

FORM: Half yearly/preliminary final report

Name of *issuer*

ZKP Group Limited

ACN or ARBN

610 299 271

Half yearly
(tick)

✓

Preliminary final
(tick)

Half year/financial year ended
('Current period')

30 June 2017

For announcement to the market

Extracts from this statement for announcement to the market (*see note 1*).

| | | | | |
|--|---------------------|----------------|----|-------------------------------|
| | | | | \$A,000 |
| Revenue (<i>item 1.1</i>) | up/ down | 528% | to | 22,448 |
| Profit (loss) for the period (<i>item 1.9</i>) | up/ down | 400% | to | 4,712 |
| Profit (loss) for the period attributable to members of the parent (<i>item 1.11</i>) | up/ down | 400% | to | 4,712 |
| Dividends | | Current period | | Previous corresponding period |
| Franking rate applicable: | | N/A | | N/A |
| Final dividend (<i>preliminary final report only</i>)(<i>item 10.13-10.14</i>) | | | | |
| Amount per <i>security</i> | | N/A | | N/A |
| Franked amount per <i>security</i> | | | | |
| Interim dividend (<i>Half yearly report only</i>) (<i>item 10.11 –10.12</i>) | | | | |
| Amount per <i>security</i> | | | | |
| Franked amount per <i>security</i> | | N/A | | N/A |
| Short details of any bonus or cash issue or other item(s) of importance not previously released to the market: | | | | |
| N/A | | | | |

Interim financial statements

ZKP Group Limited

For the half-year ended 30 June 2017

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Directors' Report

The Directors of ZKP Group Limited ('ZKP') present their Report together with the financial statements of the Consolidated Entity, being ZKP Group ('the Company') and its Controlled Entities ('the Group') for the half-year ended 30 June 2017.

Director details

The following persons were Directors of ZKP Group during or since the end of the financial half-year:

- Mr Lu Lijian (appointed 21 January 2016)
- Mr Lu Jian (appointed 6 March 2016)
- Mr Andrew Martin - Chairman (appointed 6 March 2016)
- Mr Brendan Connell (appointed 21 January 2016, resigned on 9 August 2017)
- Mr Gary Francis (appointed on 31 May 2017)
- Mr Kao Chien-Chih (resigned on 7 April 2017)
- Mr Nick Bolkus (appointed on 7 September 2017)

Company secretary

Mr Church is a lawyer who specialises in corporate and commercial law including company acquisitions, restructures, due diligence, corporate finance and initial public offerings. James has had a number of previous roles as company secretary for companies listed on the ASX and the NSX. Mr Church has been the Company Secretary of the Company since its incorporation in 2016.

Review of operations and financial results

Through this report, the Board seeks to provide an update to its Shareholders and the market on the results achieved for the first half of 2017 financial year (ended 30 June 2017). It should be noted that the Group's financial year runs from January to December each year.

The operating result of the Group has increased to \$4.713 m (2016: \$942k); this is mainly due to increased sales from new customers.

Additional capital raising activities were undertaken during the period which raised \$18.9 and allowed the Group to repay funds due to Hengyang SME Guarantee Fund. The capital raised will also be further used for the initial development of the new Hengyang factory as well as positioning the Group in a strong cash position for 2017 to allow for future developments, if the appropriate opportunities arise.

Directors' Report

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is included on page 3 of this financial report and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors:



Andrew Martin

Director

12th September 2017

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Auditor's Independence Declaration To the Directors of ZKP Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of ZKP Group Limited for the half-year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner - Audit & Assurance

Adelaide, 12 September 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2017

| | Notes | 30 June 2017 | 30 June 2016 |
|---|-------|------------------|------------------|
| | | \$ | \$ |
| Revenue | | 22,447,682 | 3,574,876 |
| Cost of sales | | (17,342,714) | (2,104,019) |
| Gross profit | | 5,104,968 | 1,470,857 |
| Other income | 6 | 2,795,676 | - |
| Less expenses: | | | |
| Selling expenses | | (76,162) | (51,952) |
| Finance costs | | (14,967) | (118,607) |
| Impairment of inventory | | (381,260) | - |
| Depreciation and amortisation expense | | (165,758) | (1,422) |
| Employee benefits expense | | (1,064,579) | (192,398) |
| Other expenses | | (880,694) | (372,327) |
| Profit before tax | | 5,317,224 | 734,151 |
| Income tax expense / (benefit) | | (604,333) | 207,871 |
| Profit for the period attributable to owners of the period | | 4,712,891 | 942,022 |
| Other comprehensive income: | | | |
| Items that may subsequently be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | | (115,861) | (105,096) |
| Total comprehensive income for the period attributable to owners of the parent | | 4,597,030 | 836,926 |
| Earnings per share (Pre Split) | 15 | | |
| Diluted earnings per share (cents) | | N/A | 0.41 |
| Basic earnings per share (cents) | | N/A | 0.41 |
| Earnings per share (Post Split) | 15 | | |
| Diluted earnings per share (cents) | | 1.36 | 0.30 |
| Basic earnings per share (cents) | | 1.36 | 0.30 |

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

| | Notes | 30 June 2017 \$ | 31 December 2016 \$ |
|--|-------|--------------------|------------------------|
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | 7 | 13,196,443 | 105,849 |
| Trade and other receivables | 8 | 21,734,165 | 11,892,004 |
| Inventories | | 3,703,922 | 8,616,752 |
| Other assets | | 706,953 | 1,671,051 |
| Current assets | | 39,341,483 | 22,285,656 |
| Non-current | | | |
| Goodwill | | 1,671,435 | 1,671,435 |
| Land use rights | 9 | 2,468,218 | - |
| Plant and equipment | 10 | 22,281,328 | 24,575,346 |
| Intangible assets | | 27,012 | 29,871 |
| Deferred tax asset | | 58,770 | - |
| Non-current assets | | 26,506,763 | 26,276,652 |
| Total assets | | 65,848,246 | 48,562,308 |
| Liabilities | | | |
| Current | | | |
| Trade and other payables | 11 | 16,343,578 | 8,541,309 |
| Notes payable | | 2,356,469 | - |
| Borrowings | 12 | 6,408,895 | 23,645,236 |
| Income tax liabilities | | 865,986 | 944,575 |
| Current liabilities | | 25,974,928 | 33,131,120 |
| Non-current | | | |
| Trade and other payables | | - | 7,546,642 |
| Non-current liabilities | | - | 7,546,642 |
| Total liabilities | | 25,974,928 | 40,677,762 |
| Net assets | | 39,873,318 | 7,884,546 |
| Equity | | | |
| Equity attributable to owners of the parent: | | | |
| Share capital | 13 | 29,433,742 | 2,042,000 |
| Foreign exchange translation reserve | 14 | (361,410) | (245,549) |
| Retained earnings | | 10,800,986 | 6,088,095 |
| Total equity | | 39,873,318 | 7,884,546 |

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2017

| | Share capital | Retained earnings | Foreign Translation Reserve | Total equity |
|---|-------------------|-------------------|-----------------------------|-------------------|
| | \$ | \$ | \$ | \$ |
| Balance at 1 January 2017 | 2,042,000 | 6,088,095 | (245,549) | 7,884,546 |
| Transactions with owners in their capacity as owners | | | | |
| Issue of share capital | 18,880,442 | - | - | 18,880,442 |
| Debt to equity conversion | 8,511,300 | - | - | 8,511,300 |
| Total transactions with owners | 27,391,742 | - | - | 27,391,742 |
| Profit for the period | - | 4,712,891 | - | 4,712,891 |
| Other comprehensive income | - | - | (115,861) | (115,861) |
| Total comprehensive income for the period | 29,433,742 | 10,800,986 | (361,410) | 39,873,318 |
| Balance at 30 June 2017 | 29,433,742 | 10,800,986 | (361,410) | 39,873,318 |

For the half-year ended 30 June 2016

| | Share capital | Retained earnings | Foreign Translation Reserve | Total equity |
|---|------------------|-------------------|-----------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Balance at incorporation 20 January 2016 | 100 | - | - | 100 |
| Transactions with owners in their capacity as owners | | | | |
| Issue of share capital | 2,041,900 | - | - | 2,041,900 |
| Total transactions with owners | 2,041,900 | - | - | 2,041,900 |
| Profit for the period | - | 942,022 | - | 942,022 |
| Other comprehensive income | - | - | (105,096) | (105,096) |
| Total comprehensive income for the period | - | 942,022 | (105,096) | 2,878,926 |
| Balance at 30 June 2016 | 2,042,000 | 942,022 | (105,096) | 2,878,926 |

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2017

| | Notes | 30 June 2017 \$ | 30 June 2016 \$ |
|--|-------|--------------------|--------------------|
| Operating activities | | | |
| Receipts from customers | | 30,487,486 | 3,574,876 |
| Payments to suppliers and employees | | (46,692,081) | (1,583,103) |
| Interest received | | 2,774 | - |
| Finance costs | | (14,967) | (118,607) |
| Income tax paid | | (59,019) | - |
| Net cash used in operating activities | | (16,275,807) | (1,873,166) |
| Investing activities | | | |
| Purchase of land use rights, plant and equipment | 9 | (2,468,218) | - |
| Purchase of plant and equipment | 10 | (1,284,150) | (248,799) |
| Proceeds from disposals of property, plant and equipment | | 2,193,196 | - |
| Payment for acquisition of Subsidiary | | - | (1,402,328) |
| Net cash provided by / (used in) investing activities | | (1,559,172) | (1,651,127) |
| Financing activities | | | |
| Proceeds from related party loans | | 28,023,653 | - |
| Repayments of bank loans | | (16,297,864) | - |
| Proceeds from issue of share capital | 13 | 18,880,442 | - |
| Net cash provided by / (used in) financing activities | | 30,606,231 | - |
| Net change in cash and cash equivalents | | 12,771,252 | 222,039 |
| Cash and cash equivalents, beginning of period | | 105,849 | - |
| Exchange differences on cash and cash equivalents | | 17,926 | (105,096) |
| Notes receivable | | 301,416 | - |
| Cash and cash equivalents, end of period | | 13,196,443 | 116,943 |

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1 Nature of operations

ZKP Group designs, manufactures and sells ceramic ferrules used in fibre-optic cables for the electronic information industry. As a national high-tech private enterprise, ZKP integrates research and development with the manufacturing, sales and service of its high-tech products.

2 General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six (6) months ended 30 June 2017 and are presented in Australian Dollar (\$AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2016 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the National Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 12th September 2017.

3 Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 31 December 2016.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements. New policies have been listed below for the purchase of land use rights during the current period.

Land use rights

Land use rights have a finite life/period of rights and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of land use rights over their remaining terms/period of rights. The cost represents up-front payments to relevant government authorities for long-term interests for usage of land.

4 Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2016. The only exception is the estimate of the provision for income taxes which is determined in the interim financial statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5 Significant events and transactions

The Group's management believes that the Group is well positioned despite the continuing difficult economic circumstances. Factors contributing to the Group's strong position are:

- several successful capital raises were completed during the period resulting in proceeds of \$18,880,442;
- the conversion of debt to equity totalling \$8,511,300; and
- the Group purchase a land use right from the Hengnan County Land resources Bureau for the purchase of land where it is anticipated that the new factory will be built.

Overall, the Group is in a strong position despite the current economic environment, and has sufficient capital and liquidity to service its operating activities and debt. The Group's objectives and policies for managing capital, credit risk and liquidity risk are described in its recent annual financial statements.

6 Other Income

| | Six (6) months to 30 June 2017 | Six (6) months to 30 June 2016 |
|-----------------------|-----------------------------------|-----------------------------------|
| | \$ | \$ |
| Sale of raw materials | 2,360,266 | - |
| Finance income | 2,774 | - |
| Foreign exchange gain | 234,387 | - |
| Other income | 198,249 | - |
| | 2,795,676 | - |

7 Cash and Cash Equivalents

| | 30 June 2017 | 31 December 2016 |
|---------------|--------------|------------------|
| | \$ | \$ |
| Cash on hand | 4,023 | 2,703 |
| Cash at bank | 12,891,004 | 94,693 |
| Term deposits | 301,416 | 8,454 |
| | 13,196,443 | 105,849 |

Cash at bank and on hand balances as at 30 June 2017 includes Chinese Renminbi dominated equivalent balances of \$13.2 million (RMB 67.2 million) (31 December 2016: \$0.1 million (RMB million) which are held with reputable financial institutions in the People's Republic of China in current accounts. \$2.36 million has been secured against notes payable.

The Renminbi is not freely convertible into foreign currencies. Under the PRC (People's Republic of China) Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

The exchange rate of RMB is determined by the government of the PRC and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

8 Trade and other receivables

| | 30 June 2017 | 31 December 2016 |
|---------------------------|--------------|------------------|
| | \$ | \$ |
| Trade receivables | 9,166,020 | 3,258,003 |
| Other receivables | 5,851,136 | 7,467,908 |
| Related party receivables | 6,717,009 | 1,166,093 |
| | 21,734,165 | 11,892,004 |

Customer credit terms range from 30 to 181 days.

The top 4 customers per the period represent 79% of sales (2016: 62%).

9 Land use rights

| | 30 June 2017 | 31 December 2016 |
|-----------------|--------------|------------------|
| | \$ | \$ |
| Land use rights | 2,468,218 | - |
| | 2,468,218 | - |

10 Property, plant and equipment

The following tables show the movements in property, plant and equipment:

| | Leasehold Improvements | Plant and Machinery | Motor Vehicles | Furniture and Fittings | Construction in Progress | Total |
|--|---------------------------|------------------------|------------------|---------------------------|-----------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Gross carrying amount | | | | | | |
| Balance at 1 January 2017 | 1,433,076 | 30,825,865 | 401,649 | 611,999 | - | 33,272,589 |
| Additions | - | 329,786 | 774,440 | 11,227 | 168,697 | 1,284,150 |
| Disposals | - | (1,995,541) | (20,552) | - | - | (2,016,093) |
| Net exchange differences | (50,390) | (1,087,009) | (12,713) | (21,498) | 316 | (1,171,293) |
| Balance at 30 June 2017 | 1,382,686 | 28,073,104 | 1,142,824 | 601,727 | 169,013 | 31,369,353 |
| Depreciation and impairment | | | | | | |
| Balance at 1 January 2017 | 506,957 | 7,604,260 | 155,395 | 430,632 | - | 8,697,243 |
| Disposals | - | (415,386) | (16,426) | - | - | (431,812) |
| Net exchange differences | (17,699) | (266,368) | (5,363) | (15,079) | - | (304,510) |
| Depreciation | 67,467 | 955,874 | 70,141 | 33,624 | - | 1,127,105 |
| Balance at 30 June 2017 | 556,724 | 7,873,379 | 203,745 | 449,177 | - | 9,088,026 |
| Carrying amount at 30 June 2017 | 825,962 | 20,194,725 | 939,078 | 152,550 | 169,013 | 22,281,328 |
| Gross carrying amount | | | | | | |
| Balance at incorporation 21 January 2016 | 1,542,452 | 32,546,112 | 366,359 | 628,437 | - | 35,065,361 |
| Additions | - | 1,267,035 | 69,179 | 7,687 | - | 1,343,901 |
| Disposals | - | (388,898) | (9,349) | - | - | (398,247) |
| Net exchange differences | (67,079) | (1,455,471) | (17,713) | (27,857) | - | (1,568,120) |
| Balance at 30 June 2016 | 1,457,373 | 31,968,778 | 408,477 | 608,267 | - | 34,442,895 |
| Depreciation and impairment | | | | | | |
| Balance at incorporation 21 January 2016 | 389,204 | 6,084,906 | 68,110 | 366,359 | - | 6,908,579 |
| Disposals | - | (21,605) | (14,958) | (39,887) | - | (76,450) |
| Net exchange differences | (19,088) | (295,725) | (4,240) | (16,348) | - | (335,401) |
| Depreciation | 73,749 | 1,072,794 | 61,700 | 48,405 | - | 1,256,648 |
| Balance at 30 June 2016 | 443,865 | 6,840,370 | 110,612 | 358,529 | - | 7,753,376 |
| Carrying amount at 30 June 2016 | 1,013,508 | 25,128,407 | 297,865 | 249,737 | - | 26,689,519 |

11 Trade and other payables

| | 30 June 2017 | 31 December 2016 |
|----------------------------|--------------|------------------|
| | \$ | \$ |
| Trade payables | 5,204,153 | 4,910,989 |
| Accrued income | 7,874,749 | 13,602 |
| Other payables | 1,406,102 | 1,292,714 |
| Wages and salaries payable | 1,019,937 | 242,868 |
| Related party payables | 838,637 | 2,081,136 |
| | 16,343,578 | 8,541,309 |

12 Borrowings

| | 30 June 2017 | 31 December 2016 |
|---|--------------|------------------|
| | \$ | \$ |
| Bank borrowings | - | 1,044,576 |
| Borrowings – non financial institutions | 718,027 | 7,531,257 |
| Loans from investors | 5,690,868 | 15,049,403 |
| | 6,408,895 | 23,645,236 |

13 Share capital

The Group also issued 473,175,307 shares for cash, corresponding to 99% of total shares issued. Each share has the same right to receive dividends and the repayment of capital and represents one vote at the shareholders' meeting of ZKP. Shares issued and authorised are summarised as follows:

| | 30 June 2017 Number of Shares | 30 June 2017 Balance | 31 December 2016 Number of Shares | 31 December 2016 Balance |
|--|-------------------------------------|-------------------------|--|--------------------------------|
| | | \$ | | \$ |
| <u>Fully paid ordinary shares</u> | | | | |
| • beginning of the period | 2,042,000 | 2,042,000 | - | - |
| • issued through share placement ⁽¹⁾ | 306,300 | 9,430,442 | - | - |
| • issued from share-split ⁽²⁾ | 361,638,200 | - | - | - |
| • issued under debt to equity conversion ⁽³⁾ | 48,230,807 | 8,511,300 | - | - |
| • issued through share placement ⁽⁴⁾ | 63,000,000 | 9,450,000 | 2,042,000 | 2,042,000 |
| Shares issued and fully paid | 475,217,307 | 29,433,742 | 2,042,000 | 2,042,000 |

(1) On 27 February 2017, ZKP Group Limited issued 306,300 ordinary shares at AUD\$30.84 per share to a sophisticated investor.

(2) On 26 June 2017, ZKP Group Limited announced a share split on a 155 for 1 basis.

(3) On 29 June 2017, ZKP Group Limited issued 48,230,807 shares to individual debtors to convert loans owed by the Group to a large pool of financiers.

(4) On 30 June 2017, ZKP Group Limited issued 63 million ordinary shares at AUD\$0.15 per share to a sophisticated investor.

14 Other components of equity

The following tables show the movements in other components of equity:

| | Foreign Currency Translation Reserve |
|--|--------------------------------------|
| | \$ |
| Balance at 1 January 2017 | 245,549 |
| Exchange differences on translating foreign operations | 115,861 |
| Balance at 30 June 2017 | 361,410 |

15 Dividends

During the first six (6) months of 2017 no dividend payment was made to its equity shareholders (first six (6) months of 2016: nil).

16 Earnings per share

The weighted average number of shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

| | Six (6) months to 30 June 2017 | Six (6) months to 30 June 2016 |
|---|-----------------------------------|-----------------------------------|
| | \$ | \$ |
| Profit used to calculate basic and dilutive EPS | 4,712,891 | 942,022 |
| Weighted average number of shares used in basic earnings per share – pre split | N/A | 2,042,000 |
| Weighted average number of shares used in basic earnings per share – post split | 346,345,755 | 316,510,000 |

17 Interests in subsidiaries

Set out below are details of the subsidy held directly by the Group:

| Name of the Subsidiary | Country of incorporation and principal place of business | Principal activity | Group proportion of ownership interests | |
|--|--|--|---|------------------|
| | | | 30 June 2017 | 31 December 2016 |
| ZKP Group (Hong Kong) Limited | Hong Kong | Holding Company | 100% | 100% |
| Hengyang Zhongke Photoelectron Co. Ltd | China | Manufacturer and sale of optical communication products for telecommunication in China | 100% | 100% |

18 Contingent liabilities

At period end the company has two assured guarantees totalling \$3,069,923 (RMB 16 million) to Jiangsu Zhongke Photoelectric Limited for sales contracts.

Other than above there are no other contingent liabilities at 30 June 2017.

19 Fair value measurement

The Group does not hold any financial assets or liabilities carried at fair value as at 30 June 2017. All financial assets and liabilities are carried at amortised cost.

The carrying amounts of current receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities approximates the carrying amount as the impact of discounting is not significant.

20 Events after the reporting date

There are no matters or circumstances which have arisen since the end of the financial period to the date of this report, which have significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

21 Related party transactions

a) Transactions with related parties and key management personnel

The following comprises transactions with entities in which the Key Management Personnel have an interest.

| | Six (6) months to 30 June 2017 \$ | Six (6) months to 30 June 2016 \$ |
|--|---|---|
| Sale of goods and services from entities controlled by key management personnel | | |
| - Jiangsu Zhongke Photoelectron Co., Ltd. | 367,482 | 3,149,759 |
| - Zhejiang Zhongke Photoelectron Co., Ltd. | 1,258,872 | - |
| - Hengyang Zhongke Dianzi Co., Ltd. (i) | 12,318,947 | - |
| Total | 13,945,301 | 3,149,759 |
| Purchase of various goods and services from entities controlled by key management personnel | | |
| - Jiangsu Zhongke Photoelectron Co., Ltd | 361,178 | - |
| - Zhejiang Zhongke Photoelectron Co., Ltd. | 32,922 | - |
| - Hengyang City Branch Electronics Co., Ltd. | 10,393,445 | - |
| Total | 10,787,545 | - |
| Interest on borrowings | | |
| - Lijian Lu | - | 11,666 |
| - Hengyang Huahui Real Estate Development Co., Ltd | - | 1,858 |
| Total | - | 13,524 |
| Loans advanced from management personnel for operations | | |
| - Lijian Lu | 8,444,645 | 9,608,735 |
| Loan repayments to entity/management personnel | | |
| - Lijian Lu | 12,387,833 | - |
| - Hunan Zhongke Communications Equipment Co., Ltd. | 86,806 | - |

This includes sales and sales of raw materials included in Note 6.

21 Related party transactions (continued)

b) Related party balances

Amounts receivable from and payable to key management personnel and their related entities at reporting date arising are as follows:

| | Receivable from related party | Payable to related party |
|---|----------------------------------|-----------------------------|
| | \$ | \$ |
| 30 June 2017 | | |
| Jiangsu Zhongke Photoelectron Co., Ltd. | - | 209,367 |
| Zhejiang Zhongke Photoelectron Co., Ltd. | - | 474,602 |
| Hengyang Zhongke Dianzi Co., Ltd. | 185,188 | - |
| Hengyang Information Technology Co., Ltd. (i) | 5,758,980 | - |
| Hengyang Huahui Real Estate Development Co., Ltd. | - | 376,930 |
| Lijian Lu (Director) | 301,470 | 83,372 |

Related party balances comprise trade receivable arisen from normal course of business and related party loans, no specific terms and conditions have been attached to the above transactions.

- (i) Amount was repaid in full on 15 August 2017. The amount was a short term loan (2 months) at an annual interest rate of 10% per annum.

Directors' Declaration

In the opinion of the Directors of ZKP Group Limited:

- a The consolidated financial statements and notes of ZKP Group Limited are in accordance with the *Corporations Act 2001*, including:
 - i Giving a true and fair view of its financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and
 - ii Complying with Accounting Standard AASB 134 *Interim Financial Reporting*; and
- b 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 the Directors:



Andrew Martin

Director

Dated on the 12th September 2017



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Independent Auditor's Review Report to the Members of ZKP Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of ZKP Group Limited (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2017, and 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 half-year period ended on that date, a description of accounting policies, other selected explanatory notes, and the directors declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of ZKP Group Limited gives a true and fair view of the Group as at 30 June 2017, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*.

Directors' Responsibility for the half-year Financial Report

The directors of the Group are responsible for the preparation and fair presentation of the half-year financial report 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 and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the *Corporations Act 2001*. As the auditor of ZKP Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 12 September 2017