

**ZKP Group Limited**

**Notional Consolidated Financial Statements**

**For the Financial Years ended 31 December 2015,  
31 December 2014 and 31 December 2013**

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## ZKP Group Limited

### NOTIONAL CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the years ended 31 December 2015, 31 December 2014 and 31 December 2013

<i>In thousands of (AUD)</i>	Note	31 December 2015	31 Dec 2014	31 Dec 2013
		AUD	AUD	AUD
Revenue	4	18,979	6,811	1,091
Cost of sales		(14,299)	(6,061)	(3,536)
<b>Gross profit</b>		<b>4,680</b>	<b>750</b>	<b>(2,445)</b>
Other income	5	41	37	2
Sales, service and marketing expenses		(121)	(22)	(25)
Administrative expenses		(1,892)	(1,021)	(890)
Other expenses		(18)	(2)	-
<b>Results from operating activities</b>	<b>6</b>	<b>2,691</b>	<b>(257)</b>	<b>(3,357)</b>
Interest income	8	609	362	24
Finance costs	8	(3,631)	(1,430)	(884)
<b>Net finance cost</b>		<b>(3,023)</b>	<b>(1,068)</b>	<b>(861)</b>
<b>Loss before income tax</b>		<b>(332)</b>	<b>(1,325)</b>	<b>(4,218)</b>
Income tax expenses	9			-
<b>Loss for the year</b>		<b>(332)</b>	<b>(1,325)</b>	<b>(4,218)</b>

The Notes on pages 6 to 21 are an integral part of these financial statements

The notional consolidated statement of profit and loss for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 have been derived from the audited financial statements of the trading entity in the group Hengyang Zhongke Photoelectron Co., Ltd (HZP), which was acquired by ZKP Group (Hong Kong) Limited on 15 April 2016. To coincide with this acquisition, the ultimate parent entity, ZPK Group Limited (an Australian entity) acquired a 100% shareholding in ZKP Group (Hong Kong) Limited on 15 April 2016. As a result, HZP becomes a wholly owned subsidiary of ZPK Group limited subsequent to 31 December 2015. The applicable audits were performed by Shanghai WSP Certified Public Accountants in respect of the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

In the preparation of the notional consolidated statements of profits and loss, it was assumed that the group was in existence since the incorporation of HZP Co., Ltd. Accordingly, the above statement of profit and loss reflects the results of the ZPK consolidated group.

## ZKP Group Limited

### NOTIONAL CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE

For the years ended 31 December 2015, 31 December 2014 and 31 December 2013

<i>In thousands of (AUD)</i>	Note	31 December 2015	31 Dec 2014	31 Dec 2013
		AUD	AUD	AUD
<b>Loss for the year</b>		(332)	(1,325)	(4,218)
Exchange differences on translation of foreign operations		1,387	138	(495)
<b>Total Comprehensive income for the year, net of tax</b>		<b>1,055</b>	<b>(1,187)</b>	<b>(4,713)</b>

The notional consolidated statement of other comprehensive income for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 have been derived from the audited financial statements of the trading entity in the group Hengyang Zhongke Photoelectron Co., Ltd (HZP), which was acquired by ZKP Group (Hong Kong) Limited on 15 April 2016. To coincide with the acquisition, the ultimate parent entity, ZPK Group Limited (an Australian entity) acquired 100% shareholdings in ZKP Group (Hong Kong) Limited on 15 April 2016. As a result, HZP became a wholly owned subsidiary of ZPK Group limited subsequent to 31 December 2015. The applicable audits were performed by Shanghai WSP Certified Public Accountants in respect of the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

In preparation of notional consolidated statements of comprehensive income, it was assumed that the group was in existence since the incorporation of HZP Co., Ltd. Accordingly, the above statement of profit and loss reflects the results of the ZPK consolidated group.

## ZKP Group Limited

### NOTIONAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015 and 31 December 2014 and 31 December 2013

<i>In thousands of AUD</i>	Note	Group	HZP Co., Ltd	HZP Co., Ltd	HZP Co., Ltd
		31-Dec-15	31 December 2015	31 Dec 2014	31 Dec 2013
			AUD	AUD	AUD
<b>Assets</b>					
Cash and cash equivalents	10A	30	30	16	1,891
Trade and other receivables	11	12,939	12,939	6,270	3,792
Trade and other receivables - related party	11	750	750	2,263	1,663
Inventories	12	6,360	6,360	2,860	1,037
<b>Total current assets</b>		<b>20,080</b>	<b>20,080</b>	<b>11,409</b>	<b>8,384</b>
Property, plant and equipment	13	28,058	28,058	25,348	25,070
Construction in progress	14	-	-	774	35
Intangible assets	15	36	36	8	7
Long-term receivables	16			2,205	3,694
Goodwill on acquisition	25	3,782	-	-	-
<b>Total non-current assets</b>		<b>31,876</b>	<b>28,094</b>	<b>28,335</b>	<b>28,806</b>
<b>Total assets</b>		<b>51,956</b>	<b>48,174</b>	<b>39,744</b>	<b>37,190</b>
<b>Current liabilities</b>					
Trade and other payables	17	7,503	7,503	5,916	6,565
Loans and borrowings	18A	11,722	11,722	26,593	18,869
Loans and borrowings - related parties	18A	972	972	1,608	1,521
Employee payables	19	744	744	379	177
Zhongke Photoelectron Co., Ltd on acquisition of shares	26	3,305	-	-	-
<b>Total current liabilities</b>		<b>24,246</b>	<b>20,941</b>	<b>34,496</b>	<b>27,132</b>
<b>Non-Current liabilities</b>					
Loans and borrowings	18A	14,573	14,573		
Loans and borrowings-related parties	18A	9,885	9,885	2,364	5,988
<b>Total non-current liabilities</b>		<b>24,458</b>	<b>24,458</b>	<b>2,364</b>	<b>5,988</b>
<b>Total liabilities</b>		<b>48,704</b>	<b>45,399</b>	<b>36,860</b>	<b>33,120</b>
<b>Net assets</b>		<b>3,252</b>	<b>2,774</b>	<b>2,883</b>	<b>4,070</b>
<b>Equity</b>					
Share capital	20	2,042	10,770	10,770	10,770
Foreign Translation Reserves		46	1,030	(357)	(495)
Retained Profits/ (Accumulated losses)		1,164	(9,026)	(7,530)	(6,205)
<b>Total equity</b>		<b>3,252</b>	<b>2,774</b>	<b>2,883</b>	<b>4,070</b>

The notional consolidated statement of financial position detailed above is derived from the audited financial statements of the Group's operating entity Hengyang Zhongke Photoelectron Co., Ltd (HZP), which was acquired by the Group on 15 April 2016 (being a wholly owned subsidiary subsequent to 31 December 2015), includes:

(a) the pro forma adjustment in respect to acquisition of shares

(b) adjustment for subsequent events occurring from the balance sheet date of 31 December 2015 (it was assumed that the acquisition was completed on 30/06/2015)

In preparing the above notional consolidated statement of financial position, it was assumed that the ultimate parent company of the group, ZKP Group Limited (an Australian entity) acquired the trading entity, Hengyang Zhongke Photoelectron Co., Ltd (HZP), on the 30 June 2015 and the consolidation adjustments were made in the above statement of financial position (Group column) accordingly. However, it was further assumed that the group existed on the date of incorporation of the trading company, HZP Co., Ltd, which was incorporated on 24 November 2011.

Details of the pro forma and subsequent event adjustments made to the notional consolidated statements of financial position for the Company as at 31 December 2015 are detailed in notes 21, 22 and 23 to the financial statements

## ZKP Group Limited

### NOTIONAL CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2015 and 31 December 2014 and 31 December 2013

<i>In thousands of AUD</i>	Group				Hengyang Zhongke Photoelectron (HZP) Co., Ltd.			
	Share capital	Accumulated losses/ Retained earnings	Forex Translation Reserve	Total	Share capital	Accumulated losses	Forex Translation Reserve	Total
					AUD	AUD	AUD	AUD
<b>Balance at 1 January 2012</b>					10,770	(1,987)	-	8,783
Profit for the period						(4,218)		(4,218)
Other Comprehensive Income							(495)	(495)
<b>Balance at 31 December 2013</b>					10,770	(6,205)	(495)	4,070
Profit for the period						(1,325)		(1,325)
Other Comprehensive Income							138	138
<b>Balance at 31 December 2014</b>					10,770	(7,530)	(357)	2,883
Shares issues during the year	2,042	-	-	2,042				-
Profit for the period	-	1,164	-	1,164		(1,496)		(1,496)
Other Comprehensive Income	-	-	46	46			1,387	1,387
<b>Balance at 31 December 2015</b>	2,042	1,164	46	3,252	10,770	(9,026)	1,030	2,774

The notional consolidated statement of changes in equity detailed above has been prepared on the assumption that acquisition of 100% shareholdings of ZKP group (Hong Kong) Limited by ZKP Group Limited (an Australian entity) on 30 June 2015 (the acquisition occurred on 15 April 2016). The purchase consideration was settled with the issue of 2,041,900 shares (valued at AS1 per share) to the shareholders of ZKP group (Hong Kong) Limited. Information related to the Hengyang Zhongke Photoelectron Co., Ltd (HZP), a trading subsidiary in the group is derived from the audited financial statements in respect of applicable financial years. It was assumed that ZKP Group (Hong Kong) Limited acquired 100% shareholdings of HZP on 30 June 2015.

In the preparation of notional consolidated statements of changes in equity, it was assumed that the group was in existence since the incorporation of HZP Co., Ltd. Accordingly, the above statement of changes in equity reflects the results of the ZKP consolidated group.

## ZKP Group Limited

### NOTIONAL CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31 December 2015 and 31 December 2014 and 31 December 2013

<i>In thousands of AUD</i>	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
		AUD	AUD	AUD
<b><u>CASH FLOW FROM OPERATING ACTIVITIES</u></b>				
Cash receipts from customers		13,023	8,476	3,861
Cash paid to suppliers and employees		(18,461)	(10,385)	(12,013)
Borrowing costs paid		(2,112)	(559)	(569)
<b>Net cash used in operating activities</b>	<b>10B</b>	<b>(7,551)</b>	<b>(2,469)</b>	<b>(8,721)</b>
<b><u>CASH FLOW FROM INVESTING ACTIVITIES</u></b>				
Acquisitions of property, plant and equipment		(1,368)	(589)	(1,752)
Development expenditure		-	(674)	(32)
Received from / (Repayment of) directors		2,434	(450)	(1,513)
Received from / (Repayment of) other lendings		2,115	(109)	(3,360)
Interest received		609	334	1
<b>Net cash used in investing activities</b>		<b>3,789</b>	<b>(1,488)</b>	<b>(6,655)</b>
<b><u>CASH FLOW FROM FINANCING ACTIVITIES</u></b>				
Borrowings during the year		4,401	2,269	17,021
Guarantee fees paid for loan		(626)	(138)	-
<b>Net cash from financing activities</b>		<b>3,775</b>	<b>2,131</b>	<b>17,021</b>
<b>Increase / (Decrease) in cash and cash equivalents</b>		<b>13</b>	<b>(1,826)</b>	<b>1,646</b>
Net foreign exchange difference		-	(50)	164
Cash and cash equivalents as at the beginning of the year		17	1,891	82
<b>Cash and cash equivalents as at the end of the year</b>		<b>30</b>	<b>16</b>	<b>1,891</b>

The Notes on pages 6 to 21 are an integral part of these financial statements

The notional consolidated cash flow statement the years ended 31 December 2015, 31 December 2014 and 31 December 2013 have been derived from the audited financial statements of the trading entity in the group Hengyang Zhongke Photoelectron Co., Ltd (HZP), which was acquired by ZKP Group (Hong Kong) Limited on 15 April 2016. In coincide with the acquisition, the ultimate parent entity, ZPK Group Limited (an Australian entity) acquired 100% shareholdings in ZKP Group (Hong Kong) Limited on 15 April 2016. As a result, HZP became a wholly owned subsidiary of ZPK Group limited subsequent to 31 December 2015 (it was assumed that the acquisition was completed on 30 June 2015). The applicable audits were performed by Shanghai WSP Certified Public Accountants in respect of the years ended 31 December 2013, 31 December 2014 and 31 December 2015.

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

### 1. GENERAL INFORMATION

The Group's main operating entity, Hengyang Zhongke Photoelectron Co., Ltd (HZP), was incorporated on 24 November 2011. The principal activities of the company are research, design, manufacture and sale of ceramic ferrule products and other related product and services.

The registered address of the Company is at No. 239 Yunji Industrial Park, Hengnan Country, Peoples' Republic of China

ZKP Group (Hong Kong) Limited is a private company limited by shares, incorporated in Hong Kong. The company's registration number 2335823 and located at Unit 4, 7/F, Bright Way Tower, No.33 Mong Kok Road, Kowloon, Hong Kong.

ZKP Group Limited, the parent company (the 'Company' or 'ZKA') was incorporated on January 2016 and domiciled in South Australia having its registered office at 55 Birksgate Drive, Urrbrae, South Australia 5064.

These notional consolidated financial statements incorporate the financial statements of the company and its subsidiaries.

Subsidiaries are entities over which the ZKP Group Limited has control.

The notional consolidated financial statements are prepared using the following assumptions:

1. ZKP Group (Hong Kong) Limited acquired 100% shareholding of HZP Co., Ltd on 30 June 2015 (though the acquisition occurred on 15 April 2016).
2. ZKP Group Limited (ZKA), an Australian entity acquired 100% shareholding in ZKP Group (Hong Kong) Limited on 30 June 2015 (though the acquisition occurred on 15 April 2016).
3. It was further assumed that the consolidated group was in existence on the date that HZP Co., Ltd, the trading entity in the group was formed.

### 2. BASIS OF PREPARATION

#### a.i. Basis of preparation of Historical financial information

The notional consolidated financial statements have been drawn up in accordance with the provisions of Corporations Act and IFRS including interpretation of IFRS and are prepared under the historical cost convention, except as disclosed in the accounting policies below.

The individual financial statements of each ZKP group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Notional consolidated financial statements of the ZKP Group are presented in Australian Dollars which is the functional currency of the group and the presentation currency of the notional consolidated financial statements.

The trading company maintains its books and prepares its statutory financial statements in accordance with the relevant accounting principles and financial regulations promulgated by the Ministry of Finance of the People's Republic of China. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain material respects from Australian Accounting Standards ('AAS'). Appropriate adjustments have been made to the statutory financial statements to make them conform to AAS. These financial statements have been prepared and audited by Shanghai WSP Certified Public Accountants who issued a qualified opinion (qualification on opening balance of the inventories) in respect of the year ended 31 December 2013.

The financial report has been prepared on a historical cost basis, except for land and buildings classified as property, plant and equipment, derivatives financial instruments, contingent considerations and non-cash distribution liability that have been measured at fair value. The carrying values of recognised assets and liabilities that are designed as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

#### a.ii. Basis of Consolidation

The notional consolidated financial statements incorporated the financial statements of the company and its subsidiaries. Subsidiaries are entities over which the ZPK Group has control.

#### b. Functional and presentation currency



# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

These financial statements are presented in Australian Dollars (AUD), while the operating entity's (only operating entity in the group, HZP) functional currency is Chinese Yuan (CNY)

### c. Significant accounting estimates and judgments

Estimates and assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Company's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation or uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

### i. Foreign Currency Conversion

The currency conversions from CNY to AUD in the Financial Information have been converted using CNY to AUD exchange rates as outlined in the table below:

CNY to AUD exchange rate	31-Dec-15	31-Dec-14	31-Dec-13
Average exchange rate for the financial year (used for the Notional Consolidated Statement of Profit or Loss and Other Comprehensive Income)	4.7275	5.5634	5.9531
Spot exchange rate for the financial year as at 31 December (used for the Notional Consolidated Pro-Forma Statements of Financial Position)	4.7442	5.0859	5.4147

Exchange rates were obtained with reference to the rates published by Reserve bank of Australia

### ii. Depreciation of property, plant and equipment

The costs of property, plant and equipment of the Company are depreciated on a straight-line basis over the useful lives of the assets. Management estimates the useful lives of the plant and equipment as disclosed in Note (c) (iii). These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

### iii. Impairment of assets

At the end of each reporting period, the Company assesses whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

### iV. Income taxes

The Company recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

### **a. Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (XYZ Listed Public Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it 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 over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

### **b. Business combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

### **c. Foreign currency transactions and balance**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of comprehensive income.

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

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

1. Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
2. Income and expenses are translated at average exchange rates for the period; and retained earnings are translated at the exchange rates prevailing at the date of the transaction.
3. Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

### **b. Financial instruments**

#### **i. Non-derivative financial assets**

Non-derivative financial assets comprise trade and other receivables and cash and cash equivalent.

Financial assets are recognised on the statements of financial position when, and only when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised if the Company's contractual right to the cashflow from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the ownership on the financial assets are transferred.

Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize asset and settle the liability simultaneously.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value. Subsequently they are measured at amortized cost using the effective interest method, less any impairment costs. They are presented as current assets, except for those maturing later than 12 months after the end of the reporting period which are presented as non-current assets

Cash and cash equivalents consist of cash in hand, bank balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

#### **i. Non-derivative financial liabilities**

Non-derivative financial liabilities comprise loans and borrowings and trade and other payables.

Trade and other payables are recognised on the statements of financial position initially on the trade date at which the Company becomes a party to the contractual provisions of the financial instrument. The Company derecognised a financial liability when its contractual obligations are discharged, cancelled or expire.

Loans and borrowings and trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequently these financial liabilities are measured at amortized cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis. These financial liabilities are presented as current liabilities, except for those maturing later than 12 months after the end of the reporting period which are presented as non-current liabilities

### **c. Property, plant and equipment**

#### **i. Recognition and measurement**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

Gain and loss of disposal of an item for property, plant and equipment are determined by comparing the proceed from the disposal with the carrying amount of the property, plant and equipment and are recognised net within the 'other income' in statements of comprehensive income.

### ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statements of comprehensive income as incurred.

### iii. Depreciation

Depreciation is recognised in the statements of comprehensive income on a straight-line basis over the estimated useful lives of property, plant and equipment.

Item of property, plant and equipment are depreciated from the date that are installed and ready for use or in respect of internally constructed assets, from the date That asset is completed and ready for use.

The estimated useful lives and residual value for the period are as follows:

Item	Depreciation duration	Residual value
Leasehold improvement	10 years	5%
Plant and equipment	5-15 years	5%
Furniture, fixtures and equipment	3-5 years	5%
Software	10 years	5%

Depreciation methods, useful lives and residual values are reassessed at each financial year end.

### d. Inventories

Inventories are measured at the lower of cost and net realizable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow-moving inventories.

The cost of inventories is determined using the weighted average method. The cost of raw materials comprises cost of purchase and the costs to bring them to the existing location and condition. In the case of manufactured inventories and work-in-progress, costs include raw materials, direct labour and related appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### e. Impairment of non-financial assets

The carrying amounts of assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount is estimated at the end of each reporting period or more frequently when indications of impairment are identified.

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statements of comprehensive income in the period in which it arises. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (groups of units) and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in statements of comprehensive income, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

### **f. Provision for liabilities**

Provisions for liabilities are recognised when the Company have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

### **g. Contingent liabilities**

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

### **h. Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

#### **i. Goods sold**

Revenue from sales of goods in the ordinary course of activities is measured at fair value of the consideration received or receivables net of returns, allowances and trade discounts. Revenue is recognised when persuasive evidence exists usually in the form of an executed sales agreement, that the significant risk and rewards have been transferred to the buyer, recovery of the consideration is probable, the associate costs and possible return of goods can be estimated reliably, there is no continuing Company involvement with the goods, and the amount of revenue can be measured reliably. Transfer of risk and awards vary depending on the individual terms of the sales contract.

#### **ii. Services**

Revenue from services rendered is recognised in the statement of comprehensive income when the services are performed

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

### i. Finance income and finance costs

Finance income comprises interest income and foreign currency gains. Interest income is recognised on a time proportion basis as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings, guarantee fee and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying assets are recognised in statement of comprehensive income using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or loss position.

### j. Income taxes

Income tax expense comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the carrying amounts and tax bases of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose.

Deferred tax assets, including the tax base of tax losses carried forward, are recognised in the statement of financial position at their estimated realizable value, either as a set-off against deferred tax liabilities or as net tax assets. Deferred tax assets are not recognised unless it is probable that future taxable profit will be available against which tax losses can be utilised. The deferred tax assets has not been recognised in respect of tax losses because it is not probable that future taxable profits will be available against which the Company can utilise the benefits thereon.

Current and deferred income taxes are recognised as income or expense in statement of comprehensive income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

### k. Employee benefits

#### i. Defined contribution funds

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions to separate entities such as the Social Insurance and Housing Fund Bureau on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. Such contributions are recognised as an expense in the statements of comprehensive income as incurred.

#### ii. Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur.

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the end of the reporting period.

## 4. REVENUE

<i>In thousands of AUD</i>	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
Sale of goods self manufacture to third parties		18,336	6,811	1,091
Sale of goods self manufacture to a related party	24 A	644	-	
<b>Total</b>		<b>18,979</b>	<b>6,811</b>	<b>1,091</b>

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

### 5. OTHER INCOME

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Government grant	21	36	0
Other income	20	1	2
<b>Total</b>	<b>41</b>	<b>37</b>	<b>2</b>

### 6. RESULTS FROM OPERATING ACTIVITIES

Results from operating activities arrived after deducting the following expenses:-

<i>In thousands of AUD</i>	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
Changes in raw material and consumables, finished goods and work in progress		3,675	848	429
Employee benefit expense	7	7,950	3,299	1,898
Depreciation and amortisation	13,15	2,241	1,817	1,569
Electricity		1,211	551	165
Rent		169	0	0
Loss from bad debt		277	0	0
Impairment loss of inventories		792	0	0
Other expenses		-	590	390
<b>Total</b>		<b>16,315</b>	<b>7,106</b>	<b>4,451</b>

### 7. PERSONNEL EXPENSES

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Wages and salaries	7,537	3,188	1,722
Statutory social insurance and retirement fund contributions	112	6	4
Other employment benefit expenses	300	106	1,898
<b>Total</b>	<b>7,950</b>	<b>3,299</b>	<b>3,624</b>

The social insurance and retirement fund contributions were relatively lower than the statutory requirements as the company did not make the full contributions. The company has obtained approval from the local regulatory authority to waive those contributions not fully made but is required to make the full contributions accruing from September 2016.

### 8. FINANCE INCOME AND FINANCE COSTS

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Interest income from other receivables	608	333	-
Interest income from related parties	-	28	23
Net foreign exchange gain		1	1
Finance income	609	362	24
Interest expenses	(2,889)	(1,103)	(833)
Interest expenses to related parties	(89)	(49)	(50)
Guarantee fees	(626)	(138)	-
Others	(28)	(141)	(1)
Finance expenses	(3,631)	(1,430)	(884)
Net financing income/(costs) recognised in profit or loss	(3,023)	(1,068)	(861)

The interest rate charge to and from the related parties on the amount owing/ due was at 5.2% p.a (2014: 6.7%; 2013: 7.2%). The interest rate was based on 20% above the 1 year borrowing interest rate stipulated by the China Central Bank.

Interest expenses include AUD 180k ( RMB 855K) paid based on mutual agreement between the company's director and the individual creditor.

### 9. TAXES

#### Current tax expense

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2014
Current tax expense	-	-	-

# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

No current tax expense provided as the Company is in a tax loss position.

### 10A. CASH AND CASH EQUIVALENTS

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2014
Cash and bank balances	30	16	1891
Cash and cash equivalents in the statement of cash flows	30	16	1891

Cash and cash equivalents are held with banks and financial institution counterparts which are of low risk.

### 10A. RECONCILIATION OF CASH FOLWS FROM OPERATING ACTIVITIES

<i>In thousands of AUD</i>	Note	31 Dec 2015	31 Dec 2014	31 Dec 2014
Cash flows from operating activities				
Profit/(loss) before tax		(332)	(1,325)	(4,218)
Adjustment for:-				0
- Depreciation and amortization expense		2,241	1,818	1,569
- Interest expenses		2,978	1,290	883
- Guarantee fees		626	138	-
- Finance income		(594)	(362)	(24)
Operating profit before changes in working capital and provisions		4,919	1,557	(1,790)
- Changes in accounts receivables and other receivables		(7,691)	(353)	419
- Changes in Inventories		(3,305)	(1,605)	(553)
- Changes in accounts payables and other payables		269	(1,683)	(6,304)
- Changes in employee benefits		339	174	76
Total		(10,388)	(3,467)	(6,362)
- Interest paid		(2,082)	(559)	(569)
Net cash from operating activities		(7,551)	(2,469)	(8,721)

### 11. TRADE AND OTHER RECEIVABLES

<i>In thousands of AUD</i>	Note	31 Dec 2015	31 Dec 2014	31 Dec 2014
Trade receivables - non-related parties		4,911	1,290	832
Other receivables - non-related parties		8,028	4,979	2,960
Total trade receivables		12,939	6,270	3,792
Trade receivables - related parties	24A	750	-	-
Other receivables - related parties		-	2,263	1,663
Total trade and other receivables		13,690	8,532	5,455

The credit term for the related party for the trade related transactions were the same as to the similar category of third party customers.

The age analysis of trade receivables as at 31 December 2015 is as follows:

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Current	54%	10%	58%
Past due 0-30 days	7%	37%	31%
Past due 31-90 days	16%	51%	11%
Past due 91 days	23%	3%	0%
Total	100%	100%	100%

### 12. INVENTORIES

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Raw materials and consumables	1,654	736	480
Work-in-progress	1,590	473	254
Finished goods	3,117	1,651	303
Inventories stated at the lower of cost and net realisable value	6,360	2,860	1,037



# ZKP GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

During the year ended 31 December 2015 raw materials, consumables and changes in finished goods and work-in-progress recognised in the cost of goods sold amounted to AUD 5,120k (RMB24,292k), 31 December 2014: AUD 1,918k (RMB9,755); 31 December 2013: AUD 858k (RMB4,648k).

During the year ended 31 December 2015, cost of goods sold included the write-off of obsolete raw materials amounting to AUD 420k (RMB 1,988k (2014: Nil; 2013: Nil)).

### 13. PEOPERTY, PLANT AND EQUIPMENT

<i>In thousands of AUD</i>	Leasehold Improvements	Plant and Machinery	Motor Vehicle	Furniture and Fitting	Total
<b>Cost</b>					
Balance at 31 December 2012	971	20,006	7	247	21,231
Additions during the year		1,853		66	1,919
Disposal during the year					
Exchange differences	189	3,894	1	48	4,132
Balance at 31 December 2013	1,160	25,753	9	361	27,283
Additions during the year	15	473	54	103	644
Disposal during the year					-
Exchange differences	76	1,665	1	23	1,765
Balance at 31 December 2014	1,250	27,890	63	487	29,690
Additions during the year	179	2,533	297	104	3,113
Disposal during the year					-
Exchange differences	90	2,009	5	35	2,139
Balance at 31 December 2015	1,519	32,432	365	626	34,942
					-
<b>Depreciation and impairment losses</b>					
Balance at 31 December 2012		379	1	27	407
Accumulated Depreciation on disposal					-
Depreciation charged during 2013	100	1,390	2	78	1,570
Exchange differences	15	209	0	12	236
Balance at 31 December 2013	115	1,978	3	116	2,212
Accumulated Depreciation on disposal					-
Depreciation charged during 2014	108	1,597	11	102	1,817
Exchange differences	19	276	2	18	314
Balance at 31 December 2014	241	3,850	16	236	4,343
Accumulated Depreciation on disposal					-
Depreciation charged during 2015	136	1,937	52	111	2,236
Exchange differences	19	263	7	15	304
Balance at 31 December 2015	396	6,051	74	363	6,884
<b>Carrying amounts</b>					
At 31 December 2013	1,045	23,775	6	245	25,070
At 31 December 2014	1,009	24,040	47	251	25,346
At 31 December 2015	1,123	26,381	291	264	28,058

### 14. CONSTRUCTION IN PROGRESS

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Construction in progress	-	774	35
Total	-	774	35

The construction in progress consisted of the machinery and equipment under installation and testing. Total amount of AUD 829k (RMB 3,936k) was transferred to plant and machinery during the year ended 31 December 2015.

# ZKP GROUP LIMITED

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For the year ended 31 December 2015, 31 December 2014, 31 December 2013

### 15. INTANGIBLE ASSETS

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Intangible assets - cost	40	8	7
Intangible assets - accumulated amortisation	(4)	-	-
<b>Total</b>	<b>36</b>	<b>8</b>	<b>7</b>

The intangible assets are the purchase accounting software which is not form and integral part of hardware. The intangible assets are amortised over 10 years.

### 16. LONG-TERM RECEIVABLES

<i>In thousands of AUD</i>	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
Hunan Zhuo Yi Investment Co., Ltd.		-	2,205	3,694
<b>Total</b>		<b>-</b>	<b>2,205</b>	<b>3,694</b>

Long-term receivables stated amount for the funds that the company lend out to Hunan Zhuoyi Investment Co., Ltd. which are receivable more than one year. The amount totalling is AUD 6,323 Million (RMB 30 Million). Lending period from 2013 to 2016.

### 17. TRADE AND OTHER PAYABLES

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2014
Trade payables	3,672	1,218	329
<b>Total</b>	<b>3,672</b>	<b>1,218</b>	<b>329</b>
Other payables	3,831	4,698	6,236
<b>Total</b>	<b>7,503</b>	<b>5,916</b>	<b>6,565</b>

The age analysis of trade payables is as follows:

	31 Dec 2015	31 Dec 2014	31 Dec 2013
Current	61%	75%	24%
Past due 0-30 days	12%	2%	1%
Past due 31-90 days	2%	1%	30%
Past due 91 days	25%	22%	46%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### 18A. LOANS AND BORROWINGS

<i>In thousands of AUD</i>		31 Dec 2015	31 Dec 2014	31 Dec 2014
<b>Current</b>				
Loans and borrowings		11,722	26,593	18,869
Loans and borrowings - related parties	24A	971	1,608	1,521
<b>Total</b>		<b>12,693</b>	<b>28,201</b>	<b>20,390</b>
<b>Non-current</b>				
Loans and borrowings		14,573	2,364	5,988
Loans and borrowings from third parties		9,885	-	-
<b>Total</b>		<b>37,151</b>	<b>30,565</b>	<b>26,378</b>

#### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of AUD</i>	Note	Nominal interest rate	Loan period	31 Dec 2015	31 Dec 2014	31 Dec 2013
Hunan Rural Credit Cooperative		11.16%	2013-2016	1,349	1,730	1,847
Ping An Bank		7.07%	2015-2017	175	-	-
Ping An Bank		5.73%	2013-2015	-	159	361
China Development Bank Leasing		6.15%	2013-2016	2,234	4,052	5,540
China CITIC Bank		7.80%	2014	-	-	1,847
Postal Savings Bank of China		7.49%	2016	1,054	-	-
Min Feng Micro-credit Company		24.00%	2015	-	590	554

# ZKP GROUP LIMITED

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China Development Bank		6.42%	2016	2,108	-	-
Hengyang SME Guarantee Funds Mgmt Centre	18B	0.00%	On demand	1,054	34	179
Hengyang SME Guarantee Funds Mgmt Centre	18B	6.00%	On demand	11,193	12,476	9,687
Bo Da Micro-credit Company		15.00%	On demand	-	1,026	1,677
Hong Hua Micro-Credit Company		0.00%	On demand	-	322	1,413
Hunan Dinghe Investment Holding Co., Ltd.		0.00%	On demand	-	393	-
Liu Dingbo		0.00%	On demand	-	7,344	729
Xu Bo		0.00%	On demand	-	830	1,023
Share subscription funds		0.00%	On demand	7,129	-	-
Share subscription funds - related parties	i,24A	0.00%	On demand	70	-	-
Loan and borrowings from related parties	24A	5.2%-7.2%	On demand	10,786	1,608	1,521
<b>Total loan and borrowings</b>				<b>37,151</b>	<b>30,565</b>	<b>26,378</b>

The amount due to the related parties for the non-trade transactions were being charged with interest rate of 5.2% p.a (2014: 6.7%; 2013: 7.2%).

18A i). Share subscription funds received are held on behalf of employee and other parties pending successful listing of the holding. If the company fails to list in the future, those share subscription funds will be repaid in full and in certain circumstances at 2 to 3 times amount lent for the subscriptions. Total share subscription funds received from third parties amounted AUD 7.12 Million (RMB 33.82 million) and convertible to 46,858,163 shares.

### 18B. LOAN AND BORROWINGS FROM GUARANTEE FUNDS

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Hengyang SME Guarantee Funds Mgmt Centre	6,113	6,489	5,171
Hunan Zhuo Yi Investment Co., Ltd.	4,026	3,932	3,694
Hengyang Enterprise Credit Guarantee Investment Co., Ltd.	1,054	1,966	739
Hunan Xiangrong Asset Management Co., Ltd.	-	88	83
<b>Total loan and borrowings from guarantee funds</b>	<b>11,193</b>	<b>12,476</b>	<b>9,687</b>

Guarantee fees paid for the above loan and borrowings amounted to AUD 623.9k (RMB 2.96 Million) for FY2015 (2014: AUD 150k (RMB 767.5k); 2013: Nil).

### 19. EMPLOYEE BENEFITS

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
	AUD	AUD	AUD
Accrual for salaries, wages and social contribution	744	379	177
<b>Total</b>	<b>744</b>	<b>379</b>	<b>177</b>

Total outstanding amount of salaries, wages and social contribution are fully paid subsequently during the year 2016.

### 20. SHARE CAPITAL

<i>In thousands of AUD</i>	Group	31 Dec 2015	31 Dec 2014	31 Dec 2013
Registered and paid-in capital	2,042	10,770	10,770	10,770
<b>Total</b>	<b>2,042</b>	<b>10,770</b>	<b>10,770</b>	<b>10,770</b>

The ultimate parent company, ZKP Group Limited (The Australian entity) has total share capital of AUD 2,042 thousands each valued at AUD 1 dollar per share

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The company incorporated in People's Republic of China on 24 November 2011 with authorised ordinary share capital of AUD 10,770 thousands (RMB 60 million divided into 60 million ordinary shares of RMB 1 as per each). At the date of incorporation, 1 ordinary share was issued at par to the subscriber to provide initial capital for the Company.

### Capital management

The primary objective of the company's capital management is to safeguard the company's ability to continue as a going concern and to maintain an adequate and efficient capital structure so as to maximize shareholder value. In order to maintain or achieve an optimal capital structure, the company may adjust the amount of dividend payment and raise any capital where required.

### 21. OPERATING LEASE

As 31 December 2015, the company has outstanding commitments for rent of factory and office premises under non-cancellable operating leases falling due as follows:

<i>In thousands of AUD</i>	31 Dec 2015
<i>Within 1 year</i>	169
<i>More than 1 year</i>	169
<b>Total</b>	<b>337</b>

### 22. CAPITAL AND OTHER COMMITMENTS

As 31 December 2015, the company has the following commitments:-

<i>In thousands of AUD</i>	Note	31 Dec 2015
Contracted but not yet provided and payable		
Within 1 year		
Plant and equipment - ERP server		7
Plant and equipment - Machinery		742
Listing consulting service		2,108

### 23. FINANCIAL RISK MANAGEMENT

The main risks arising from the company's normal course of business are credit, interest rate and liquidity risks. The company's overall risk management seeks to minimize potential adverse effects of these risks on the financial performance of the company.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the company.

There are no formal risk management policies and procedures in place to assess the risks. The company manages the risk through experience and reacts swiftly with the changes in market conditions and the company's activities.

#### Credit risk

(a) Financial assets that are past due and/or impaired

There is no other class of financial assets that are past due and/or impaired except for trade and other receivables. The age analysis of trade receivables past due but not impaired is as follows:

	31 Dec 2015
Past due 0-30 days	415
Past due 31-90 days	931
Past due 91 days	1,279
<b>Total</b>	<b>2,624</b>

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For the year ended 31 December 2015, 31 December 2014, 31 December 2013

### (b) Allowance for impairment

The carrying amount of trade and other receivables are individually assessed for impairment at the end of each financial year. In 2015 the company has written off a bad debt amounting to AUD 179K (RMB 850k), 2014: Nil; 2013: Nil. There were no allowance for impairment as none was required.

### Interest rate risk

Interest rate risk is the risk that will affect the company's income or the value of its holdings of financial instruments. The objective of interest risk management is to manage and control interest risk exposures within acceptable parameters, while optimising the return.

### Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting financial obligations due to shortage of funds. The company's results are improving and expected to generate positive cashflow to maintain sufficient cash and cash equivalents to finance its activities.

Short-term funding is obtained from the major shareholder.

Surplus funds are placed with banks.

The company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the company's operations and mitigate the effects of fluctuations in cash flows.

### Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair value.

## 24A. RELATED PARTIES

### Related parties transactions value

<i>In thousands of AUD</i>		31 Dec 2015	31 Dec 2014	31 Dec 2013
Entity	Transaction			
Jiangsu Zhong Ke Photoelectron Co., Ltd	Sales of goods	644	-	-

### Related parties balance receivable

<i>In thousands of AUD</i>		31 Dec 2015	31 Dec 2014	31 Dec 2013
Entity	Transaction			
Jiangsu Zhong Ke Photoelectron Co., Ltd	Balance as at	750	-	-

### Key management personnel compensation

<i>In thousands of AUD</i>		31 Dec 2015	31 Dec 2014	31 Dec 2013
Short-term employee benefits		16	22	20
Total		16	22	20

### Other key management personnel transactions

<i>In thousands of AUD</i>		Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
Loan and borrowings	24B		10,786	1,608	1,521
Share subscription funds - related parties	i		70	-	-

i). Share subscription funds received are further transferable to the company's equity shares if the company is successfully list in the future.

If the company fail to list in the future, those share subscription funds will be refund in full.

Total share subscription funds received from the company's related parties amounted AUD 69.80K (RMB 330K) and are convertible to 510,000 shares.

# ZKP GROUP LIMITED

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### 24B. LOAN AND BORROWINGS FROM RELATED PARTIES

<i>In thousands of AUD</i>	31 Dec 2015	31 Dec 2014	31 Dec 2013
Jiangsu Zhong Ke Photoelectron Co., Ltd.	7,152	-	-
Lu Lijian	2,755	-	-
Hengyang Hua Hui Property Development Co., Ltd.	485	859	184
Lu Jian	394	749	1,336
<b>Total loan and borrowings from related parties</b>	<b>10,786</b>	<b>1,608</b>	<b>1,521</b>

### 25. GOODWILL ON ACQUISITION

Goodwill on acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired. Goodwill on subsidiaries and joint ventures is recognised separately as intangible assets and carried at cost less accumulated impairment losses. Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold.

On the 1 April 2016, ZKP Group (Hong Kong) Limited acquired 100% shareholdings in Hengyang Zhongke Photoelectron Co., Ltd (HZP), a trading company domiciled in Republic of China. On the same date, ZKP Group limited (an Australian entity) acquired the 100% shareholdings in ZKP Group (Hong Kong) Limited. Accordingly, the goodwill on acquisitions is calculated as follows;

It is assumed that the acquisition was completed on 30 June 2015 when preparing notional consolidated financial statements. And it is further assumed that the group has been in existence since 24 November 2011 the date on which the HZP Co., Ltd, the trading company in the group was incorporated

	31/12/2015
Goodwill on acquisition of HZP Co., Ltd by ZKP Group (Hong Kong) Limited	1,742
Goodwill on acquisition of ZKP Hong Kong Limited by ZKP Group Limited (Australian entity)	2,040
<b>Total</b>	<b>3,782</b>
Accumulated impairment losses	-
Carrying value	<b>3,782</b>

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is an indication that the goodwill may be impaired.

### 26. AMOUNT PAYABLE TO THE SHAREHOLDERS OF HZP CO., LTD

Amount payable of \$ 3,290k (RMB 15,681k converted by exchange rate of AS\$1=RMB4.7661 as at 30/06/2015 and converted by exchange rate AU\$1=RMB4.7442 as at 31/12/2015= AU\$ 3,305k resulting exchange loss of AU\$ 15k) (exchange rates are as per Reserve Bank of Australia) on account of purchase of 100% shareholdings of HZP Co., Ltd. The amount payable of AS\$ 3,305k has not been paid to the shareholders of the acquiree company as at 31/12/2015.

	31/12/2015
	000 (AU\$)
Amount payable to shareholders of HZP Co., Ltd (as at 30/06/2015)	3,290
Foreign exchange loss	15
Balance as at 31/12/2015	<b>3,305</b>

This amount is due to be settled before end December 2016.

### 27. SUBSEQUENT EVENTS ADJUSTMENTS

The Notional consolidated financial statements have been prepared to reflect the following events which have occurred subsequent to the period ended 31 December 2015. It is assumed that the events which have occurred after the balance sheet date have in fact occurred on 30 June 2015 in order to prepare notional consolidated financial statements. It was further assumed that the group has been in existence since 24 November 2011, the date that HZP Co., Ltd, the trading company in the group was formed.

(a). Acquisition of HZP Co., Ltd, a trading company domiciled in the Republic of China by ZKP Group (Hong Kong) Ltd, on

# **ZKP GROUP LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2015, 31 December 2014, 31 December 2013

1 April 2016. ZKP Group (Hong Kong) Ltd acquired the 100% shareholdings of HZP Co., Ltd for the consideration of RMB 15,681,300 (AU\$ 3,290,174 converted at the exchange rate of 1AU\$=RMB 4.7661 as at 30/06/2015 and converted by exchange rate of 1AU\$=RMB4.7442 as at 31/12/2015=AS\$ 3,305k (balance sheet date) resulting exchange difference of AU\$15k)). For preparation of notional consolidated financial statements, it was assumed that the acquisition occurred on 30 June 2015.

(b). Acquisition of ZPK Group (Hong Kong) Limited, a company domiciled in Hong Kong by ZKP Group Ltd, domiciled in Australia, ultimate parent company of HZP Co., Ltd on 1 April 2016. ZKP Group Ltd (the Australian company) acquired the 100% shareholdings of ZKP Group (Hong Kong) Limited for the consideration of AU\$ 2,041,900 (the company has issued new shares of 2,041,900 valued at AU\$ 1 per share in lieu of the purchase consideration payable to shareholders of ZPK Group (Hong Kong) Limited). For preparation of notional consolidated financial statements, it was assumed that the acquisition occurred on 30 June 2015. It was further assumed that the group was in existence since the incorporation of HZP Co., Ltd, the trading company.