, the Company has been working on the commercialisation of the diagnostic kit developed by Columbia University for detecting zika, dengue, chikungunya and west nile viruses. The product is now ready for mass production and Beroni intends to promote it to countries with severe outbreaks in the past few years. Beroni was officially traded on the US OTC markets in April 2019 paving the way for the up-listing to Nasdaq at an appropriate time. In Japan, Beroni has developed the new stem-cell cosmetic products which are being sold in Japan and China. A new GMP facility has been set up in China to manufacture the Nicobloc product. The facility has a large production capacity to cater for the huge Chinese market.

### Financial Performance

Beroni reported FY2019 revenue of \$1.70 million (FY2018 \$2.16 million), and underlying EBITDA of -\$7.50 million (FY2018: -\$2.55 million) and NPAT -\$7.90 million (FY2018: -\$2.51 million). This year’s sales have decreased as a result of the slowdown in the Chinese economy and the declining demand for air purifier and water filter devices. On the positive side, the sales of the Nicobloc product have increased significantly from \$0.21 million to \$1.54 million after the Company has built its own GMP manufacturing facility in China and set up virtual stores on the two most popular Chinese retailer websites – JD.com and Tmall.

Expenses have increased significantly mainly due to the expenses associated with the dual listing of the Company on the OTC markets, a significant increase in provision for bad debts for the aged customer receivables after taking into account the market uncertainty and slowing economy in China, a 100% provision for credit loss for the investment in Youtokukai Fund due to uncertainty of recovery in the current market condition in Japan and the issuance of more shares to the directors and senior managers.

### Research and Development

As part of its research and development plans, Beroni will embark on several initiatives later in 2020 and 2021. It is preparing to start the clinical trial on a new cell therapy using gamma-delta technology for treatment of lung cancer and HIV. In February 2020, in conjunction with Tianjin University in China, Beroni has started the development of a medical solution for the coronavirus (COVID-19). The combined team of scientists expects to conduct clinical trials in April 2020. Meanwhile, the development of the anti-cancer drug PENAO together with the University of New South Wales in Australia will enter phase 2 clinical trials once Beroni has raised sufficient funds.

We are also considering other research programs with our industry partners in China, Japan, Europe and USA.

### The Way Forward

Given the global economic recession caused by the coronavirus pandemic, 2020 will be a challenging year for Beroni. As China is gradually recovering from this virus epidemic, the Company hopes to resume its efforts soon to expand the business both in China and outside China.

Beroni has re-positioned itself as an international biopharmaceutical enterprise dedicated to the innovation and commercialization of drugs and therapies to combat various global diseases such as cancer and infectious diseases. Its diversified portfolio now comprises a US FDA approved virus diagnostic kit, an e-commerce platform for the sale of pharmaceutical products and a development pipeline targeting oncology and cell therapies.

Going forward, Beroni will continue to pursue its vision to be a world’s leading player in the biopharmaceutical industry with a commitment to improving the human health. Our 5 main business focuses are as follows:

1. Develop the detection and prevention of infectious diseases business by completing the commercialisation of the virus diagnostic kit developed by Columbia University and delivering the medical solution for the detection and treatment of the coronavirus (COVID-19).

2. Synergise the e-commerce business between China and Japan and completing the acquisition of the Japanese pharmaceutical company, Medicine Plus
3. Advance the research and development programs on oncology and cell therapies using the latest technologies
4. Continue the collaboration with strategic partners to develop new medical technologies and expand existing businesses; and
5. Establish itself as a global player in the biopharmaceutical industry

I am pleased to report that we have just developed a test kit for the coronavirus (COVID-19) based on IgG/IgM technology and we are now in the process of applying to the US FDA for emergency use authorisation. We aim to distribute the COVID-19 test kit in the second quarter of 2020 once it is approved.

Once again, I would like to thank the board of directors, management team and staff for their hard work and commitment in taking the business to the next level in 2020. And I would also like to thank our shareholders for their support and interest in Beroni.



Boqing (Jacky) Zhang  
Chairman  
30 March 2020

## **Directors' Report**

The directors present their report, together with the financial statements on the consolidated entity (referred to hereafter as the 'Group') consisting of Beroni Group Limited (referred to hereafter as the 'Company' or 'Beroni') and the entities it controlled at the end of, or from 1 January 2019 to 31 December 2019.

### **Directors**

The following persons were directors of Beroni during the whole of the financial period and up to the date of this report, unless otherwise stated:

Boqing ZHANG (Executive Director, Chairman)

Chris DENG (Non-executive Director, resigned 15 April 2019)

Hai HUANG (Executive Director)

Peter Yap Ting WONG (Executive Director and CFO)

Libing GUO (Non-executive Director)

Dr Zhinan YIN (Non-executive Director)

Warwick DAWSON (Non-executive Director, appointed 3 June 2019, resigned 30 October 2019)

Tameyuki KAWAGUCHI (Independent Non-executive Director, appointed on 1 June 2019)

### **Company secretary**

Nicholas Ong

### **Information on Directors**

#### **(a) Boqing Zhang**

Mr Zhang is the founder, Chairman and CEO of Tianjin Beroni and is the Chairman of the Company. He has gained extensive marketing, operational and research experience in the biotechnology sector. He holds a bachelor's degree in Biotechnology from Tianjin University of Commerce, an MBA from Nankai University, and a MSC in International Management from the University of Sussex. He is currently studying another MBA with Tsinghua University.

Mr Zhang has previously worked in different roles including Head of Human Resources, Project Manager of R&D, CEO Asia Pacific Region, and Executive Director for companies based in China and the UK. He has a special interest in collaborating with global research institutions on bioscience and medicinal R&D, as well as technology transfer and new product development. He has been instrumental in developing Beroni since incorporation, winning various title recognition programs from the Chinese government such as "Tianjin High and New Technology Enterprise" in 2015, "National High and New Technology Enterprise" in 2016, "Tianjin Patent Pilot Unit" in 2018, and "China Market Credit Enterprise" in 2019.

Mr Zhang is a resident of the PRC. He is a member of the Nomination & Remuneration Committee.

#### **(b) Hai Huang**

Mr Huang is one of the founding directors of Tianjin Beroni. He has a business management degree from the Capital University of Economics and Business.

Mr Huang worked for a world Top 500 company for approximately 15 years and was responsible for commodity import and export and domestic trade business. Mr Huang has extensive international trade experience and more than 10 years of experience in business franchising, e-commerce business planning and implementation and team building.

Mr Huang is a resident of the PRC. He is a member of the Nomination & Remuneration Committee.

## Directors' Report (continued)

### (c) Libing Guo

Mr Guo is one of the founding directors of Tianjin Beroni. He has a financial management degree from Henan University.

Mr Guo has approximately 20 years' experience in cold-chain logistics particularly in areas of infrastructure planning, construction, fund raising, allocation of resources and implementation. Mr Guo is also experienced in professional team building, training and management.

Mr Guo is a resident of the PRC. He is the Chairman of the Nomination & Remuneration Committee and a member of the Audit & Risk Committee.

### (d) Peter Yap Ting Wong

A Chartered Accountant by profession, Mr Wong is a 30-year veteran in the financial services industry. He has gained extensive experience across a wide spectrum of business functions such as audit, taxation, finance, operations, technology, HR, risk management, compliance and control.

Mr Wong started his career in the accounting profession in 1984 and trained with two major international accounting firms; Deloitte and Price Waterhouse Coopers. He subsequently joined several large corporations where he took up senior positions managing large portfolio of functions and people. The companies he has worked with include Citibank, Hong Leong Group (Malaysia), Hong Kong Stock Exchange and Hong Kong Telecom. Before coming to Australia, Peter was in Shanghai, China where he spent 3 years with Citibank China and another 2 years with Shanghai Pudong Development Bank, a strategic partner of Citibank. He travelled extensively within China conducting seminars and giving advice to the staff and management of the Chinese bank.

Having worked in England, Hong Kong, Malaysia, China and Australia, Mr Wong is familiar with the different financial and business practices across Asia. He is well equipped to advise clients on cross-border trade and investment. He focuses on providing financial, taxation and investment advice to Australian and Asian enterprises wanting to invest or do business in the Asia-Pacific region.

Mr Wong resides in Sydney, Australia. He is the Chairman of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee.

### (e) Dr Zhinan Yin

Dr. Zhinan Yin graduated from Hubei Medical University in 1984 and finished his Master's Degree in Immunology from Shanghai Second Medical University in 1988. Dr. Yin went to the National Cancer Centre of Italy to study and research on the immune mechanism of tumour cell metastasis and spread in 1992. Dr. Yin obtained his Doctorate degree with excellent results from the Free University of Berlin in 1997, and his academic dissertation won the Excellent Paper Award. Dr. Yin is an excellent scientist who has gained rich experience in the academic world in both US and China. Dr. Yin has over 30 years of working experience with a range of universities including Yale University, Nankai University and Jinan University. Dr. Yin's main research area is the differentiation and development of  $\gamma\delta$  T cells and their roles in the regulation of tumour immunity, hepatitis, and intestinal flora. Dr. Yin has published 103 academic articles, among which he is the first author, communication author, or co-corresponding author for 52 academic articles. Dr. Yin is a current Dean, Professor and PhD Tutor at Institute of Biomedical Transformation of Jinan University and Visiting Professor at Yale University School of Medicine.

Dr Yin is a resident of the PRC and the USA.

### (f) Tameyuki Kawaguchi

Mr Tameyuki Kawaguchi is the current CEO of Medicine Plus Co., Ltd which he founded in 2005. Mr Kawaguchi is the pioneer of Medicine Plus' new retail marketing model combining online with offline sales channels for Japanese pharmaceutical products. In his 40 years of business management, he has established a unique business model and led Medicine Plus to develop nearly 80 own brand products, 7,500 offline sales channels and more than 800,000 online members. He now focuses on developing the global market for sales of Medicine Plus' "Made in Japan" comprehensive set of health products. His vast experience in Japan especially in the e-commerce sector will assist in developing Beroni's e-commerce business.

Mr Kawaguchi is a resident of Japan.

## Directors' Report (continued)

### Directors' meetings

Directors	Board		Audit committee		Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Boqing Zhang	4	4	2	2	0	0
Chris Deng *	2	1	1	0	0	0
Hai Huang	4	4	2	2	0	0
Libing Guo	4	4	2	2	0	0
Yap Ting (Peter) Wong	4	4	2	2	0	0
Dr Zhinan Yin	4	2	2	0	0	0
Warwick Dawson **	1	1	1	0	0	0
Tameyuki Kawaguchi ***	2	0	1	0	0	0

\* Resigned on 15 April 2019

\*\* Appointed on 3 June 2019, resigned on 30 October 2019

\*\*\* Appointed on 1 June 2019

### Principal activities

The principal activities of the Company during the financial year are the sales of smoking control product (NicoBloc), air purifier, water filter, and healthcare products and supplements in China. The Company also sells stem-cell based cosmetic products and cell therapies through its subsidiary in Japan.

### Review of Operations

The table below sets out the selected key performance indicators for the full year ending 31 December 2019 ("FY2019") and 31 December 2018 ("FY2018"):

	FY2019	FY2018	Change %
Sales revenue	1,697,102	2,164,330	-21.6%
Cost of sales	(436,610)	(504,120)	-13.5%
<b>Gross profit</b>	<b>1,260,492</b>	<b>1,660,210</b>	<b>-24.1%</b>
Other income	101,893	246,376	-58.6%
Selling and distribution expenses	(461,733)	(279,554)	65.2%
General and administrative expenses	(6,028,779)	(4,059,132)	48.5%
Impairment losses on trade and other receivables	(2,464,978)	(201,823)	1121.4%
Finance expense	(30,295)	(2,444)	*
Finance income	9,820	36,260	*
Share of profit / (loss) of associate	(160,000)	-	-
<b>Profit (Loss) before income tax</b>	<b>(7,773,580)</b>	<b>(2,600,107)</b>	<b>199.0%</b>
Depreciation	257,402	85,149	*
Finance expense	30,295	2,443	*
Finance income	9,820	36,260	*
<b>EBITDA **</b>	<b>(7,495,703)</b>	<b>(2,548,775)</b>	<b>194.1%</b>
Income tax expense	(130,591)	93,733	-
<b>NPAT</b>	<b>(7,904,171)</b>	<b>(2,506,374)</b>	<b>215.4%</b>

\* Insignificant amounts

\*\* EBITDA relates to profit before tax, depreciation and net finance costs



## **Directors' Report (continued)**

### **(A) Revenue**

Sales revenue has decreased by 21.58% from \$2,164,162 to \$1,697,102 mainly due to the decline in sales of the air purifying and water filter products from \$1,362,169 to almost nil. On the other hand, the sales of Nicobloc have increased from \$213,969 to \$1,539,188 as a result of the company setting up its own manufacturing facility and promoting this product through the two most popular online stores in China – JD.com and Tmall.

### **(B) Gross Profit**

As a result of the reduced sales, the gross profit has decreased from \$1,660,210 to \$1,260,954. Gross margin is around 75% as compared with 77% in 2018.

### **(C) Expenses**

The significant increase in general and administrative expenses is mainly due to the following:

- the issuance of 1,760,000 shares worth \$2,200,000 to the directors and senior managers. In the previous year, 960,000 shares worth \$1,008,000 were issued to the directors and company secretary
- the share of loss of \$160,000 and write-off of signing fee expense of \$150,000 from the equity investment in PENAO Pty Ltd
- the rental and staff expenses of \$321,599 incurred by Beroni Japan in this period compared to \$125,625 of expenses in the previous period when the Japanese subsidiary was established in April 2018
- listing, legal and consulting fees of almost half a million dollars relating to the dual listing on the OTCQX in the USA

The increase in impairment losses on trade and other receivables is mainly explained by the following:

- Because the investment terms were not being met by Youtokukai, Beroni has decided to withdraw from the initial investment and is seeking a refund for the full payment of \$1,224,868. However, due to the global market uncertainty and deteriorating market condition in Japan caused by the coronavirus pandemic, a 100% expected credit loss has been provided against the amount receivable from the Youtokukai Fund.
- An increase in bad debt provision of \$1,051,289 for the aged receivables from the customers of the Chinese subsidiary due to the slowing economy and market uncertainty caused by the coronavirus epidemic in China.

### **Dividend**

No dividends were paid or declared during or subsequent to the end of the financial period.

### **Significant Changes in State of Affairs**

#### **1. Dual listing on OTCQX**

The Company was listed on the OTCQX in the USA on 29 April 2019.

#### **2. Issue of new shares**

In June 2019, the Company issued 170,000 shares at \$1.00 to an existing shareholder raising \$170,000 cash. The Company has also issued 200,000 shares for nil consideration to a New York based investment banker as part payment for their services to assist the Company in engaging US-based investment community

As part of the directors' and employees' compensation, 1,760,000 fully paid ordinary shares at the price of \$1.25 were granted to the directors, company secretary and senior managers in June 2019.

Between August and December 2019, the Company issued a total of 590,000 shares at the price of \$1.00 to raise working capital for its operational needs.

In December 2019, 150,000 shares were issued to a US-based capital advisory firm for the purpose of assisting the Company to up-list to Nasdaq.

## **Directors' Report (continued)**

### **3. Investments**

In June 2019, Beroni signed a shareholder agreement to acquire 40% of the total share capital of PENAO Pty Ltd with NewSouth Innovations Pty Limited owing the other 60%. NewSouth Innovations is the subsidiary arm of the University of New South Wales. PENAO Pty Ltd is a company recently set up to take over from Cystemix Pty Ltd the development of the anti-cancer drug called PENAO for treatment of cancer tumours. PENAO Pty Ltd will take over the licensing rights to the new drug. Beroni has initially paid \$400,000 to Cystemix Pty Ltd for this investment and will pay a further \$9.45 million over the next 2 years to own a total of 40% shares in PENAO Pty Ltd. PENAO Pty Ltd will commence the Phase II clinical trial once the funding from Beroni is in place.

In 2018, Beroni invested JPY100 million (A\$1.22 million) into a capital fund; the Youtokukai Foundation which was set up to fund the establishment and development of the Tokyo Ginza International Medical Clinic to be operated by Youtokukai, a medical group based in Japan specialising in regenerative medicine technology such as gene therapy, immune cell therapy, and stem cell therapy. The investment was to be fully redeemed after 30 June 2021. Due to the investment terms not being met by Youtokukai, Beroni has decided to withdraw from this investment and is seeking a refund for the full payment.

In June 2018, Beroni entered into a binding agreement to acquire 100% of Medicine Plus Co., Ltd, a pharmaceutical company based in Osaka, Japan for JPY1.178 billion (about A\$14.37 million) via a combination of cash and shares. The settlement of this acquisition has been extended into this year and the directors are in the process of raising the funds in the international capital markets to complete the acquisition.

### **4. Exclusive License**

Further to the US\$1 million sponsored research agreement with Columbia University, Beroni has signed an exclusive license with New York-based Columbia University in April 2019 to sell the patented product, Arbo ViroPlex rRT-PCR Test, a multiplex assay that can simultaneously test for Zika virus, all Dengue virus serotypes, Chikungunya virus and West Nile virus. The license is for a minimum of 20 years and on a worldwide basis. For the licensing right, Beroni shall pay royalties to Columbia University based on net sales of the products.

## **Likely developments and expected results of operations**

Information on likely developments in the operations of the Company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

## **Matters subsequent to the end of the financial year**

1. The World Health Organisation announced that the coronavirus (COVID-19) had become a pandemic on 11 March 2020. The timing and extent of the impact of COVID-19 on the Group's business including its customers, suppliers and affiliates is unknown at this stage. The full impact and subsequent recovery from the COVID-19 outbreak continues to evolve as at the date of this report. The Group is therefore unable to estimate the effects of the COVID-19 outbreak on the Group's financial position, liquidity and operations in the 2020 financial year.
2. In January 2020, Beroni has kicked off its plan to up-list from the OTC markets to Nasdaq. It has engaged a US-based team of advisors, lawyers and accountants to prepare the F-1 filing for the Nasdaq IPO. Subject to approvals by the SEC and Nasdaq, it expects to be listed on the Nasdaq stock exchange in the third quarter of 2020.
3. Other than the above events, there has not arisen, in the interval between the end of the financial period and the date of this report, any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect substantially:
  - a) the Company's operations in future financial years, or
  - b) the results of those operations in future financial years, or
  - c) the Company's state of affairs in future financial years.

## **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 executive directors and non-executive directors named above.

## Directors' Report (continued)

### Remuneration governance and determination

The Board has established the Nomination & Remuneration Committee to govern remuneration of KMPs. The Nomination & Remuneration Committee determines details of remuneration, including nature, amount and make-up of remuneration for KMPs. The Nomination & Remuneration Committee also reviews these details on an annual basis.

### Details for KMPs:

Name	Position	Appointment date	Resignation date	Location
<b>Executive Directors</b>				
Boqing Zhang	Chairman, CEO	17 June 2016	-	Tianjin, China
Hai Huang	Executive Director	3 November 2016	-	Tianjin, China
Yap Ting (Peter) Wong	Executive Director, CFO	30 September 2016	-	Sydney, Australia
<b>Non-executive Directors</b>				
Chris Deng	Non-executive Director	30 September 2016	15 April 2019	Sydney, Australia
Dr Zhinan Yin	Non-executive Director	1 July 2018	-	Guangzhou, China
Libing Guo	Non-executive Director	3 November 2016	-	Tianjin, China
Warwick Dawson	Non-executive Director	3 June 2019	30 October 2019	Sydney, Australia
Tameyuki Kawaguchi	Non-executive Director	1 June 2019	-	Osaka, Japan

### Remunerations of KMPs:

KMP		Short Term				Post employment	Share based payments		Total	
Name	Year	Base salary	Cash bonus	Non-cash benefit	Other	Super-annuation	Options	Shares	Total \$	Performance-related
Boqing Zhang	2019	40,000	-	-	-	-	-	625,000	665,000	0%
	2018	40,000	-	-	-	-	-	525,000	40,000	0%
Chris Deng	2019	10,000	-	-	-	-	-	50,000	60,000	0%
	2018	30,000	-	-	-	-	-	42,000	72,000	0%
Hai Huang	2019	30,000	-	-	-	-	-	187,500	217,500	0%
	2018	30,000	-	-	-	-	-	126,000	156,000	0%
Yap Ting (Peter) Wong	2019	40,000	-	-	-	-	-	187,500	217,500	0%
	2018	40,000	-	-	-	-	-	126,000	166,000	0%
Libing Guo	2019	20,000	-	-	-	-	-	162,500	182,500	0%
	2018	20,000	-	-	-	-	-	105,000	125,000	0%
Dr Zhinan Yin *	2019	40,000	-	-	-	-	-	50,000	90,000	0%
	2018	20,000	-	-	-	-	-	25,000	45,000-	0%
Warwick Dawson	2019	-	-	-	-	-	-	-	-	-
	2018	-	-	-	-	-	-	-	-	-
Tameyuki Kawaguchi	2019	-	-	-	-	-	-	-	-	-
	2018	-	-	-	-	-	-	-	-	-

\* Appointed on 1 July 2018 with annual salary of \$40,000

## Directors' Report (continued)

### KMPs' shareholding and interests in the Company

	Balance 01.01.2019	Acquired	Granted as remuneration	Fair value of Grant \$	Disposed	Options/ Rights Vested & Exercisable at 31.12.2019	Balance 31.12.2019
Boqing Zhang <sup>1</sup>	36,479,190 <sup>1</sup>	-	500,000	625,000	-	-	36,979,190
Chris Deng	40,000	-	40,000	50,000	-	-	80,000
Hai Huang	120,000 <sup>1</sup>	-	150,000	187,500	-	-	270,000
Yap Ting (Peter) Wong	120,000	-	150,000	187,500	-	-	270,000
Libing Guo	100,000 <sup>1</sup>	-	130,000	162,500	-	-	230,000
Dr Zhinan Yin	Nil	-	40,000	50,000	-	-	40,000
Tameyuki Kawaguchi <sup>2</sup>	2,067,900 <sup>2</sup>	-	-	-	-	-	2,067,900

<sup>1</sup> Boqing Zhang, Libing Guo and Hai Huang are shareholders of Beroni Technology Limited (incorporated in Seychelles) holding 64.4%, 11.04% and 4.6% respectively. Beroni Technology Limited is the ultimate holding company of Beroni Group Limited. In addition, Boqing Zhang is the sole shareholder of Mygoldenman Technology which holds 1% of the Company's shares.

<sup>2</sup> Tameyuki Kawaguchi, as the largest shareholder of Medicine Plus, was issued 2,067,900 shares in October 2018 as partial settlement for the acquisition of his company.

### Indemnification and insurance of directors and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Officers of the Company residing in Australia, against a liability incurred as such a Director or Officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, indemnified any Director residing outside Australia or Auditor of the Company against a liability incurred as such a Director or Auditor.

### Rounding of amounts

The company is of a kind referred to in ASIC Corporations Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest dollar, or in certain cases, the nearest 1/10<sup>th</sup> of a dollar.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 16.

This report is made in accordance with a resolution of directors, pursuant to section 306(3) (a) of the Corporations Act 2001.

On behalf of the directors



**Boqing Zhang**  
Managing Director  
30 March 2020

## Other Shareholder Information

### Distribution of shareholders

As at 31 December 2019, the Company had 222 shareholders and a total of 72,972,348 fully paid ordinary shares on issue. As at 31 December 2019, the distribution of shareholders was as follows:

Size of holding	Number of shareholders	Number of ordinary shares	% of issued capital
1 - 1,000	4	2,672	0.00%
1,001 – 5,000	19	65,669	0.09%
5,001 – 10,000	27	181,411	0.25%
10,001 – 100,000	126	4,080,936	5.59%
100,001 and over	46	68,641,660	94.07%
Total	222	72,972,348	100.00%

### Substantial Shareholders

Substantial shareholders as at 31 December 2019 were as follows:

Shareholder	Number of ordinary shares	Percentage (%) of total issued shares
Beroni Technology Ltd *	35,255,782	48.31%
Kai, Shen	12,523,620	17.16%

\* Boqing Zhang, Libing Guo and Hai Huang are shareholders of Beroni Technology Ltd (incorporated in Seychelles) holding 64.4%, 11.04% and 4.6% respectively. Beroni Technology Limited is the ultimate holding company of Beroni Group Limited.

### Voting Rights

Fully paid ordinary shares in the Company carry voting rights of one vote per share. Unlisted options and unlisted performance rights do not carry voting rights.

### Restricted Securities

There are no restricted securities.

## Other Shareholder Information (continued)

### Top 20 Shareholders (by number of ordinary shares)

Rank	Name	Units	% of Units
1	Beroni Technology Ltd	35,255,782	48.31%
2	Mr Kai, Shen	12,523,620	17.16%
3	Mr Tameyuki Kawaguchi	2,067,900	2.83%
4	Ms Jianxia, Gao	1,853,392	2.54%
5	Mr Bo Ma	1,485,286	2.04%
6	Eagle IG Hong Kong Limited	1,259,506	1.73%
7	Xiaokun, Wang	1,117,453	1.53%
8	Jianguo Wen	1,014,606	1.39%
9	Mr Boqing Zhang	1,000,000	1.37%
10	Mr Hanlin, Zhang	777,375	1.07%
11	Mygoldenman Technology Ltd	723,408	0.99%
12	J P Morgan Nominees Australia Pty Limited	602,736	0.83%
13	Mr Jianguo Wen	584,549	0.80%
14	Ms Yan Sun	571,599	0.78%
14	Ms Binyan Yu	571,599	0.78%
16	Fengkui, Ma	550,872	0.75%
17	Mr Xiangxin Li	547,065	0.75%
18	Bohua, Zhang *	517,297	0.71%
19	Hanlin Zhang	500,000	0.69%
20	USA Register Control A/C\C	394,000	0.54%
	Top 20 holders of ordinary fully paid shares	63,918,045	87.59%
	Remaining holders balance	9,054,303	12.41%
	Total	72,972,348	100.00%

\* A relative of Boqing Zhang

## Corporate Directory

### Registered Office

Beroni Group Limited

C/- Suite 401  
447 Kent Street  
Sydney NSW 2000  
Australia

Telephone (Sydney): +61 2 8051 3055

Telephone (Tianjin): + 86 22 5853 0398

Email: [enquiry@beronigroup.com](mailto:enquiry@beronigroup.com)

Website: [www.beronigroup.com](http://www.beronigroup.com)

### Beroni Japan

1-144#6 Ginza, Tyuo-ku  
Tokyo 104-0061  
Japan

### Auditor

UHY Haines Norton  
Level 11, 1 York Street  
Sydney NSW 2000  
Australia

### Directors

Boqing Zhang  
Tameyuki Kawaguchi  
Hai Huang  
Libing Guo  
Peter Wong  
Dr Zhinan Yin

### Company Secretary

Nicholas Ong

### Beroni China

Beroni Biotechnology Co., Ltd

Level 10, Building 11  
Zhong Bei High Technology Industrial Park  
Xiqing District, Tianjin  
China

Beroni Group Limited is listed on the National Stock Exchange  
and is traded on the OTCQX in the USA.

NSX Code: BTG; OTCQX: BNIGF

### Beroni USA

2083 Center Avenue #3A  
Fort Lee  
New Jersey 07024  
USA

### Share Registry

Computershare  
Level 11  
172 St Georges Terrace  
Perth WA 6000, Australia

GPO Box D182  
Perth  
WA 6840

T: (61) 8 9323 2000

[www.computershare.com.au](http://www.computershare.com.au)

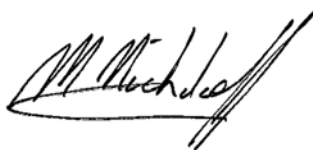
## Auditor's Independence Declaration

### To the Directors of Beroni Group Limited

As auditor for the audit of Beroni Group Limited 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 of 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.

This declaration is in respect of Beroni Group Limited and the entities it controlled during the financial period.

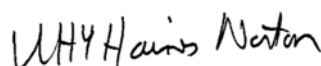


**Mark Nicholaeff**

Partner

Sydney

Date: 30 March 2020



**UHY Haines Norton**

Chartered Accountants



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Consolidated Year Ended 31.12.2019 AUD	Consolidated Year Ended 31.12.2018 AUD
Sales revenue	5	1,697,102	2,164,330
Cost of sales		(436,610)	(504,120)
<b>Gross profit</b>		<u>1,260,492</u>	<u>1,660,210</u>
Other income			
Government subsidy	6	57,956	219,178
Other revenue		43,937	27,198
Selling and distribution expenses	7	(461,733)	(279,554)
General and administration expenses	7	(6,028,779)	(4,059,132)
Impairment losses on trade and other receivables	9	(2,464,978)	(201,823)
Finance expense		(30,295)	(2,444)
Finance income		9,820	36,260
Share of profit / (loss) of associate	15	(160,000)	-
<b>Profit / loss before income tax</b>		<u>(7,773,580)</u>	<u>(2,600,107)</u>
Income tax expense	17	(130,591)	93,734
<b>Net profit / (loss) for the period</b>		<b>(7,904,171)</b>	<b>(2,506,373)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(28,987)	283,378
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Fair value increment / (decrement) in investment in Dendrix Inc	25	(486,303)	-
<b>Total comprehensive income / (loss) for the period</b>		<u><b>(8,419,461)</b></u>	<u><b>(2,222,995)</b></u>
<b>Profit / (loss) for the period is attributable to:</b>			
Owners of Beroni Group Limited		(7,765,629)	(2,428,621)
Non-controlling interest		(138,542)	(77,752)
<b>Total profit / (loss) for the period</b>		<u><b>(7,904,171)</b></u>	<u><b>(2,506,373)</b></u>
<b>Total comprehensive income / (loss) for the period attributable to:</b>			
Owners of Beroni Group Limited		(8,275,990)	(2,146,572)
Non-controlling interest		(143,471)	(76,423)
<b>Total comprehensive income / (loss) for the period</b>		<u><b>(8,419,461)</b></u>	<u><b>(2,222,995)</b></u>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit for the period</b>			
Basic earnings / (loss) per share	19	(11.08)	(3.82)
Diluted earnings / (loss) per share	19	<u>(11.08)</u>	<u>(3.82)</u>

The above Consolidated Statement of Profit or Loss And Other Comprehensive Income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Consolidated As at 31.12.2019 AUD	Consolidated As at 31.12.2018 AUD
<b>Current Assets</b>			
Cash and cash equivalents	8	3,010,530	5,747,749
Trade receivables	9	1,857,144	2,335,120
Other receivables	9	506,837	461,181
Inventories	11	827,539	48,173
Prepayments and other current assets	10	3,736,652	4,427,066
Total current assets		<u>9,938,702</u>	<u>13,019,289</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	12	358,356	210,201
Right-of-use assets	13	767,162	-
Intangible assets	14	1,413,275	1,336,117
Current tax assets		69,759	-
Deferred tax assets	17	-	129,165
Investment in associate	15	240,000	-
Investment in other entities	16	1,945,212	3,656,383
Other assets		93,823	282,070
Total non-current assets		<u>4,887,587</u>	<u>5,613,936</u>
<b>Total Assets</b>		<b>14,826,289</b>	<b>18,633,225</b>
<b>Current Liabilities</b>			
Trade and other payables	18	153,797	56,979
Borrowings from related parties	18, 22	318,633	215,471
Lease liabilities	13	284,809	-
Other current tax liabilities		-	22,998
Other liabilities	18	386,625	93,125
Total current liabilities		<u>1,143,864</u>	<u>388,573</u>
<b>Non-Current Liabilities</b>			
Lease liabilities	13	507,254	-
Other liabilities		48,563	-
Total non-current liabilities		<u>555,817</u>	<u>-</u>
<b>Total Liabilities</b>		<b>1,699,681</b>	<b>388,573</b>
<b>Net Assets</b>		<b>13,126,608</b>	<b>18,244,652</b>
<b>Equity</b>			
Issued capital	24	24,223,167	20,913,167
Reserves	25	(219,630)	290,731
Retained earnings		(10,686,756)	(2,912,717)
Equity attributable to equity holders of the parent entity		<u>13,316,871</u>	<u>18,291,181</u>
Non-controlling interests		(190,173)	(46,529)
<b>Total Equity</b>		<b>13,126,608</b>	<b>18,244,652</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent					Non-controlling interests	Total
	Issued Capital	Surplus reserve	Revaluation reserve	Foreign currency translation reserve	Retained earnings		
	AUD	AUD	AUD	AUD	AUD	AUD	AUD
<b>Consolidated 2019</b>							
Balance at 1 January 2019	20,913,167	16,885	-	273,846	(2,912,717)	(46,529)	18,244,652
Effect of changes in accounting policy					(8,409)	(174)	(8,583)
Restated balance at 1 January 2019	20,913,167	16,885	-	273,846	(2,921,126)	(46,704)	18,236,069
Comprehensive income/(loss) for the period:							
Net loss for the period	-	-	-	-	(7,765,629)	(138,542)	(7,904,171)
Other comprehensive income/(loss) for the period	-	-	(486,303)	(24,057)	-	(4,930)	(515,290)
<b>Total comprehensive income/(loss) for the period</b>	-	-	(486,303)	(24,057)	(7,765,629)	(143,472)	(8,419,461)
Transactions with owners in their capacity as owners, net of transaction cost	-	-	-	-	-	-	-
Capital contribution from share placements	760,000	-	-	-	-	-	760,000
Ordinary shares issued to directors and senior managers	2,200,000	-	-	-	-	-	2,200,000
Ordinary shares issued to US consultant and investment bank	350,000	-	-	-	-	-	350,000
<b>Balance at 31 December 2019</b>	<b>24,223,167</b>	<b>16,885</b>	<b>(486,303)</b>	<b>249,789</b>	<b>(10,686,755)</b>	<b>(190,173)</b>	<b>13,126,608</b>

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to Equity Holders of the Parent					Non-controlling interests	Total
	Issued Capital	Surplus reserve	Revaluation Reserve	Foreign currency translation reserve	Retained earnings		
	AUD	AUD	AUD	AUD	AUD	AUD	AUD
<b>Consolidated 2018</b>							
Balance at 1 January 2018	11,372,072	16,885	-	(8,203)	(565,019)	-	10,815,735
Comprehensive income/(loss) for the period	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	(2,428,621)	(77,752)	(2,506,373)
Other comprehensive income/(loss) for the period	-	-	-	282,049	-	1,329	283,378
<b>Total comprehensive income/(loss) for the period</b>	-	-	-	282,049	(2,428,621)	(76,423)	(2,222,995)
Transactions with owners in their capacity as owners, net of transaction cost	-	-	-	-	80,923	-	80,923
Capital contribution from share placement	8,533,095	-	-	-	-	-	8,533,095
Ordinary shares issued to directors and company secretary	1,008,000	-	-	-	-	29,894	1,037,894
<b>Balance at 31 December 2018</b>	<b>20,913,167</b>	<b>16,885</b>	<b>-</b>	<b>273,846</b>	<b>(2,912,717)</b>	<b>(46,529)</b>	<b>18,244,652</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Consolidated Year Ended 31.12.2019 AUD	Consolidated Year Ended 31.12.2018 AUD
<b>Cash flows from operating activities:</b>			
Receipts from customers		2,257,868	2,012,160
Payments to suppliers and employees		(5,608,804)	(5,482,285)
Interest paid		(23,807)	-
Income tax paid		(150,023)	(73,746)
Receipts from government		-	-
Net cash generated/(used) in operating activities	28	(3,524,046)	(3,543,871)
<b>Cash flows from financing activities:</b>			
Gross proceeds from issue of equity instruments of the Company, net of transaction costs		780,466	5,952,163
Gross proceeds from / (repayment of) borrowings		129,373	203,337
Principal component of lease payments		(130,479)	-
Net cash generated from financing activities		779,360	6,155,500
<b>Cash flows from investing activities:</b>			
Proceeds from disposal of PPE		-	15,012
Purchase of property, plant and equipment		(9,354)	(250,057)
Interest received		-	36,257
Payments for intangible assets		-	(1,335,767)
Investment in other entities		-	(4,206,383)
Payment for other investing activities		7,329	(41,881)
Net cash generated from / (used in) investing activities		(2,025)	(5,782,819)
Net increase in cash and cash equivalents		(2,746,711)	(3,171,190)
Cash and cash equivalents at beginning of the period		5,747,749	8,669,709
Exchange gain/(loss) on cash and cash equivalents		9,492	249,230
<b>Cash and cash equivalents at end of the period</b>	8	3,010,530	5,747,749

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes.

## **Note 1. Corporate information**

The financial statements cover Beroni Group Limited ("Parent entity" or the "Company") as a consolidated entity consisting of Beroni Group Limited and the entities it controlled (together referred to as the "Group") at the end of, or during, the year ended 31 December 2019. The financial statements are presented in Australian dollars, which is the Company's presentation currency, with all values rounded to the nearest dollar unless otherwise stated.

The Company is a for-profit listed public company limited by shares, incorporated and domiciled in Australia. The Company's shares are publicly traded on the National Stock Exchange of Australia and on the OTC markets in the USA.

The Company's registered office and the Group's principal place of business are:

<b>Registered office</b>	<b>Principal place of business</b>
Suite 401, level 4 447 Kent Street Sydney NSW 2000 Australia	Level 10, Building 11 Zhong Bei High Technology Industrial Park, Xiqing District Tianjin 300380 People's Republic of China

The principal activities of the Group during the financial year are the sales of smoking control product (NicoBloc), air purifier, water filter, cosmetics, and healthcare products and stem-cell therapies. It currently has four core businesses – cell therapies, developing new anti-cancer drugs, e-commerce platform for pharmaceutical and healthcare products, and detection & diagnosis of infectious diseases.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 March 2020.

## **Note 2. Basis of preparation**

This general purpose financial statement for the annual reporting period ended 31 December 2019 has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

This general purpose financial report has been prepared on a historical cost basis, except for a few items where the basis used will be explicitly stated in the relevant note.

### **2.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of Beroni Group Limited and its subsidiaries at 31 December 2019 ("the Group").

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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 activities of the entity. Where shareholding is less than one-half of the voting rights, the Group is considered to have control over the entity when it can exercise power over more than one-half of its voting rights by virtue of an agreement with other shareholders.

### **Subsidiaries**

The group controls an entity when the group 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 activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Potential voting rights that are currently exercisable or convertible are considered when assessing control.

Consolidated financial statements include all the subsidiaries other than those acquired in business combinations involving entities under common control from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

## **2.1 Basis of consolidation (continued)**

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

## **2.2 Foreign currency translation**

The functional currency of Beroni Group Limited is Australian dollars. The functional currency of the Company's subsidiary, Beroni Hongkong Limited, is Hong Kong dollars and its subsidiary, Tianjin Beroni Biotechnology Co., Limited in mainland China is Chinese Yuan (Renminbi). The functional currency of the Company's other two subsidiaries, Beroni Japan Inc. and Beroni USA Corporation is Japanese Yen and United States dollar respectively. The presentation currency is Australian dollars (AUD).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period.

Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

At the end of the reporting period, the assets and liabilities of the Group are translated into the presentation currency at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the period. All resulting exchange difference is recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

## **2.3 Critical accounting judgements and estimates**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### **(a) Impairment of investments**

The Group will determine whether it is necessary to recognise any impairment loss with respect to its investments. When necessary, the entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss, including goodwill that forms part of the carrying amount of the investment, is recognised through profit or loss or other comprehensive income. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

### **(b) Fair value measurement**

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors determines the appropriate valuation techniques and inputs for fair value measurements. The Group has established a fair value hierarchy that categorises into three levels of inputs to valuation techniques used to measure fair value. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group considers other observable data (Level 2 inputs) for the asset or liability, either directly or indirectly. If observable data are not available, other valuation techniques (Level 3 inputs) such as an income approach, market approach or net assets value approach are considered.

## **2.3 Critical accounting judgements and estimates (continued)**

### **(c) Estimated provision for credit loss of receivables**

The Group recognises a loss allowance for expected credit losses on trade and other receivables. The Group always recognises lifetime ECL for receivables. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial asset

### **(d) Depreciation and amortisation**

Leasehold land and land use rights, property, plant and equipment (excluding land and construction in progress) and intangible assets (excluding goodwill and intangible assets with indefinite useful life) are depreciated and amortised using the straight-line method during the estimated useful lives of these assets to allocate the cost of the assets to their estimated net residual values. The Company reviews the estimated useful lives and estimated residual values periodically, to ensure that method and rate of depreciation/amortisation are consistent with the pattern how such assets' economic benefits are expected to be realised.

The Company makes estimates of the useful lives and residual values of such assets, based on historical experience and with reference to estimated technical improvement. In case of significant changes in estimated useful lives and residual values, depreciation and amortisation expenses will be adjusted accordingly.

### **(e) Provision for decline in the value of inventories**

The Company measures inventories according to the lower of cost and net realisable value at the balance sheet date, and the calculation of net realisable value requires assumptions and estimates. If the management revises the estimated selling price and cost and expenses to be incurred till completion, the estimates of net realisable value will be impacted, and the difference from the original estimates will affect the provision for decline in the value of inventories.

## **2.4 New, revised or amended Accounting Standards and Interpretations adopted**

### New, revised or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The following new accounting standard is effective for annual periods beginning on or after 1 January 2019.

- AASB 16 Leases

The Group has changed its accounting policies and made retrospective adjustments as a result of adopting AASB 16 Leases. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 13 below. The group has elected to apply the simplified transition approach for its leases in China, Japan and the USA. The transition exemptions are available for leases with a remaining term of 12 months or less and for low value assets (both on a lease-by-lease basis).

Other new standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been adopted early.

## **Note 3. Group restructure**

Beroni Group Ltd was incorporated on 17 June 2016, owning 100% shares of Beroni HongKong Limited ("Beroni Hong Kong") which owns 100% shares of Tianjin Beroni Biotechnology Co., Limited ("Tianjin Beroni"), the company of principal business.

On 21 May 2014, Tianjin Beroni was incorporated as a wholly owned subsidiary of Beijing Benehealth Biotechnology Co. Ltd in Tianjin, the People's Republic of China (the "PRC"). On 8 September 2016, Tianjin Beroni placed 0.99% shares to Eagle IG Limited for a cash consideration of RMB 100,000.

On 9 September 2016, pursuant to a share sale agreement, Beijing Benehealth Biotechnology Co. Ltd and Eagle IG Limited sold the entire share capital of Tianjin Beroni to Beroni Hong Kong for a consideration of RMB 10,010,000. On 24 October 2016, Mr Boqing



### Note 3. Group restructure (continued)

Zhang, the sole shareholder of Beroni Hong Kong transferred all of his shares in Beroni HongKong to Beroni Group Limited for HKD10,000, which completed the final step of the restructuring process.

When combined with the transactions above, Beroni Hong Kong become the intermediate holding company for the Group. Through this transaction, effective control of Tianjin Beroni passed to the shareholders of the Company. The transaction is not within the scope of *AASB 3 Business Combinations* and has been treated as a capital restructure, where following the corporate restructure of the Group, the Company took control of Tianjin Beroni with no change in underlying control.

In April 2018, the Company acquired 51% of the share capital of Beroni Japan Inc., a company set up for the purpose of developing the Group's business in Japan. The Company has paid a consideration of JPY2.55 million (A\$31,114) for this investment.

On 9 November 2018, Beroni established a new 100%-owned company in the USA, Beroni USA Corporation to develop the business of detecting and treatment of infectious diseases.

### Note 4. Segment reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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 Makers) in assessing performance and determining the allocation of resources. The Group is managed primarily on the basis of the nature of the business activities. Operating segments are therefore determined on the same basis.

The following operating segments have been noted:

- Nicobloc
- Fogibloc air purifier
- Olansi water filter
- MRET water activator
- Health supplements
- Cosmetic products
- Cell therapies

### Segment information

Segment information provided to the board of directors for the year ended 31 December is as follows:

Segment	Segment Revenue		Segment Gross Profit	
	2019 AUD	2018 AUD	2019 AUD	2018 AUD
Nicobloc	1,539,188	213,969	1,197,806	185,963
Fogibloc air purifier	488	946,464	232	688,235
Olansi water filter	-	415,557	-	407,011
MRET water activator	-	148	-	(270)
Health supplements	-	240,461	-	204,829
Cosmetic products	152,560	52,143	61,236	16,645
Cell therapies	-	48,393	-	14,578
All other	4,866	247,195	1,218	143,218
Total for all segments	1,697,102	2,164,330	1,260,492	1,660,209
Other income			101,893	246,376
Unallocated selling and distribution expenses			(461,733)	(279,554)
Central general and administrative expenses			(8,653,757)	(4,260,955)
Net finance costs			(20,475)	33,817
Profit / (loss) before income tax			(7,773,580)	(2,600,107)

#### Note 4. Segment reporting (continued)

##### **Other segment information**

Segment revenue reported above represents revenue generated from external customers. There were \$739,919 inter-segment sales in the current year (2018: nil).

The executive management committee monitors segment performance based on gross profit. Segment gross profit represents the gross profit earned by each segment without allocation of selling and distribution expenses, central general and administration expenses, other income as well as net finance costs.

##### **Geographical information**

Segment revenue based on the geographical location of customers is as below:

##### **Sales Revenue by Geographical Market**

	2019 AUD	2018 AUD
China	1,687,522	2,115,937
Japan*	9,580	48,393
	1,697,102	2,164,330

\* Japan sales in 2019 were related to stem-cell cosmetic products while those in 2018 were related to cell therapies

##### **Major customers**

Major customers accounting for more than 10% of the sales of the Group are as follows:

	2019 AUD	2018 AUD
China Business Belloni (Tianjin) Technology Co., Ltd	1,039,021	1,428,535
Tianjin Zhongke Beicheng Technology Co., Ltd	264,421	606,290
Henan Zhongzheng Television Media Co., Ltd	206,173	-
Hongyan Zhang	197,926	-
	1,707,541	2,034,825

#### Note 5. Revenue

	Consolidated 2019 AUD	Consolidated 2018 AUD
Sales	1,697,102	2,164,330

##### **Accounting policy: Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The company currently generates revenue only from sale of goods and services in China and Japan.

##### *Sales of goods and services*

In China, the Company sells smoking control products, air purifiers, health supplements, and cosmetics both to the wholesale market and directly to customers through the e-commerce channels.

For sales of goods to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on-selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods on the e-commerce outlet. Payment of the transaction price is due immediately at the point the

## Note 5. Revenue (continued)

customer purchases the goods.

In Japan, the Company sells cosmetic products and cell therapies. Revenue from the sale of cosmetic products is recognised when the goods are delivered and titles have passed at the point of delivery. Revenue on sales of cell therapies is recognised upon the stage of completion of the services.

### *Sales of goods on consignment*

Revenue from sale of goods on consignment is recognised upon the sale of the goods by the consignee. Control of the goods remains with the Company until such time as the goods are sold by the consignee.

### *Discounts, promotional and other rebates*

The amount of revenue recognised for a transaction is net of any discounts, promotional and other rebates.

### *Warranties*

Sales-related warranties associated with electrical goods are provided by the product manufacturers and the Company does not bear the related warranty costs.

## Note 6. Government subsidy

	Consolidated 2019 AUD	Consolidated 2018 AUD
Government subsidy	57,956	219,178

### Accounting policy: Government subsidy

Government subsidy is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government subsidy is recognized in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government subsidy is applied for by the Group to Chinese local government authorities based on various entitlements the Group is eligible to. Applications for various government subsidies are raised, checked, and approved on an annual basis.

Government subsidy that is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

## Note 7. Expenses

Profit before income tax is derived at after taking the following significant expense items into account:

	Consolidated 2019 AUD	Consolidated 2018 AUD
Wages and salaries	739,439	568,425
Rent expenses	155,740	64,764
R&D expenses	285,545	426,328
Legal fees	256,027	187,949
Listing expenses	674,892	605,905
Share-based payment compensation <sup>1</sup>	2,200,000	1,008,000
Expected credit losses on trade and other receivables <sup>2</sup>	2,464,978	201,823
	6,776,621	3,063,194

<sup>1</sup> Share-based payment compensation relates to the 1,760,000 shares granted to the directors and senior managers in June 2019.

<sup>2</sup> See Note 9.

**Note 8. Cash and cash equivalents**

	Consolidated 2019 AUD	Consolidated 2018 AUD
Cash on hand	6,156	14,357
Cash at bank	3,004,374	5,733,392
Total cash and cash equivalents	<u>3,010,530</u>	<u>5,747,749</u>

**Accounting policy: Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Term deposits with maturity over three months include bank deposits with fixed terms over three months' period. For the purpose of the Consolidated Statement of Cash Flows, term deposits with maturity over three months are shown as cash flows from investing activities.

**Note 9. Trade and other receivables**

	Consolidated 2019 AUD	Consolidated 2018 AUD
Amounts due from customers	3,316,785	2,764,810
Less: Provision for expected credit losses <sup>1</sup>	(1,459,641)	(429,690)
Trade receivables	<u>1,857,144</u>	<u>2,335,120</u>
Receivable from Youtokukai Fund <sup>2</sup>	1,224,868	-
Less: Provision for expected credit loss	(1,224,868)	-
Net receivable from Youtokukai Fund	<u>0</u>	<u>-</u>
Others	757,911	523,434
Less: Provision for expected credit loss	(251,074)	(62,253)
Other receivables	<u>506,837</u>	<u>461,181</u>

<sup>1</sup> Being increase in expected credit losses based on trade receivables aging at 31 December 2019.

<sup>2</sup> On 18 June 2018, the Company invested JPY100 million (A\$1.22 million) into a capital fund, the Youtokukai Fund which was set up to fund the establishment and development of the Tokyo Ginza International Medical Clinic to be operated by Youtokukai, a medical group based in Japan specialising in regenerative medicine technology such as gene therapy, immune cell therapy, and stem cell therapy. The Medical Clinic is wholly owned by Youtokukai. For this investment, Beroni Group was to receive a monthly dividend from January 2019 onwards based on the operating surplus of the business and its share of the total investment in this joint venture. The investment can be fully redeemed after 30 June 2021. However, due to the investment terms not being met by Youtokukai Fund, Beroni has decided to withdraw from this investment and is now seeking a refund for the full payment. The investment has been reclassified as a receivable from Youtokukai Fund.

In January 2020, Beroni has obtained a court injunction against Youtokukai to repay JPY130 million over 14 months. The repayment is guaranteed by a medical doctor of Youtokukai. Despite the court injunction, Youtokukai has missed the first 2 payments in January and February 2020. In view of the uncertainty of recovery and market condition in Japan, Beroni has decided to make a 100% credit loss provision against the debt. Any subsequent repayments received from Youtokukai will be taken as a reversal of expected credit loss provision.

## Note 9. Trade and other receivables (continued)

Movements on the provision for the impairment of trade and other receivables are as follows:

	Consolidated 2019 AUD	Consolidated 2018 AUD
At 1 January	491,943	290,120
Additions to provision for expected credit losses	2,464,978	184,755
Exchange differences	(21,338)	17,068
At 31 December	2,935,583	491,943

## Accounting policy: Trade and other receivables

The Group recognises a loss allowance for expected credit losses on trade and other receivables. The amount of expected credit losses (ECL) is updated at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

The Group always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial asset. The aging profile of trade and other receivables is disclosed in Note 21.

## Note 10. Prepayments and other current assets

	Consolidated 2019 AUD	Consolidated 2018 AUD
Prepayment for shares in Cystemix <sup>1</sup>	-	550,000
Shares issued to Medicine Plus <sup>2</sup>	3,618,825	3,618,825
Other prepayments and current assets	117,827	258,241
	3,736,652	4,427,066

<sup>1</sup> On 28 March 2018, the Company signed a term sheet with NewSouth Innovations Pty Ltd ("NSI"), a subsidiary of the University of New South Wales and Cystemix Pty Limited ("Cystemix"), a company established in 2002 by NSI to advance the clinical development of the potentially groundbreaking anti-cancer drug called PENAO. Beroni has paid in advance \$550,000 for 2.2% of the share investment during the first half year of 2018. The drug development has been transferred to a new company, PENAO Pty Ltd in June 2019 with NSI owning 60% of the shares of the new company and Beroni owing 40% of the remaining 40%. The investment in PENAO Pty Ltd has been treated as an equity-accounted investment under non-current assets in the current period. Of the prepayment, \$150,000 has been expensed off in this period as this amount was related to the signing fee for the letter of investment intent.

<sup>2</sup> On 8 October 2018, Beroni issued 2,067,900 shares at \$1.75 to the owners of Medicine Plus as partial settlement for the acquisition of the latter company. The original settlement price of \$14.3 million agreed in June 2018 was increased by 10% to approximately \$15.8 million in October 2018 as a result of the owners of Medicine Plus agreeing to extend the settlement date. In the event that the acquisition of Medicine Plus cannot be completed, the shares already issued to Medicine Plus will be retained by its owners and the cost of the shares will be recognised as an expense in the income statement. The settlement date has been mutually extended and the company is currently raising capital to settle this acquisition before the end of this year.

## Note 11. Inventories

	Consolidated 2019 AUD	Consolidated 2018 AUD
Inventories	827,539	48,173

## Accounting policy: Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Note 12. Property, plant and equipment**

2019	Land & Building AUD	Machinery AUD	Motor Vehicle AUD	Office Equipment AUD	Other Equipment AUD	Total AUD
Opening net book value	5,261	23,767	99,308	23,561	58,304	210,201
Depreciation Adjustment	-	-	-	-	-	-
Additions	-	-	256,224	4,209	-	260,433
Disposals	-	(674)	-	-	(3,572)	(4,247)
Depreciation charge	-	(7,970)	(79,836)	(11,251)	(7,847)	(106,904)
Foreign exchange translation	122	(160)	(666)	68	(493)	(1,129)
Closing net book value	5,383	14,964	275,030	16,586	46,392	358,356

2018	Land & Building AUD	Machinery AUD	Motor Vehicle AUD	Office Equipment AUD	Other Equipment AUD	Total AUD
Opening net book value	-	22,515	78,141	27,998	24,105	152,759
Depreciation Adjustment	-	180	-	(180)	-	-
Additions	4,975	-	66,374	9,375	42,167	122,891
Disposals	-	-	(15,298)	(1,611)	-	(16,909)
Depreciation charge	-	-	(33,001)	(13,326)	(8,944)	(55,271)
Foreign exchange translation	286	1,072	3,092	1,305	976	6,731
Closing net book value	5,261	23,767	99,308	23,561	58,304	210,201

**Accounting policy: Property, plant and equipment**

Land and buildings are leased for use in the production or supply of goods or services, or for administrative purposes. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Assets are depreciated over their useful lives as follows:

Machinery	10 years
Motor vehicles	4 years
Office Equipment	3 years
Other Equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Profit and Loss.

**Note 13. Leases**

The group has adopted AASB 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

### **Note 13. Leases (continued)**

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8% for China, 6% for Japan and 9% for USA.

The interest rate implicit in the lease is not readily determinable. The Company's incremental borrowing rate is defined as the rate of interest that it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. When the lease is denominated in a foreign currency, the Company's incremental borrowing rate should be the rate at which the lessee could obtain funding for the asset in the foreign currency.

Lease liabilities recognized as at 31 December 2019

	<b>2019</b>
	<b>AUD</b>
Current lease liabilities	284,809
Non-current lease liabilities	507,254
	<u>792,063</u>

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. The right-of-use assets are depreciated over the <sup>shorter</sup> of the assets' useful life and the lease term on a straight-line basis.

The recognised right-of-use assets relate to the following types of assets:

	<b>31 December 2019</b>	<b>1 January 2019</b>
	<b>AUD</b>	<b>AUD</b>
Properties	935,624	378,066
Accumulated depreciation	(168,462)	(23,633)
	<u>767,162</u>	<u>354,433</u>

### **Accounting policy: Leases**

The Group recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments. The depreciation of right-of-use assets and interest on lease liabilities are recognised in the consolidated statement of profit or loss.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities. Right-of-use assets will be tested for impairment in accordance with AASB 36 *Impairment of Assets*. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group opts to recognise a lease expense on a straight-line basis as permitted by AASB 16.

### **Note 14. Intangible Assets**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>AUD</b>	<b>AUD</b>
Capitalised development cost *	1,277,518	1,288,276
Patents **	135,408	47,490
Software	349	351
	<u>1,413,275</u>	<u>1,336,117</u>

#### **Note 14. Intangible Assets (continued)**

\* The Company has entered into an agreement with the Columbia University, New York to provide US\$1 million funding to a 12-month research program in the field of ArboViroPlex rRT-PCR Test, a multiplex assay that can simultaneously test for Zika virus, all dengue virus serotypes, Chikungunya virus and West Nile virus, under the direction of Professor Walter Ian Lipkin. In return for the research funding support, Columbia University grants the Company an exclusive option to obtain an exclusive, compensation bearing license in the territory of China to the ArboViroPlex rRT-PCR Test patents and inventions and also a non-exclusive, compensation bearing license in the territory of China to the information and materials developed in the course of this research. In April 2019, the Company signed a 20-year exclusive license agreement with the Columbia University to sell the diagnostic kit product on a worldwide basis. The capitalized development cost will be amortised over the 20-year life of the license.

\*\* As requested by the Company, Columbia University has secured the ArboViroPlex rRT-PCR Test patent in six countries namely USA, India, Saudi Arabia, China, Australia and Japan. The patents were paid for by Beroni and the carrying amount of the patents which represents the registration costs of the patent in these countries will be amortised over the 20-year life of the license.

#### **Accounting Policy: Intangibles**

##### **Patents**

Patents acquired separately or in a business combination is initially measured at cost, which is its fair value at the date of acquisition. Following initial recognition, it is carried at cost less any amortisation and impairment. The useful life of patents generally ranges from 5 to 20 years.

##### **Software**

Costs incurred in developing or acquiring software, licences or systems that will contribute future financial benefits are capitalised. These include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 10 years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, where the Group has the intention and ability to use the asset.

##### **Research and Development**

The Group conducts research and development activities to support future development of products, to enhance our existing products and to develop new therapies. All costs associated with these activities are expensed as incurred as uncertainty exists up until the point of regulatory approval as to whether a research and development project will be successful.

No intangible asset arising from research shall be recognised. Expenditure on research shall be recognised as an expense when it is incurred. Research or development expenditure that relates to a development project acquired separately or in a business combination shall be recognised as an intangible asset when it is probable that the project will be a success considering its commercial and technical feasibility, the Company is able to use or sell the asset, the Company has sufficient resources, and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefits.

##### **Recognition and measurement**

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life of the asset. Significant software intangible assets are amortised over a 10-year useful life. The amortisation period and method is reviewed at each financial year end at a minimum. Intangible assets with indefinite useful lives are not amortised. The useful life of these intangibles is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable.

##### **Impairment of intangible assets**

Assets with finite lives are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there is any indication that these assets have suffered an impairment loss, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Intangible assets that have an indefinite useful life (such as goodwill) are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they may be impaired.



#### **Note 15. Investment in associate**

As mentioned in Note 10, the PENAO drug development has been transferred from Cystemix Pty Ltd to a new company, PENAO Pty Ltd in June 2019 with NSI owning 60% of the shares of the new company and Beroni owning 40% of the remaining 40%. Details of the associate are provided below.

Name of associate	PENAO Pty Ltd
Principal activity	Research and development of the new cancer drug, PENAO
Place of incorporation and principal place of business	Sydney, New South Wales
Proportion of ownership interest held by the Group	40% of the shares and voting rights

The above associate is accounted for using the equity method as set out in the Group's accounting policies in Note 2.

- 1) Pursuant to a shareholder agreement, Beroni has the right to cast 40% of the votes at shareholder meetings of PENAO Pty Ltd.
- 2) The financial year of end date of PENAO Pty Ltd is 30 June. As the company was newly set up in June 2019, the first set of financial statements was not available. The management of PENAO Pty Ltd has provided basic financial information of the company and based on such information, the financial statements are summarised as below:

	<b>2019</b>	<b>2018</b>
	<b>AUD</b>	<b>AUD</b>
Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Net assets	-	-
Equity attributable to owners of Beroni	-	-
Non-controlling interest	-	-
Revenue	-	-
Profit/(Loss) for the year	(400,000)	-
Other comprehensive income	-	-
Total comprehensive income/(loss)	(400,000)	-
Investment in associate		
Opening balance	-	-
Additions at cost	400,000	-
Share of associate's loss for the period	(160,000)	-
Closing balance	240,000	-

#### **Accounting Policy: Investment in associate**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5.

Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

**Note 15. Investment in associate (continued)**

The requirements of AASB 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 36 to the extent that the recoverable amount of the investment subsequently increases.

**Note 16. Investment in other entities**

	<b>Consolidated 2019 AUD</b>	<b>Consolidated 2018 AUD</b>
Investment in shares of Dendrix Inc. <sup>1</sup>	1,945,212	2,431,515
Investment in Youtokukai Fund <sup>2</sup>	-	1,224,868
	<u>1,945,212</u>	<u>3,656,383</u>

<sup>1</sup> Pursuant to a share subscription agreement signed with Dendrix Inc. on 9 April 2018, Beroni acquired 10,000 ordinary shares at an issue price of 20,000 Japanese Yen (JPY) per share, for a total investment of 200 million JPY (approximately A\$2.43 million dollars), representing 17.92% of the total share capital of Dendrix Inc. Dendrix Inc. is a company based in Tokyo, Japan and was established in December 2012 to provide immune cell culture for treatment against malignant tumours. For the fair value assessment of the investment in the shares of Dendrix Inc., please see Note 25.

<sup>2</sup> Please see Note 9.

**Accounting Policy: Investment in equity instruments**

Investments in equity instruments and joint ventures that are not held for trading are designated as at FVTOCI (Fair Value Through Other Comprehensive Income) in accordance with AASB 9 and are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments' revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included as investment income in the income statement.

**Fair value measurement**

At 31 December 2019, the directors and management performed an assessment of reasonably possible changes in key assumptions and had made a fair value assessment of the investments. The fair value gains and losses are recognised in other comprehensive income and accumulated in the investments revaluation reserve.

In estimating the fair value of its investment, the Group considers the three levels of inputs to valuation techniques as follows:

- a. Level 1 inputs are quoted prices in active markets for identical assets that the Group can access at the measurement date
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- c. Level 3 inputs are unobservable inputs for the asset

For the investment in the equity of Dendrix Inc, the Group has used the net assets value of the entity (based on its financial statements) as the basis for the fair value measurement. The fair value measurement is shown in the table below.

**Note 16. Investment in other entities (continued)**

	2019	Fair value measurements at end of reporting period			Total gain/(loss)
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Recurring fair value measurements</b>		<b>AUD</b>	<b>AUD</b>	<b>AUD</b>	<b>AUD</b>
Investment in equity of Dendrix Inc.	1,945,212	-	-	1,945,212	(486,303)

**Note 17. Income tax**

	Consolidated 2019 AUD	Consolidated 2018 AUD
Profit / (loss) before income tax	(7,773,580)	(2,600,107)
Adjusted for loss in parent company *	5,093,962	2,340,268
Adjusted for loss in other group members	(521,061)	168,965
Profit before tax derived from operations in China	(2,158,557)	(90,874)
25% Income tax on profit in China	-	(22,718)
(Increase) / decrease in deferred tax asset **	129,165	(82,107)
Adjusted for foreign currency exchange impact	1,426	11,091
Income tax expense	130,591	(93,734)

\* The Group has an estimated \$10 million (parent company \$7.3 million; Chinese company \$2.2 million; Japanese company \$0.5 million) of accumulated tax losses. As it is uncertain whether taxable profits will be available against which those tax losses can be utilised, no deferred tax asset has been recognised in the accounts.

\*\* Deferred tax assets have been de-recognised in respect of the deductible temporary differences related to its operations in China because it is not probable that future taxable profits will be available against which the Chinese entity can use the benefits therefrom.

**Unrecognised deferred tax assets**

	2019 Gross amount AUD	Tax effect	2018 Gross amount AUD	Tax effect
Deductible temporary differences related to its operations in China	1,882,689	470,672	-	-

**Accounting policy: Taxation**

*Current tax*

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

## Note 17. Income tax (continued)

### *Deferred tax*

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### *Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

## Note 18. Trade and other payables

	Consolidated 2019 AUD	Consolidated 2018 AUD
Trade and other payables	153,797	56,979
Other liabilities	386,625	93,125
Payables to related parties	318,633	215,471
	859,056	365,575

### Accounting policy: Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the business prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## Note 19. Earnings per share

	Consolidated 2019 AUD	Consolidated 2018 AUD
Basic earnings / (loss) (cents) per share	(11.08)	(3.82)
Diluted earnings / (loss) (cents) per share	(11.08)	(3.82)
Weighted average number of shares used in calculating basic earnings per share	71,364,732	65,537,908
Weighted average number of shares used in calculating diluted earnings per share	71,364,732	65,537,908

**Note 20. Auditors' remuneration**

	<b>Consolidated 2019 AUD</b>	<b>Consolidated 2018 AUD</b>
Prosperity Audit Services	-	89,000
Shanghai WSP CPA	-	48,552
UHY Haines Norton Sydney	93,000	-
	<u>123,431</u>	<u>137,552</u>

**Note 21. Financial risk management**

**Accounting classifications and fair values**

The Group has financial assets of cash and cash equivalents, and trade and other receivables. The financial assets are measured at amortised cost, and the carrying amount is a reasonable approximation of fair value at 31 December 2019.

The Group has financial liabilities of trade and other payables and payables to related parties. Non-derivative financial liabilities are measured at amortised cost, and the carrying amount is a reasonable approximation of fair value at 31 December 2019.

**General objectives, policies and processes**

Activities undertaken by the Group may expose the Group to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to its finance team, for designing and operating processes that ensure the effective implementation of the objectives and policies of the Group. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives regular reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

At 31 December 2019 and 31 December 2018, the Group held the following financial instruments:

	<b>Consolidated 2019 AUD</b>	<b>Consolidated 2018 AUD</b>
<b>Financial Assets</b>		
<b>Current</b>		
Cash and cash equivalents	3,010,530	5,747,749
Trade receivables	1,857,144	2,335,120
Other receivables	506,837	461,181
	<u>5,374,511</u>	<u>8,544,050</u>
<b>Financial Liabilities</b>		
<b>Current</b>		
Trade and other payables	153,797	56,979
Borrowings from related parties	318,633	215,471
Other liabilities	386,625	93,125
	<u>859,055</u>	<u>365,575</u>

The fair value of these financial instruments is assumed to approximate their carrying value.

**(a) Credit risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

**Note 21. Financial risk management (continued)**

Receivable balances are monitored on an ongoing basis. To mitigate the credit risk associated with cash and cash equivalents, contracts are taken out only with reputable financial institutions.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of financial asset is the carrying amount of those assets, which is net of impairment losses. Refer to the summary of financial instruments table above for the total carrying amounts of financial assets.

**Trade and other receivables**

**Impairment**

The balance of trade and other receivables that were aged over 360 days and impaired at 31 December 2019 is \$2,935,583 (2018: \$491,943).

The aging of the trade and other receivables that were not impaired as at 31 December 2019 are set out in the following table.

	<b>2019</b>	<b>2018</b>
	<b>AUD</b>	<b>AUD</b>
Neither past due nor impaired	506,837	461,181
0 to 180 days past due but not impaired	274,992	787,441
180 to 360 days past due but not impaired	697,920	547,415
Over 360 days past due but not impaired	884,232	1,000,264
	<u>2,363,981</u>	<u>2,796,301</u>

The main source of credit risk to the Group is considered to relate to the class of assets described as trade and other receivables. Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 9.

No collateral is held over other receivables.

**Cash and cash equivalents**

The Group held cash and cash equivalents of \$3,010,530 at 31 December 2019. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency Standard and Poor's ratings.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments.

Prudent liquidity risk management implies maintaining sufficient cash to meet its financial commitments. The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Note 21. Financial risk management (continued)**

***Maturity analysis***

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Total contractual cash flows	Carrying amount
	AUD	AUD	AUD	AUD	AUD
At 31 December 2019					
Trade and other payables	-	151,302	2,495	153,797	153,797
Payables to related parties	-	318,633	-	318,633	318,633
Other liabilities	-	386,625	-	386,625	386,625
	-	856,560	2,495	859,055	859,055
At 31 December 2018					
Trade and other payables	-	79,977	-	79,977	79,977
Payables to related parties	-	215,471	-	215,471	215,471
Other liabilities	-	93,125	-	93,125	93,125
	-	388,573	-	388,573	388,573

**(c) Market risk**

Market risk arises from the use of interest bearing, and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

**Accounting policy: Financial instruments**

**Financial assets**

***Recognition and de-recognition***

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the profit or loss. Financial assets are derecognised when rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

***Classification***

Financial assets in the scope of AASB 9 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments, or available-for-sale investments, as appropriate.

The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets of the Group are classified in two categories as following:

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at fair value through profit or loss. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

## Note 21. Financial risk management (continued)

### **Recognition of expected credit losses**

The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for loans and receivables. The expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

### **Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

### **Accounting policy: Fair value**

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## Note 22. Related party transactions

### **a) Related parties**

The Group's major related parties are as follows:

- |                             |   |
|-----------------------------|---|
| 1) Key management personnel | Boqing Zhang<br>Peter Yap Ting Wong<br>Hai Huang<br>Libing Guo<br>Chris Deng (resigned on 16 April 2019)<br>Zhinan Yin<br>Warwick Dawson (appointed on 3 June 2019, resigned on 30 October 2019)<br>Tameyuki Kawaguchi (appointed on 3 June 2019)   |
| 2) Substantial shareholders | Beroni Technology Ltd (incorporated in Seychelles)  |
| 3) Other related entities   | Beijing Yisheng Huikang (previous holding company)<br>Tianjin Beroni Biotechnology Co., Ltd (subsidiary of Beroni Hongkong Limited)<br>Beroni Hongkong Limited (subsidiary of Beroni Group Limited)<br>Beroni Japan Inc (subsidiary of Beroni Group Limited)<br>Beroni USA Corporation (subsidiary of Beroni Group Limited) |

### **b) Key Management Personnel (KMP)**

Compensation

	2019 AUD	2018 AUD
<b>Total KMP Compensation</b>		
Short-term employee benefits	180,000	180,000
Post-employment benefits	-	-
Share-based payments	1,262,500	924,000
	1,442,500	1,104,000

Detailed remuneration disclosed are provided in the remuneration report on page 10.



## Note 22. Related party transactions

### Other transactions

In the year ended 31 December 2019, the Company has engaged the services of Asia Invest Partners Limited to manage its financial and tax affairs in Australia. Asia Invest Partners is owned by the Australian director, Peter Yap Ting Wong. The Company has paid a total of \$25,000 for such services rendered in the 2019 financial year.

### c) Balances with related parties

	2019 AUD	2018 AUD
<b>Amounts due to related parties</b>		
Mr. Boqing Zhang <sup>1</sup>	27,731	27,358
Ms. Fujiwara Kinuko <sup>2</sup>	290,902	188,113
<b>Total amounts due to related parties</b>	<u>318,633</u>	<u>215,471</u>

<sup>1</sup> This represents \$27,731 loaned to Beroni HK by Mr. Boqing Zhang, a director of Beroni HK for payment of general & administration expenses before Beroni HongKong Limited was able to open its bank accounts.

<sup>2</sup> This is an unsecured loan from Ms. Fujiwara Kinuko, a director of Beroni Japan Inc. to provide working capital to Beroni Japan Inc.

## Note 23. Dividends

There was no dividend paid nor declared during the period

## Note 24. Share capital

	2019 Number of shares	AUD	2018 Number of shares	AUD
<b>Ordinary shares fully paid</b>				
At the beginning of the period	70,102,348	20,913,167	60,177,683	11,372,072
Share placements	760,000	760,000	6,896,765	4,914,270
Shares issued to directors and senior managers	1,760,000	2,200,000	960,000	1,008,000
Shares issued to US consultant and investment bank	350,000	350,000	2,067,900	3,618,825
<b>Total ordinary shares fully paid</b>	<u>72,972,348</u>	<u>24,223,167</u>	<u>70,102,348</u>	<u>20,913,167</u>

### Accounting policy: Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity.

No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## Note 25. Reserves

	Consolidated 2019 AUD	Consolidated 2018 AUD
Surplus reserve	16,885	16,885
Investment revaluation reserve	(486,303)	-
Foreign currency translation reserve	249,788	273,846
<b>Total Reserves</b>	<u>(219,630)</u>	<u>290,731</u>

### Investments revaluation reserve

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of investments in equity instruments designated as at FVOCI, net of cumulative gain/loss transferred to retained earnings upon disposal.

The movement in the investments revaluation reserve is presented below:

**Note 25. Reserves (continued)**

	Investment in equity instruments designated as at FVTOCI AUD	Investments revaluation reserve AUD
Balance at 1 January 2019	2,431,515	-
Fair value gain / (loss) on investment in Dendrix Inc. <sup>1</sup>	(486,303)	486,303
<b>Balance at 31 December 2019</b>	<b>1,945,212</b>	<b>486,303</b>

<sup>1</sup> Please see Note 16.

**Note 26. Parent entity**

The following information relates to the parent entity Beroni Group Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 2.

	2019 AUD	2018 AUD
Current assets	3,773,016	4,127,430
Non-current assets	11,576,615	13,397,030
<b>Total assets</b>	<b>15,349,630</b>	<b>17,524,460</b>
Current liabilities	95,436	-
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>
Contributed equity	24,312,913	21,002,913
Accumulated losses	(8,572,415)	(3,478,453)
Reserves	(486,303)	-
<b>Total equity</b>	<b>15,254,195</b>	<b>17,524,460</b>
(Loss) for the year	(5,093,962)	(2,340,268)
Other comprehensive income / (loss) for the year	(486,303)	-
<b>Total comprehensive income for the year</b>	<b>(5,580,265)</b>	<b>(2,340,268)</b>

**Note 27. Subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results to the following subsidiaries in accordance with the accounting policy described in Note 2.

Name of Entity	Country of Incorporation	Equity Holding		Principle Activities
		31.12.2019	31.12.2018	
		%	%	
Beroni HongKong Limited	Hong Kong	100	100	Investment holdings
Tianjin Beroni Biotechnology Co., Limited	China	100	100	Retail of health products
Beroni Japan Inc.	Japan	51	51	Retail of stem-cell cosmetics and cell therapies
Beroni USA Corporation	United States	100	100	Retail of diagnostic kits

**Note 28. Reconciliation of Profit after income tax to Net Cash from operating activities**

	<b>2019</b> <b>AUD</b>	<b>2018</b> <b>AUD</b>
Operating profit / (loss) after tax	(7,904,171)	(2,506,373)
Depreciation & Amortisation	257,402	85,149
Unrealised foreign exchange gain	916,472	(205,529)
Fair value increment / (decrement) in associate	160,000	-
(Increase)/Decrease in receivables	2,837,642	(1,134,986)
(Increase)/Decrease in prepayments	690,414	217,561
(Increase)/Decrease in inventory	(779,366)	114,792
Increase/(Decrease) in payables	96,818	24,592
Increase/(Decrease) in other liabilities	200,743	(139,077)
Net cash flow from operating activities	(3,524,046)	(3,543,871)

**Note 29. Contingencies**

The Group has no contingent liabilities or commitments as at 31 December 2019 except for the following:

- (a) On 20 June 2018, Beroni entered into a binding agreement to acquire 100% of Medicine Plus Co., Ltd, a pharmaceutical company based in Osaka, Japan for JPY1.178 billion (about A\$14.37 million) via a combination of cash and shares. In October 2018, Beroni issued 2,067,900 shares at \$1.75 to the owners of Medicine Plus as partial settlement for the acquisition of the latter company. The original settlement price of \$14.3 million agreed in June 2018 was increased by 10% to approximately \$15.8 million in October 2018 as a result of the owners of Medicine Plus agreeing to extend the settlement date. In the event this acquisition is not successfully completed, the cost of the shares issued to Medicine Plus amounting to \$3,618,825 will be recognised as an expense in the income statement. The settlement date has been mutually extended and the company is currently raising capital to settle this acquisition at the earliest possible date.
- (b) In June 2019, Beroni signed a shareholder agreement to acquire 40% of the total share capital of PENAO Pty Ltd with NewSouth Innovations Pty Limited (NSI) owning the other 60%. NSI is the subsidiary arm of the University of New South Wales. PENAO Pty Ltd is a company recently set up to take over from Cystemix Pty Ltd the development of the anti-cancer drug called PENAO for treatment of cancer tumours. PENAO Pty Ltd will take over the licensing rights to the new drug. Beroni has initially paid \$400,000 to Cystemix Pty Ltd for this investment and will pay a further \$9.45 million over the next 2 years to own a total of 40% shares in PENAO Pty Ltd. In the event Beroni is not able to pay the additional \$9.45 million, then PENAO Pty Ltd can issue on the same terms to NSI the shares which were to be issued to Beroni and Beroni will grant NSI an option to purchase all of the shares then held by Beroni for the lesser of and at NSI's sole discretion:
  - the price per share paid by a genuine third-party investor for shares in PENAO Pty Ltd; or
  - at a 20% discount on the price paid by Beroni for the Beroni Shares

**Note 30. Events after the Balance Sheet date**

1. The World Health Organisation announced that the coronavirus (COVID-19) had become a pandemic on 11 March 2020. The timing and extent of the impact of COVID-19 on the Group's business including its customers, suppliers and affiliates is unknown at this stage. The full impact and subsequent recovery from the COVID-19 outbreak continues to evolve as at the date of this report. The Group is therefore unable to estimate the effects of the COVID-19 outbreak on the Group's financial position, liquidity and operations in the 2020 financial year.
2. In January 2020, Beroni has kicked off its plan to up-list from the OTC markets to Nasdaq. It has engaged a US-based team of advisors, lawyers and accountants to prepare the F-1 filing for the Nasdaq IPO. Subject to approvals by the SEC and Nasdaq, it aims to be listed on the Nasdaq stock exchange in the third quarter of 2020.
3. There has not arisen, in the interval between the end of the financial period and the date of this report, any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect substantially:
  - a) the Company's operations in future financial years, or
  - b) the results of those operations in future financial years, or
  - c) the Company's state of affairs in future financial years.

## Directors' Declaration

In the opinion of the directors of Beroni Group Limited ("the Company"):

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Boqing Zhang

Chairman

30 March 2020

## INDEPENDENT AUDITOR'S REPORT

### To the Members of Beroni Group Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Beroni Group Limited ("the Company") and its subsidiaries ("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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and of its consolidated financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### 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 the Group 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 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 year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

## RECOVERABILITY OF RECEIVABLES

Refer to Note 9 – Trade and other receivables of the financial report. As at 31 December 2019, the Group's Statement of Financial Position included trade and other receivables of \$2.364 million after impairment. These trade and other receivables were assessed for impairment in the current year and an expected credit loss of \$2.685 million was recorded as a result of this analysis.

### Why a key audit matter

### How our audit addressed the risk

We focused on this area because of:

- The significance of this asset to the Group's consolidated statement of financial position. The gross value of trade and other receivables comprise approximately 33% of total assets;
- The inherent uncertainty and subjectivity associated with impairment testing due to the significant level of judgement involved in estimating future recoveries and other forward looking assumptions; and
- The high degree of sensitivity of expected credit loss estimates to certain assumptions.

Our audit procedures included, amongst others:

- We assessed whether management's expected credit loss methodology was appropriate;
- We examined historical recoveries of trade receivables and their aging structure to determine whether management's lifetime expected credit loss matrix appeared reasonable; and
- We reviewed and assessed other supporting documentation provided by management to substantiate the recoverability of receivables

## VALUATION OF INVESTMENTS HELD AT FAIR VALUE

Refer to Note 16 – Investment in other entities of the financial report. As at 31 December 2019, the Group's Statement of Financial Position included investments in other entities of \$1.945 million, which are recorded at fair value.

Why a key audit matter	How our audit addressed the risk
<p>We focused on this area because of:</p> <ul style="list-style-type: none"> <li>▪ The significance of this asset to the Group's consolidated statement of financial position. Investments in other entities held at fair value comprise approximately 13% of total assets;</li> <li>▪ The inherent uncertainty and subjectivity associated with the valuation of investments due to the significant level of judgement involved in estimating fair values; and</li> <li>▪ The high degree of sensitivity of fair value estimates to certain assumptions.</li> </ul>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▪ We assessed whether management's classification of financial assets within the measurement categories of AASB 9 appeared reasonable; and</li> <li>▪ We examined supporting documentation provided by management to substantiate movements in investments held at fair value to conclude on the reasonability of such movements.</li> </ul>

## Other Information

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

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report.

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 the Company 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 preparing the financial report, the directors are responsible for assessing the ability of the Group 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 Group or to cease operations, or has 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

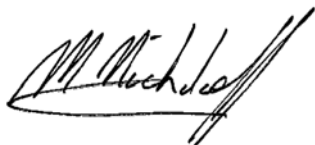
### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2019.

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

### *Responsibilities*

The directors of the Company 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.

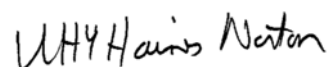


**Mark Nicholaeff**

Partner

Sydney

Date: 30 March 2020



**UHY Haines Norton**

Chartered Accountants