



KEMAO INDUSTRIES LIMITED

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RESPONSE TO QUESTIONS FROM THE NSX LISTING COMMITTEE

Directors of Kemao Industries Limited (ACN 625 928 216) (**Company**) wish to provide the following responses to questions raised by the NSX Listing Committee on or around 15 November 2019.

Question: Source and legitimacy of loan funds

Response: The following audit work procedure have been undertaken by HML & Co to verify the source and legitimacy of loan funds:

Step	Description
1	Obtained a list of bank loans and agree total amount to general ledger.
2	Obtained original confirmation from the financial institutions on the balances.
3	Agreed the balances confirmed by the financial institutions to the list of bank loans.
4	Reviewed the original confirmation letters received from the financial institutions on whether the bank loans are secured or unsecured.
5	For secured bank loans, agree the facilities to the loan agreement, and agree the assets pledged to audit working papers.
6	For all bank loans, obtained a copy of the loan agreement.
7	Split the bank loans to short- and long-term loan.

In addition, the Company's nominated adviser, Biztrack Consultants, had also reviewed copies of the bank loan agreements (current at the time of due diligence) to understand the nature and amount of loans.

Question: Inconsistencies between documents relating to Sale Agreements and Revenue

Response: The due diligence committee of the Company's listing on NSX (**DDC**) agreed that the scope of the Chinese legal due diligence was to review and consider all past and current contracts of Kemao China with no quantitative threshold so as to assess any potential legal issues and risks. As confirmed through legal due diligence review, Kemao uses a standard form Chinese tinplate sale contract for all of its domestic sales and a standard form English tinplate sale contract for all of its overseas sales. The DDC agreed that, to keep the due diligence report concise and effective, the report was to include only summaries of current contracts as at the date of the report and any identified issues with past contracts.

The tinplate sale contracts are essential to everyday trading of Kemao's business. According to statistics compiled by Kemao, for the 12 months from 11 November 2018

to 11 November 2019, Kemao entered into approximately 993 such trading contracts (689 for domestic sales and 304 for overseas sales). Thus, the number of performing contracts as at any particular time can vary due to factors including when goods are delivered, purchase prices are paid and new contracts are signed.

Further, Kemao recognises sales based on job performed, that is, when goods are delivered to customers. Obligations under these trading contracts are sometimes performed over more than one financial year. Revenue from these contracts reported in any one financial year will only record the portion of the obligations under these contracts that have been performed during that financial year. To illustrate this point, according to statistics compiled by Kemao, an aggregated value of RMB138 million worth of goods for domestic contracts and US\$7.6 million for overseas contracts entered into in 2018 were, in fact, fully performed and recognised as revenue in 2019.

In addition, each contract allows for a $\pm 10\%$ margin of error as per international practice which means the realised revenue may not be the exact contract amount. This will also lead to inconsistencies between aggregated amounts under sales contracts and revenue figure.

In light of the above, the contract amounts associated with sales agreements in the Chinese due diligence report would not have been the same as the audited revenue figure.

Question: Status of loans at current date

Response: The total amount of Kemao China's bank loans as at 31 October 2019 (latest management account date) was RMB 144 million (approximately AUD 30 million) (2018: RMB 148 million; 2017: RMB151 million). There have been no other changes to loans since 30 June 2019.

For and on behalf of
Kemao Industries Limited

CHEN Dong
Executive Director
10 January 2020