Annual Financial Report

ZKP Group Limited

For the year ended 31 December 2017

ACN 610 299 271

Contents

CORPORATE DIRECTORY

Non Executive Directors
Andrew Martin (Chairman)
Gary Francis
Nick Bolkus

Executive Directors
Lu Lijian (CEO & Managing Director)
Lu Jian (General Manager)

Company Secretaries
James Church
Doris Lin (DanDan)

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Adelaide SA 5000

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LETTER FROM THE CHAIRMAN

Dear Shareholder,

The Board of Directors is pleased to present the Annual Report for 2017.

Since being appointed as Chair of the Board in September 2017, I have been very pleased with the Company's growth and development. ZKP's transition from an innovative new ferrule manufacturer to a well-established manufacturer of fibre-optic products is well underway and coincides with the growth of the whole fibre-optic industry. Performance demands of fibre-optic components and devices are also increasing significantly and ZKP is well equipped to deal with its clients' mandates. Industry growth and increased performance demands have provided ZKP with many opportunities to engage with industry leaders from around the globe which assists us to achieve our research and development goals.

To fund the company's growth it completed three placements to sophisticated investors and one debt conversion in 2017 at a significant premium to the share price. In 2017 the Group raised capital and converted debt to equity totalling $36.3 million (RMB 194.1 million).

The company plans to continue its current growth path with further investments in research and development and to expand its production facilities to accommodate the increased demand. The continued growth will require further capital to be raised in the next twelve months and to allow this to occur, the company is continuing to work towards a transfer from the National Stock Exchange (NSX) to the Australian Securities Exchange (ASX).

In mid-2017 the Board identified that 83% of the Company's members were not able to trade their shares on-market as they did not have access to Australian broker trading accounts. The Board therefore put together the necessary resources to provide market access to its shareholders resulting in 57% of shareholders having access as at the date of this report. It is anticipated that this will lead to a greater degree of liquidity of the company's shares. The Boards anticipates that should the company be approved to transfer to the ASX that this will further add to the liquidity of the company's shares which will increase its ability to raise further capital.

The start of 2018 has seen the results of the efforts throughout 2017 to develop the Group's presence in Australia. The research and development initiative with the Future Industries Institute at the University of South Australia provides the Company with a unique opportunity to collaborate with Australian industry experts to further improve the Group's manufacturing processes and assist with new product development. It is anticipated that through the joint collaboration with the photonics industry in Australia that the company will make several investments in Australian photonics company's in the next twelve months.

I look forward to leading ZKP's Board as we guide the company through the next stage of its development in Australia. ZKP has long-anticipated the development of its business in Australia and we expect 2018 to be the year that we solidify our position in the fibre-optic industry in Australia.

I would also like to take the opportunity to thank Mr Lu Lijian for his invaluable contribution as Chair of the Australian Board over the past two years. For the last 5 years Mr Lu has successfully built a strong financial foundation for the Group's future success.

Yours sincerely

Andrew Martin
Chairman
31 March 2018

ZKP STRUCTURE AND DEVELOPMENT

The ZKP Group Limited corporate structure below depicts the entities that are responsible for the operation of the Group's business.

Company	Description
ZKP Group Limited (Australia)	ZKP Group Limited is in the process of developing its business operations in Australia. The Company's primary focus is currently its collaboration with the Future Industries Institute at the University of South Australia The collaboration initially involves a three-month scoping study where a member of the Group's research and development (R&D) team will work within the Future Industries laboratories in Adelaide to scope out a joint research project. The primary goal of the collaboration is to improve manufacturing processes and assist with new product development.
100%	
ZKP Group (HongKong) Limited (Hong Kong)	ZKP Group (HongKong) Limited does not currently operate and is a holding company for the PRC operations.
100%	
Hengyang Zhongke Photoelectron Co., Ltd. (P.R.C.)	Hengyang Zhongke Photoelectron Co., Ltd. (HZP) is an optical communication products manufacturer that designs, manufactures and sells optical communications products. The Group purchases raw materials from suppliers in China and manufactures or processes the ferrules at its own site in Hengyang, China. The business involves 2 distinct revenue streams – the production and sale of ceramic ferrules, and the assembly and sale of fibre optic cables, splitters and other associated products which typically incorporate the Company's ceramic ferrules. The Group's major product ranges are: 1. Ceramic Ferrules 2. Fibre Optic Connectors 3. Splitters 4. Pigtail cables 5. Racks and Cassette Modules Optical Switches, Isolators and Components

Comparative Table of Results

	2017 ($'000)	2016 ($'000)
Total Revenue	36,665	15,055
Net Profit/Loss	7,240	5,599
Total Assets	110,104	48,562
Total Liabilities	57,283	40,677
Total Equity	52,821	7,885

Historical Development of the Group

- ZKP China was established in November 2011 and began production of ceramic ferrules in 2013.
- Throughout 2014, 2015 & 2016 the Company continued to build its customer base, undertook marketing programs and attended international trade shows. As a result of the Company's efforts, the Company expanded its production both domestically and internationally and now offers a range of fibre-optic products including fibre optic connectors, cables and splitters.
- In January 2016, the Australian Company, ZKP Group Ltd, was established and acquired both ZKP China and ZKP Hong Kong (together, the ***Group***) to undertake a listing upon the NSX.
- On 29 August 2016, ZKP was officially listed on the NSX.
- Since listing on the NSX the Company has undertaken the following corporate actions:
  - On 14 March 2017, the Company raised RMB 50 million (approximately $9.5 million) at an indicative share price of $0.19 per share.
  - On 29 June 2017, the Company completed a debt to equity conversion of debt totalling RMB 44,100,000 ($8.5 million) at an indicative conversion price of $0.1765 per share.
  - On 30 June 2017, the Company raised RMB 50 million (approximately $9.5 million) at an indicative exchange rate of A$.15 per share.
  - On 4 July 2017, the Company completed a share split to improve liquidity.
  - On 8 November 2017, the Company raised RMB 50 million (approximately $9.8 million) at an indicative exchange rate of A$.21 per share.

CORPORATE GOVERNANCE

The Company provides the table below disclosing the extent to which it follows the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**Recommendations**). This Statement describes the corporate governance practices of ZKP Group Limited (**Company**) and the Company's position in relation to each of the Recommendations is set out in the table below.

Copies of the Company's corporate governance documents are available on its website at www.zkpgroup.com.

Recommendation	Description
Principle 1: **Lay solid foundations for management and oversight** **A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.**	
Recommendation 1.1 **A listed entity should disclose:** a) **the respective roles and responsibilities of its board and management; and** b) **those matters expressly reserved to the board and those delegated to management.**	The Board operates under a Board Charter (a copy of which is available on the Company's website at zkpgroup.com. The Board Charter sets out the functions and responsibilities of the Board and management, which is governed by the Company's Constitution. The Board is accountable to the Company's shareholders for the Company's performance. The Board delegates the day-to-day management of the Company to the CEO and senior management. However, overall responsibility of the direction, and financial wellbeing of the Company rests with the Board. The CEO is charged with the day-to-day management of the operations of the Company and reports to the Board. The overall duties of the CEO are also summarised in the Board Charter.

<table>
<tr><td>Recommendation 1.2
A listed entity should:
a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</td><td>The Board ensures that appropriate checks are undertaken before it appoints a person, or puts forward to security holders a new candidate for election, as a director. This includes checks as to the person's character, experience, education, criminal record and bankruptcy history.
The Company provides the following information about a candidate standing for election or re-election as a director to security holders to enable them to make an informed decision on whether or not to elect or re-elect the candidate:
• biographical details, including their relevant qualifications and experience and the skills they bring to the board;
• details of any other material directorships currently held by the candidate;
The Company provides the following information about a candidate standing for election as a director for the first time:
• any material adverse information revealed by the checks the entity has performed about the director;
• details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the entity and its security holders generally; and
• if the board considers that the candidate will, if elected, qualify as an independent director, a statement to that effect;
The Company provides the following information about a candidate standing for re-election as a director:
• the term of office currently served by the director; and
• if the board considers the director to be an independent director, a statement to that effect; and
• a statement by the board as to whether it supports the election or re-election of the candidate.</td></tr>
<tr><td>Recommendation 1.3
A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</td><td>Each of the Company's directors and senior executives have entered into service contract or, where appropriate, a letter of appointment.
These documents provide the roles and responsibilities of the individual, giving them a clear understanding of the Company's expectations of them.</td></tr>
<tr><td>Recommendation 1.4
The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.</td><td>The company secretary is accountable directly to the board. Each director is able to communicate directly with the company secretary and vice versa.</td></tr>
</table>

Recommendation 1.5 **A listed entity should:** a) **have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;** b) **disclose that policy or a summary of it; and** c) **disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:** 1) **the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or** 2) **if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.**	As described in the Company's Diversity Policy (a copy of which is available on the Company's website at zkpgroup.com) the company respects and values the competitive advantage of diversity (which includes, but is not limited to gender, age, ethnicity and cultural background). The Board, at all times, seeks to deploy the best people it can in whatever role. The Board calls this the Company's 'Merit and Ability' philosophy. The 'Merit and Ability' philosophy is used to employ, promote and contract on the basis of merit, ability, performance, responsibility, integrity, attitude and work ethic. Central to the successful operation of the Company's 'Merit and Ability' philosophy is that considerations of age, race, religion, creed or gender have no positive or negative bias in employment or contracting decisions. This is termed the 'No Bias Employment' principle. The Board encourages transparent and contestable employment processes. It strives to keep the workplace environment open and diverse, with no bias involved in any employment process. The Company views that the combination of the 'Merit and Ability' philosophy and the 'No Bias' principle leaves open the widest possible recruitment pool. In turn, this leads to the greatest potential for diversity to enrich the Company. The Company has not implemented measurable objectives for gender diversity as it would be inconsistent with the Company's 'Merit and Ability' philosophy and 'No Bias Employment' principle. The Company is not a "relevant employer" under the Workplace Gender Equality Act.

Recommendation 1.6 and 1.7: **A listed entity should:** a) **have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and** b) **disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.** c) **have and disclose a process for periodically evaluating the performance of its senior executives; and** **disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.**	The Nomination and Remuneration Committee, chaired by a non-executive director, is responsible for ensuring there is a rigorous, formal process for the review of the performance of the Board, Board Committees, individual directors and senior executives and addressing any issues that may emerge from that review. An alternative non-executive director is responsible for the performance evaluation of the chair. The Company's annual report will include whether a performance evaluation was undertaken and, where appropriate, disclose any insights it has gained from the evaluation and any governance changes it has made as a result.

Principle 2: Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

Recommendation 2.1

The board of a listed entity should:

have a nomination committee which:

a) **has at least three members, a majority of whom are independent directors; and**
b) **is chaired by an independent director,**

and disclose:

c) **the charter of the committee;**
d) **the members of the committee; and**
e) **as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**

if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively

The Board has established a Nomination and Remuneration Committee which is responsible for assisting the Board to fulfilling its corporate governance responsibilities in regard to nomination and remuneration matters. The Committee has at least three members, a majority of whom are independent directors and is chaired by an independent director.

The Nomination and Remuneration Committee Charter outlines the Committee's authority, duties, responsibility and relationship with the Board and is available on the Company's website (zkpgroup.com).

The Annual Report will provide the members of the Committee, the number of times the committee met throughout the relevant period and the individual attendances of the members at those meetings.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

Skills and Experience	Board
Executive leadership	100%
Global experience	80%
Governance	80%
Strategy	100%
Financial acumen	80%
Health, safety and environment	100%
Remuneration	100%
Marketing	100%
Public policy	80%

<table>
<tr><td>
Recommendation 2.3

A listed entity should disclose:
a) the names of the directors considered by the board to be independent directors;
b) if a director has an interest, position, association or relationship of the type described in Box 2.3 in the ASX Corporate Governance Principles and Recommendations: 3rd Edition but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
c) the length of service of each director.
</td><td>
<table>
<tr><th>Director</th><th>Date of Appointment</th><th>Independence status</th></tr>
<tr><td>Mr Lu Lijian</td><td>21 January 2016</td><td>Not independent</td></tr>
<tr><td>Mr Lu Jian</td><td>6 March 2016</td><td>Not Independent</td></tr>
<tr><td>Mr Andrew Martin</td><td>6 March 2016</td><td>Not Independent</td></tr>
<tr><td>Mr Gary Francis</td><td>31 May 2017</td><td>Independent</td></tr>
<tr><td>Mr Nick Bolkus</td><td>8 September 2017</td><td>Independent</td></tr>
</table>
</td></tr>
<tr><td>
Recommendation 2.4

A majority of the board of a listed entity should be independent directors.
</td><td>
The Board consists of five directors, two of whom are considered independent as defined by the ASX Listing Rules and the ASX Corporate Governance Principles and Recommendations (3rd Edition).

The Board considers that its current composition is appropriate and that the decisions of the board will reflect the best interests of the entity and its security holders generally and not be biased towards the interests of management or any other person or group with whom a non-independent director may be associated.
</td></tr>
<tr><td>
Recommendation 2.5

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.
</td><td>
Mr Andrew Martin, a non-executive director, is the current chair of the board and is not the Company's CEO.
</td></tr>
<tr><td>
Recommendation 2.6

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.
</td><td>
The nomination committee regularly reviews whether the board has the appropriate skills, knowledge and familiarity with the Company and its operating environment. If and when gaps are identified the Company will provide suitable training or development to fill those gaps.
</td></tr>
</table>

Principle 3: Act ethically and responsibly **A listed entity should act ethically and responsibly**	
Recommendation 3.1 **A listed entity should:** a) **have a code of conduct for its directors, senior executives and employees; and** b) **disclose that code or a summary of it.**	The Company has a Code of Conduct which is available on the Company's website (zkpgroup.com). The Code of Conduct is applicable to all employees and Directors in the Company and its subsidiaries. and covers conflicts of interest, receipt of gifts and entertainment, bribes, media, social and environmental awareness and compliance with laws and policies. The Code of Conduct also details the procedure for reporting actual or suspected violations of the code.
Principle 4: Safeguard integrity in corporate reporting **A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.**	
Recommendation 4.1 **The board of a listed entity should:** **have an audit committee which:** 1) **has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and** 2) **is chaired by an independent director, who is not the chair of the board;** **and disclose:** 3) **the charter of the committee;** 4) **the relevant qualifications and experience of the members of the committee; and** 5) **in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or** **if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner**	The Company has established an Audit Risk and Compliance Committee. The Audit Risk and Compliance Committee comprises of three non-executive directors, two of whom are independent directors. The chair of the Audit Risk and Compliance Committee is an independent non-executive director. The Company has an Audit Risk and Compliance Committee Charter which is available on the Company's website (zkpgroup.com). The Primary objective of the Committee is to ensure: • effective management of financial and other material business risks; • reliable management and financial reporting, including half and full year accounts; • compliance with laws and regulations; and • maintenance of an independent, effective and efficient audit. The Annual Report will provide: • the members of the Committee; • the relevant qualifications and experience of the members of the committee; • the number of times the committee met throughout the relevant period; and • the individual attendances of the members at those meetings.

Recommendation 4.2 **The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.**	Before the Board approves the consolidated financial statements for each financial period, the group's CEO and CFO provide a declaration that, in their opinion, the financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
Recommendation 4.3 **A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.**	The Company will make every effort to ensure its external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.
Principle 5: Make timely and balanced disclosure **A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.**	
Recommendation 5.1 **A listed entity should:** **(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and** **(b) disclose that policy or a summary of it.**	The Company has a Continuous Disclosure Document which is available on the Company's website (zkpgroup.com). The purpose of this continuous disclosure policy is to outline the requirements under Corporations Act 2001 (Cth) and NSX Listing Rules for the Company to ensure that that the market is fully informed about the Company's strategy, financial performance and outlook and business operations.
Principle 6: Respect the rights of security holders **A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively**	

Recommendation 6.1 **A listed entity should provide information about itself and its governance to investors via its website.**	The Company has a website with a 'Statements and Policies' landing page which contains all of the Company's corporate governance information. The website contains pages with other relevant information including, but not limited to: • the names, photographs and brief biographical information for each of its directors and senior executives; • its board charter and the charters of each of its board committees; • the corporate governance policies and other corporate governance materials referred to in these recommendations. • copies of its annual reports and financial statements; • copies of its announcements to ASX; • copies of notices of meetings of security holders and any accompanying documents; • an overview of the entity's current business; and • a summary of the entity's history.
Recommendation 6.2 **A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.**	The Company has a Shareholder Communication Policy which is available on the Company's website (zkpgroup.com). The Shareholder Communication Policy describes information that is circulated to the Company's shareholders and extends beyond the mandatory requirements which are outlined in the Company's Continuous Disclosure Policy. Information is provided in accordance with this Policy for the purpose of enabling investors to have a greater understanding of the Company's financial position and direction, including the Company's business, governance, financial performance and prospects. The Company actively engages with security holders at the AGM, meets with investors upon request and responds to any enquiries they may make from time to time.
Recommendation 6.3 **A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.**	The Company has security holders from around the globe on its register and therefore utilises appropriate technology at its General Meetings to facilitate the participation of security holders in meetings. For each general meeting of the Company, management organise the meetings to be held at multiple venues which are linked by live telecommunications. The Company also encourages security holders who are not able to attend the meeting to provide questions or comments ahead of the meeting. Where appropriate, these questions are then answered at the meeting.
Recommendation 6.4 **A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.**	As described in the Shareholder Communication Policy, the Company actively encourages shareholders to provide their e-mail address to the Company to facilitate increased effective communication. The Company's share registry also has e-communication capabilities that allow it to communicate electronically with security holders when appropriate.

<table>
<tr><td colspan="2">Principle 7: Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.</td></tr>
<tr><td>Recommendation 7.1

The board of a listed entity should:

have a committee or committees to oversee risk, each of which:

1) has at least three members, a majority of whom are independent directors; and
2) is chaired by an independent director,

and disclose:

3) the charter of the committee;
4) the members of the committee; and
5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</td><td>The Company has established an Audit Risk and Compliance Committee. The Audit Risk and Compliance Committee comprises of three non-executive directors, two of whom are independent directors. The chair of the Audit Risk and Compliance Committee is an independent non-executive director.

The Company has an Audit Risk and Compliance Committee Charter which is available on the Company's website (zkpgroup.com). The Primary objective of the Committee is to ensure:

• effective management of financial and other material business risks;
• reliable management and financial reporting, including half and full year accounts;
• compliance with laws and regulations; and
• maintenance of an independent, effective and efficient audit.

The Annual Report will provide:

• the members of the Committee;
• the relevant qualifications and experience of the members of the committee;
• the number of times the committee met throughout the relevant period; and
• the individual attendances of the members at those meetings.</td></tr>
<tr><td>Recommendation 7.2

The board or a committee of the board should:

a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
b) disclose, in relation to each reporting period, whether such a review has taken place.</td><td>The Audit Risk and Compliance Committee periodically reviews the Company's risk management framework to satisfy itself that it continues to be sound and that the Company is operating appropriately.</td></tr>
<tr><td>Recommendation 7.3

A listed entity should disclose:

a) if it has an internal audit function, how the function is structured and what role it performs; or
b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</td><td>The Company does not have a formal internal audit function however it employs appropriate processes for evaluating and continually improving the effectiveness of its risk management and internal control processes as set out in the Audit Risk and Compliance Committee Charter.</td></tr>
</table>

Recommendation 7.4 **A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.**	The Audit Risk and Compliance Committee evaluates, reports and provides assurance to the board in respect of any identified material exposure to economic, environmental and social sustainability risks. The Company ensures that its Annual Report provides all information that shareholders would reasonably require to assess any material exposure to economic, environmental and social sustainability risks that could adversely affect the Company.
Principle 8: Remunerate fairly and responsibly **A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders.**	
Recommendation 8.1 **The board of a listed entity should:** **have a remuneration committee which:** 1) **has at least three members, a majority of whom are independent directors; and** 2) **is chaired by an independent director,** **and disclose:** 3) **the charter of the committee;** 4) **the members of the committee; and** 5) **as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or** **if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.**	The Company has established a Nomination and Remuneration Committee. The Committee has at least three members, a majority of whom are independent directors and is chaired by an independent director. The Nomination and Remuneration Committee is responsible for assisting the Board to fulfil its corporate governance responsibilities in regard to nomination and remuneration matters. The Nomination and Remuneration Committee Charter outlines the Committee's authority, duties, responsibility and relationship with the Board and is available on the Company's website (zkpgroup.com). The Annual Report will provide the members of the Committee, the number of times the committee met throughout the relevant period and the individual attendances of the members at those meetings.
Recommendation 8.2 **A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.**	The Nomination and Remuneration Committee Charter discloses a summary of the entity's policies and practices regarding the remuneration of executive directors, non-executive directors and other senior executives and includes penalties in the event of misconduct. The Charter is available on the Company's website (zkpgroup.com).

Recommendation 8.3 **A listed entity which has an equity-based remuneration scheme should:** a) **have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and** b) **disclose that policy or a summary of it.**	The Nomination and Remuneration Committee Charter discloses a summary of the entity's policies and practices regarding an equity-based remuneration scheme. Participants in any equity-based remuneration scheme relating to the Company are not permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.

Conflicts of Interest - Declared Conflicts and Review Parties

As part of the requirements of its corporate governance arrangements, ZKP has a number of policies and procedures to help manage conflicts of interests that is officers and employees may face in the course of their day to day activities.

A commercial conflict of interest is a situation where an employee interest and ZKP interest(s) are in conflict and the employee gives preference to the employee's interest usually for a financial gain or other benefit, ahead of the interest(s) of ZKP. For example, a director or employee is involved with a supplier to ZKP and by the Director or employee's actions that supplier derives a benefit that they would not have ordinarily obtained.

The table below summarises the conflicts declared by each Director or officer.

Table of Declared Conflicts

Director or Officer	Relationship to ZKP	Nature of potential or actual conflict
Lu Lijian	Managing Director & CEO of ZKP Group Limited Director of ZKP Group (HongKong) Limited Director & Legal Representative of Hengyang Zhongke Photoelectron Co., Ltd.	Director & Legal Representative of Jiangsu Zhongke Photoelectron Co., Ltd. which is a customer and supplier of Hengyang Zhongke Photoelectron Co., Ltd. Director & Legal Representative of Zhongke Photoelectron Co., Ltd. which is a customer and supplier of Hengyang Zhongke Photoelectron Co., Ltd.
Lu Jian	Director of ZKP Group Limited	Director of Jiangsu Zhongke Photoelectron Co., Ltd. which is a customer and supplier of Hengyang Zhongke Photoelectron Co., Ltd.
Andrew Martin	Director of ZKP Group Limited Director of ZKP Group (HongKong) Limited	Director of Augur Primacy Pty Ltd the Nominated Adviser and Corporate Adviser of ZKP Group Limited
Gary Francis	Director of ZKP Group Limited	None
Nick Bolkus	Director of ZKP Group Limited	None

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of ZKP Group Limited (the Company) and its controlled entities entity (the Group) for the financial year ended 31 December 2017.

Directors

The names of the directors in office at any time during, or since the end of, the year are:

Director	Appointed	Resigned
Mr Lu Lijian	21 January 2016	
Mr Lu Jian	6 March 2016	
Mr Andrew Martin	6 March 2016	
Mr Gary Francis	31 May 2017	
Mr Nick Bolkus	8 September 2017	
Mr Brendan Connell	21 January 2016	9 August 2017
Mr Kao Chien-Chih	31 March 2016	7 April 2017

Particulars of each director's experience and qualifications are set out later in this report.

Company Secretary

James Church, Company Secretary - LLB LP, BSc (Hons), BTech, MAICD, AGIA, (appointed 21 January 2016).

Mr Church is a corporate and commercial lawyer, specialising in corporate finance. Mr Church has held Company Secretary positions with a number of listed and unlisted companies. Currently Mr Church is also Company Secretary of three unlisted public companies.

Doris Lin, Company Secretary - Bachelor Degree (ENGL) (appointed 22 February 2018)

Ms Lin resides in China and commenced her position at ZKP's wholly owned Chinese subsidiary in August 2016 as Translation and Interpretation Manager and Chinese Shareholder Liaison.

Ms Lin also holds the following certificates:

-TEM-8, English Translation Test of Business Language (Intermediate Interpretation); and

- English Teacher Certificate (High School).

Principal Activities

The principal activities of the Group during the financial year were the manufacturer and sale of optical communication products for telecommunication in China.

Dividends Paid or Recommended

No dividends have been paid or declared during or since the end of the financial year.

The Company is working on a Dividend Policy which may include a Dividend Reinvestment Plan which it expects to present to shareholders in the near future.

Operating Results

The Net profit after tax of the Group for the financial year amounted to $7,240,076 (2016: $5,598,547).

An analysis of the Group's financial result is provided in the Review of Operations section (below).

Review of Operations

2017 marked the Group's fifth year of providing fibre-optic products throughout China and the third year providing fibre-optic products internationally. The Company's financial performance this year was exceptional, demonstrating the Company's ability to maintain its historical growth.

As one of China's leading ferrule manufacturers, ZKP has initiated a strategy based on expansion and technological prowess. In the last five years, ZKP has grown into one of the largest ferrule manufacturers in China and is looking for continued growth and development to further establish itself as a world leader in fibre-optic products.

The Group's core objectives for future growth include; increasing the Company's vertical integration via a joint venture or acquisition, updating the Company's manufacturing equipment and increasing the Company's R&D capabilities for dedicated devices.

ZKP produces a range of fibre-optic components, cables and devices and is committed to providing industry-leading products to its customers.

The Group's total revenue in 2017 was $36.7 million an increase of 144% compared to $15.1 million in 2016. Sales to related parties decreased this year in percentage of sales and dollar value (30% of 2017 revenue compared to 70% of 2016 revenue). Management expects sales to related parties will continue to decrease significantly as a percentage over the 2018 period with a corresponding increase in sales to unrelated parties.

Net Profit in 2017 was $7.2 million, an increase of 29% when compared to $5.6 million in 2016. The increase net profit was mainly due to gains generated on the sale of raw materials, enhanced product offerings and interest earned on loans to related parties.

The Company currently sells its products domestically in China, however is targeting new opportunities in key jurisdictions including Australia.

Capital expenditure on property, plant and equipment in 2017 amounted to $2.2 million (2016: $1.0 million), representing 4.4% (2016: 6.9%) of revenue.

Financial Position

The net assets of the Group have increased to $52.8 from $7.9 million in 2016 as a result of profitable trading activity for the year and capital raising activities.

Significant Changes in the State of Affairs

During the year, the Company undertook the following corporate actions which had a material impact on the state of affairs of the Group:

- On 14 March 2017, the Company raised $9.5 million (RMB 50 million) through a successful placement of shares to a sophisticated and professional investor;
- On 29 June 2017, the Company completed a debt to equity conversion of debts from a large pool of financiers totalling $8.5 million (RMB 44.1 million) at an issue price of $0.1765 per share (post-split);
- On 30 June 2017, the Company raised $9.5 million (RMB 50 million) following completion of a placement to a sophisticated investor;
- On 4 July 2017, the Company completed a share split on a 1 for 155 basis to improve liquidity;

- On 8 November 2017, the Company raised $9.8 million (RMB 50 million) through the issue of shares to sophisticated and professional investors

Throughout the year the Company raised capital and converted debt totalling $36.3 million.

Land Acquisition and Sale

In early 2017 the company acquired a parcel of land from the Hengnan County Peoples Government for the purposes of building a new factory to expand the Group's operations in Hengyang.

In December 2017 the Company sold the land back to the Hengnan County People's Government in order to fund the improvement of the Group's existing Hengyang factory. The funds were received on 5 December 2017. In addition to repaying the initial purchase price, the Hengnan County People's Government agreed to fund improvements to the value of RMB 8.1M ($1.6 million) to the Group's existing Hengyang factory.

Matters subsequent to the end of the financial year

Following the end of the financial year the following events have occurred:

Repayment of Related Party Loans

During the year the company advanced funds to related companies to assist them with their operations. These loans were advanced on favourable terms to ZKP Group Limited and secured. Since the end of the financial year over $15.9 million (RMB 76.5 million) has been repaid by the related companies. The funds will now be used to retire external debt of the Group.

Likely Developments

Other than growing the company's production and product range in accordance with market demand, the Group expects to maintain the present status and level of operations.

The Board plans to raise further capital in the near future, consistent with ZKP's ongoing growth plans. To assist with this, ZKP has also commenced a process to transfer ZKP Group Limited from the National Stock Exchange (NSX) to the Australian Securities Exchange (ASX) which it expects will improve its ability to raise capital in both Australia and China and improve the liquidity of the shares. The transfer will be subject to the necessary regulatory approval processes.

Changes in the Company's Share Price

The Company was listed on NSX in August 2016 with a market capitalisation of $2,042,000 with 2,042,000 shares listed at $1.00 per share. The Company's share price reached $4.20 in late 2016, however, the liquidity of the shares on market was poor.

The Company has undertaken significant capital raising throughout 2017 in order expand its production capacity and intends to raise further capital in Australia throughout 2018. This additional capital would provide financial flexibility and allow the Group to achieve its growth strategy. The capital raising is outlined in the Significant Changes in the State of Affairs above.

While the Company has historically had no difficulty raising capital from Chinese institutional investors, the poor liquidity of the Company's shares has, and will continue to have, an impact on its ability to access capital in both Australia and China.

Currently the Company's securities are listed on the NSX, however, there is has been very little trading activity. There were no on-market share trades of the Company's shares during 2017. The Company is of the view that the poor liquidity is the result of a series of factors, over which the Company can control only a few.

The Company's plans to transfer from the NSX to the ASX may assist to alleviate some of the liquidity issues, allowing investors to realise the value of their shareholding. A liquid market would also enable the Company to more easily access capital in Australia.

The Company is also in the process of completing the set-up of trading accounts for a substantial proportion of the Company's existing shareholders. Consultation with shareholders identified a demand to trade the Company's securities, but no knowledge about how to do so. Management investigated a number of potential solutions and decided to utilise Openmarkets accounts to allow shareholders access to the market. Over the last six months, the Company has worked with Openmarkets to complete the necessary identity checks and application forms for nearly 300 existing shareholders and potential investors. On 23 March 2018, 133 shareholders successfully opened trading accounts with Openmarkets. The Company expects a majority of the remaining shareholders to open trading accounts over the next 2 months.

Environmental Responsibility

The Group's operations are subject to environmental laws and regulations under the various laws of Hunan Province and the People's Republic of China. The Group adopts a best practice approach in satisfaction of the relevant laws and regulations by ensuring that it, and its subsidiaries at a minimum comply with the local regulatory requirements with regard to the environment. The directors are not aware of any significant material environmental issues arising from the operations of the Group during the year.

Directors and Officers

Mr Lu Lijian	***Managing Director and CEO***
Qualifications	-
Appointed	21 January 2016
Directorships held in other listed entities	Nil
Interest in Shares and Options	204,741,930 ordinary shares
Experience	In 2001, Mr Lu established Guangzhou Leidun Lubricating Oil Co., Ltd., where he held the position of General Manager. Within one year of its establishment, Guangzhou Leidun Lubricating Oil Co., Ltd., had developed markets in southern China, eastern China and southwestern China. In 2008, Mr Lu established Hengyang Huahui Real Estate Development Co., Ltd., the first real estate company that develops high-level residential property in Yunji Town, Hengnan County, Hengyang City, China. In 2011, Mr Lu established ZKP China. Mr Lu now acts as the CEO and Managing Director of ZKP Group. He is also the Senior Vice Chairman of Wenzhou Chamber of Commerce in Hengyang City, China.

Mr Lu Jian	Executive Director and General Manager
Qualifications	-
Appointed	6 March 2016
Directorships held in other listed entities	Nil
Interest in Shares and Options	15,508,990 ordinary shares
Experience	From 2003 until 2007, Mr Lu was employed as the Sales Director by Huai'an Xinhu Real Estate Development Co., Ltd. In 2007, Mr Lu moved to Italy to operate Italy Wuzhou Trading Co., Ltd, an international trading company. In October 2011, Mr Lu established ZKP China with Lijian Lu. He was appointed to the Board in March 2016 and now acts as the Group's Executive Director.
Mr Andrew Martin	**Non-Executive Chairman**
Qualifications	BA (Accounting), MAICD
Appointed	6 March 2016
Directorships held in other listed entities	Nil
Interest in Shares and Options	3,300,000 ordinary shares
Experience	Mr Martin was appointed to the Board in March 2016. Mr Martin was trained as a Chartered Accountant and has worked as senior roles at a number of large accounting firms including most recently as a Director of KPMG. During that period Mr Martin has worked in a number of different disciplines including audit, restructuring and ultimately corporate advisory. In 2010, Mr Martin established his own boutique corporate advisory firm, Augur Primacy and now works closely with clients on corporate strategy and financial management. Mr Martin acts as a Non-Executive Director or Advisory Board member for a number of his clients many of whom have strong exposure to investment and trade between Australia and China. Mr Martin was appointed as Chairman of ZKP Group Limited on 7 September 2017 and is a member of both the Audit and Risk Committee and the Remuneration and Nomination Committee.

Mr Gary Francis	Non-Executive Director
Qualifications	BSc (Hons), MAICD
Appointed	31 May 2017
Directorships held in other listed entities	Korvest Limited (KOV)
Interest in Shares and Options	Nil
Experience	Mr Francis was appointed to the Board on 31 May 2017 as a Non-Executive Director. He is Chair of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee. He has over 30 years professional experience in the construction industry having worked in senior positions with a number of major construction companies on large scale projects both in Australia and Asia. In the past decade, Mr Francis has held independent Director positions within a number of listed and private companies. Currently, he is a Director of Korvest Limited (ASX:KOV), a publicly listed company specialising in hot dip galvanising and the metal fabrication of various products for the mining, infrastructure and industrial markets in Australia. He also acts as an advisor to Custodian International, a cyber, people and infrastructure security advisory firm and Rider, Levett, Bucknall, a global property and construction consultancy. He is a Member of KPMG Audit Committee Institute.
Mr Nick Bolkus	**Non-Executive Director**
Qualifications	LLB
Appointed	8 September 2017
Directorships held in other listed entities	AustChina Holdings Limited (AUH)
Interest in Shares and Options	Nil
Experience	Mr Bolkus was appointed to the Board on 8 September 2017 as a Non-Executive Director. He is Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee. Mr Bolkus was formerly a Senator. A brief summary of his parliamentary service is provided below: Mr Bolkus was elected to the Senate for South Australia 1980 (term began 1 July 1981), 1983, 1984, 1987, 1993 and 1998 and retired prior to general elections in 2004 (term ended 30 June 2005). Mr Bolkus' parliamentary positions include: • Temporary Chair of Committees from 2002 to 2005. Ministerial appointments

	• Minister for Consumer Affairs from 1988 to 1990. • Minister Assisting the Treasurer for Prices from 1988 to 1990. • Minister for Administrative Services from 1990 to 1993. • Minister for Immigration and Ethnic Affairs from 1993 to 1996. • Minister Assisting the Prime Minister for Multicultural Affairs from 1993 to 1996. Mr Bolkus' parliamentary party positions include • Member, Opposition Shadow Ministry from 1996 to 2001. • Shadow Attorney-General and Shadow Minister for Justice from 1996 to 1998. • Shadow Minister for Environment and Heritage from 1998 to 2001.

Meetings of Directors

The Directors hold meetings on a regular basis and on an as required basis to deal with items of business. Meetings held and attended by each Director during the year of review were:

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Eligible to Attend	Number Attended	Eligible to Attend	Number Attended	Eligible to Attend	Number Attended
Mr Lu Lijian	10	10	1	1	1	1
Mr Lu Jian	10	8	-	-	-	-
Mr Andrew Martin	10	10	1	1	1	1
Mr Gary Francis	7	7	-	-	1	1
Mr Nick Bolkus	4	4	-	-	-	-
Mr Brendan Connell	5	5	1	1	-	-
Mr Kao Chien-Chih	2	-	-	-	-	-

Indemnification and Insurance of Directors and Officers

The Company has indemnified each director and the secretary in their capacity as officers of the Group. The insured liabilities include costs and expenses that may be incurred in defending civil or criminal proceedings against the officers in their capacity as officers of the Group and any other payments arising from liabilities incurred in connection with such proceedings to the extent permitted by law.

Indemnification and Insurance of Auditors

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against liability incurred by the auditor. The company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Unissued Shares Under Option

At the date of this report, there are no unissued shares or interests under option.

Shares issues during or since the end of the year on exercise of option

There were no shares or interests issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

Proceedings on Behalf of the Company

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

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and other key management personnel of the Group.

The Remuneration Report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Details of Directors' and other Key Management Personnel contracts and remuneration
C. Interest in shares and options
D. Other Service agreements; and
E. Other transactions with Key Management Personnel (KMP) and related parties

A. Principles used to determine the nature and amount of remuneration

The principles of the Group's remuneration are decided after consideration is given to a series of factors, including:

(i) market remuneration levels. Taking into account differences across jurisdictions,

(ii) role and duties performed,

(iii) skill set of the individual;

(iv) significance of their role within the Group; and

(v) level of remuneration required to attract, retain and motivate high quality personnel.

The Board has established a Nomination and Remuneration Committee which operates in accordance with its Charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the Directors and the other key management personnel.

The Committee may engage independent remuneration consultants to provide any necessary information to assist in the discharge of its responsibilities as required. No remuneration consultants were engaged during the financial year.

While no short-term incentive scheme has been approved by the Board or shareholders, both the Company's net profit and the average remuneration levels for Directors and Senior Management have increased over the last 2 years.

As the Group's business grows, the factors considered when deciding remuneration are also affected.

In particular, an individual's role and duties may expand, their skill set may be broadened or more specialised and the significance of their role may increase.

At the Company's most recent AGM, no comments were made concerning the remuneration report. In addition at the most recent AGM votes cast against the remuneration report were less than 25%.

The Board believes it currently has in place a suitable remuneration policy. The Board reviews its policies at least annually in order to ensure they are in line with shareholder expectations.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year:

Item	2017	2016
EPS (cents)	1.66	1.77
Dividends (cents per share)	N/A	N/A
Net profit	7,240,076	5,598,547
Share price ($)	$0.027	$0.027 (c)

(a) Share price as at 31 December.
(b) The Company was admitted to the official list on National Stock Exchange ('NSX') on the 22 August 2016
(c) The share price at 31 December 2016 was $4.20 ($0.027 on a post share-split basis)

B. Details of Directors' and other Key Management Personnel contracts and remuneration

Details of the Director and other Key Management Personnel emoluments and payments made for professional services rendered are set out below.

Executive Directors

Executive Directors are appointed under the terms of an executive letter of appointment. Each appointment provides for annual fees of $40,000 for services as Directors including any necessary company contribution to Australian statutory superannuation schemes.

Non-Executive Directors

Non-Executive Directors are appointed under the terms of a Non-Executive Director letter of appointment. All Non-Executive Directors' letters of appointment provide for annual fees of $60,000 for services as Directors. Nick Bolkus, Gary Francis and Andrew Martin are also members of the board's two committees; the Audit and Risk Committee and the Remuneration and Nomination Committee.

Non-executive Director letters of appointment allow additional remuneration of $2,000 per diem for services or special exertions outside the scope of normal Directors' functions with board authorisation.

Company Secretary

The Company Secretary is appointed under the terms of a letter of appointment. The letter of appointment provides for annual fees of $30,000.

Summary of amounts paid to key management personnel

The following table discloses the compensation of the Directors and the key management personnel of the Group during 2017.

2017	Short term benefits - Salary and Fees	Post Employment benefits - Superannuation	Long term benefits	Share based payments	Total Benefit
Directors					
Lu Lijian[1]	9,650	-	-	-	9,650
Lu Jian[2]	-	-	-	-	-
Andrew Martin[3]	55,000	-	-	-	55,000
Gary Francis[3]	45,000	-	-	-	45,000
Nick Bolkus[3]	15,000	-	-	-	15,000
Brendan Connell[4]	52,165	-	-	-	52,165
Kao Chien-Chih	-	-	-	-	-
Key Personnel					
James Church[5]	15,000	-	-	-	15,000
Total	191,815	-	-	-	191,815

[1] Lu Lijian elected to receive a reduced director fee of RMB 50,000 for 2017.
[2] Lu Jian elected to forgo his director fees for 2017.
[3] Amounts for Andrew Martin, Gary Francis and Nick Bolkus are for director fees paid during the year.
[4] Fees payable to Mr Connell are for director fees, Company Secretary fees, Nominated Adviser fees & legal fees.
[5] Fees payable to Mr Church are for Company Secretary fees paid during the year.

The following table discloses the compensation of the Directors and the key management personnel of the Group during 2016.

2016	Short term benefits - Salary and Fees	Post Employment benefits - Superannuation	Long term benefits	Share based payments	Total Benefit
Directors					
Lu Lijian[1]	16,000	-	-	-	16,000
Lu Jian[2]	-	-	-	-	-
Andrew Martin[3]	35,000	-	-	-	35,000
Gary Francis[3]	-	-	-	-	-
Nick Bolkus[3]	-	-	-	-	-
Brendan Connell[4]	35,000	-	-	-	35,000
Kao Chien-Chih	-	-	-	-	-
Key Personnel					
James Church[5]	-	-	-		-
Total	86,000	-	-	-	86,000

[1]. Lu Lijian elected to receive a reduced director fee of AUD $16,000 for 2016.
[2] Lu Jian elected to forgo his director fees for 2016.
[3] Amounts for Andrew Martin are for director fees paid during the year.
[4] Fees payable to Mr Connell are for director fees paid during the year.

C. Interests in shares and options

The Directors and Officers who served during the year and their interests in the share capital of the Company at 31 December 2017 were follows:

	Ordinary Shares		Unlisted Options	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Mr Lu Lijian	204,741,930	1,127,796	-	-
Mr Lu Jian	15,508,990	100,058	-	-
Mr Andrew Martin	3,300,000	-	-	-
Mr Gary Francis	-	-	-	-
Mr Nick Bolkus	-	-	-	-
Mr Brendan Connell	-	-	-	-
Mr Kao Chien-Chih	-	-	-	-
Mr James Church	-	-	-	-

D. Other Service Agreements

Connell Lawyers

Brendan Connell is the Partner of Connell Lawyers. Details of the contracts entered into with Connell Lawyers during, or since the end of, 2017 are provided below:

1. Potential acquisition of Jiangsu Zhongke Photoelectron Co., Ltd.

This agreement related to the legal work relating to the potential acquisition of Jiangsu Zhongke Photoelectron Co Ltd and included:

- Preparation of a Notice of Meeting and setting up of a General Meeting;
- Preparation of Share Sale Agreement;
- Preparation of an Explanatory Statement;
- Necessary procedural work including consents and liaison with third parties; and
- Prospectus or Information Memorandum preparation and lodgement.

The fees payable under this contract were $125,000 plus GST payable in 5 equal instalments. $25,000 was paid as this contract was terminated after payment of the first instalment.

2. Company Secretary services

This agreement related to the provision of Company Secretary Services and included all the services that would normally be provided by a Company Secretary to a listed company. The fees payable under this contract were $30,000 plus GST annually paid in quarterly instalments.

$15,000 was paid as this contract was terminated on 30 June 2017 and this has been included in the remuneration tables above.

3. Nominated Adviser

This agreement related to the provision of Nominated Adviser services and included all the services that would normally be provided by a Nominated Adviser in accordance with the requirements of the NSX Listing Rules. The fees payable under this contract were $12,000 annually paid in quarterly instalments. $7,000 was paid as this contract was terminated on 31 July 2017.

4. Transfer from NSX to ASX

An agreement was entered into for the legal work relating to the transfer from the NSX to the ASX. Amounts were paid to Connell Lawyers. This contract is currently in dispute. The dispute is in the Supreme Court of South Australia - Civil Jurisdiction (Supreme Court Action Number: SCCIV – 18 – 143)

5. Project Management Agreement

An agreement between Augur Primacy Pty Ltd and ZKP Group Limited was entered into relating to the Project Management of ZKP Group Limited's transfer from the NSX to the ASX. Services under the agreement between Augur Primacy Pty Ltd and ZKP Group Limited were subcontracted to Connell Lawyers. Connell Lawyers received $150,000 for their element of the agreement.

Augur Primacy

Andrew Martin is the Director of Augur Primacy Pty Ltd. The company entered into an agreement with Augur Primacy Pty Ltd for corporate advisory services relating to the transfer from the NSX to the ASX. The agreement was to the value of $600,000 a portion of which was then sub contracted to Connell Lawyers ($150,000) as detailed above. Augur Primacy has received $300,000 for their element of the agreement.

Key management personnel of the Chinese Subsidiary

Key management personnel that are employed by the Chinese Subsidiary are employed under normal employment terms, required to give one months' notice of resignation and there are no termination payment clauses.

E. Other transactions with Key Management Personnel (KMP) and related parties

a) Transactions with Directors, other key management personnel and related parties

	2017	2016
Transactions with related parties:		
Sale of various goods and services from entities controlled by key management personnel		
-Jiangsu Zhongke Photoelectron Co., Ltd. [1]	409,974	9,272,000
-Zhejiang Zhongke Photoelectron Co., Ltd. [1]	526,301	772,000
-Hengyang City Branch Electronics Co., Ltd. [1]	9,920,187	526,000
Total	**10,856,462**	**10,570,000**
Purchase of various goods and services from entities controlled by key management personnel		
-Jiangsu Zhongke Photoelectron Co., Ltd. [1]	298,041	-
-Zhejiang Zhongke Photoelectron Co., Ltd. [1]	405,874	-
-Hengyang Zhongke Dianzi Co., Ltd. [1]	8,221,838	-
Total	**8,925,753**	**-**
Other income/reimbursements from key management personnel		
-Hengyang City Branch Electronics Co., Ltd. [1]	4,577,173	-
- Li Jian	489,349	-
Total	5,066,522	-
Interest income from entities controlled by key management personnel		
-Hengyang Huahui Real Estate Development Co., Ltd[1]	244,303	-
-Hengyang Zhongke Dianzi Co., Ltd. [1]	995,635	-
-Hengyang Branch Information Technology Co., Ltd[1]	15,625	-
-Hunan Zhongke Photoelectron Co., Ltd[1]	1,492	-
Total	**1,257,055**	**-**
Interest expense from entities controlled by key management personnel		
-Jiangsu Zhongke Photoelectron Co., Ltd. [1]	6,310	-
-Zhejiang Zhongke Photoelectron Co., Ltd. [1]	41,284	-
-Lijian LU	425,420	-
Total	**473,014**	**-**
Purchase of advisory services from key management personnel.		
-Brendan Connell (Connell Lawyers)	175,500	10,000
-Andrew Martin (Augur Primacy)	300,000	**-**
	475,500	**10,000**

[1] Entities are controlled by Lijian Lu

b) Outstanding balances from related parties

	2017	2016
Related party payables		
-Jiangsu Zhongke Photoelectron Co., Ltd[1]	1,240,061	-
-Zhejiang Zhongke Photoelectron Co., Ltd[1]	167,001	1,788,175
-Hengnan Zhongxuan Mold Automatic Technology Co., Ltd[1]	89,091	-
-Lu Li Jian	834,938	-
-Hengyang Huahui Real Estate Development Co., Ltd[1]	-	431,213
-Hunan Zhongke Communications Equipment Co., Ltd[1]	-	87,991
- Hengnan Zhongxuan Automatic Technology Co., Ltd[1]	-	91,170
Total related payables	**2,331,091**	**2,398,549**
Related party receivables		
-Jiangsu Zhongke Photoelectron Co., Ltd[1]	20,119,175	6,824,257
-Zhejiang Zhongke Photoelectron Co., Ltd[1]	7,428,779	-
-Hengyang Zhongke Dianzi Photoelectron Co., Ltd. [1]	26,983,220	-
-Hengyang Huahui Property Development Co., Ltd.	288,328	77,130
-Hunan Zhongke Photoelectron Co., Ltd. [1]	174,356	-
-Hengyang Zhongke Information Tech Co., Ltd. [1]	114,363	-
-Hengnan Zhongxuan Mold Automatic Technology Co., Ltd [1]	5,798	-
- Hengyang Branch Information Technology Co., Ltd[1]	-	75,794
-Lu Li Jian	499,161	-
-Lu Jian	2,962	-
Total related receivables	**55,616,142**	**6,977,181**
Related party loans		
-Jiangsu Zhongke Photoelectron Co., Ltd	3,503,821	-
-Hengnan Zhongxuan Mold Automatic Technology Co., Ltd.	2,691,171	-
Total related party loans	**6,194,992**	**-**

[1] Entities are controlled by Lijian Lu

c) Advances and receipts to/(from) related parties

	2017	2016
Advances to related party		
-Jiangsu Zhongke Photoelectron Co., Ltd. [1]	26,214,696	-
-Zhejiang Zhongke Photoelectron Co., Ltd. [1]	21,545,993	-
-Hengyang Huahui Real Estate Development Co., Ltd[1]	36,307,289	-
-Lijian LU	13,246,494	-
-Hengnan Zhongxuan Automatic Technology Co., [1]	33,772,814	-
Total related party loan	131,087,286	-

Loans receipts from related parties		
-Jiangsu Zhongke Photoelectron Co., Ltd. [1]	10,506,680	-
-Zhejiang Zhongke Photoelectron Co., Ltd. [1]	15,100,576	-
-Hengyang Huahui Real Estate Development Co., Ltd[1]	35,951,546	-
-Lijian LU	9,647,164	-
-Hengnan Zhongxuan Automatic Technology Co. [1]	18,768,941	-
-Jiangsu Zhongke Photoelectron Co., Ltd[1]	3,503,821	-
Total related party receipts	**93,478,728**	**-**

[1] Entities are controlled by Lijian Lu

End of audited Remuneration Report.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided to the Group during the year by the auditor are outlined in Note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or another period or form on the auditors behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

No non audit services were provided by Grant Thornton Audit Pty Ltd during the year.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with Section 327 of the Corporations Act 2001.

Auditors independence declaration

A copy of the auditors independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 35 of this report.

Signed in accordance with a resolution of the Directors.

Andrew Martin
Chairman
31 March 2018

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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 audit of ZKP Group Limited for the year ended 31 December 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 audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 31 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017	2016
Revenue	5	36,664,518	15,055,089
Cost of Sales		(30,431,415)	(8,117,466)
Gross Profit		**6,233,103**	**6,937,623**
Other Income	6	6,437,093	2,319,062
Less expenses:			
Selling expense		(248,825)	(159,163)
General and administrative expense	8	(5,269,838)	(2,133,161)
Other expense		(181,871)	(161,001)
Finance income	7	1,304,943	346,929
Finance costs	7	(91,901)	(959,238)
Profit before tax		**8,182,704**	**6,191,051**
Income tax expense	9	(942,628)	(592,503)
Profit for the year after tax		**7,240,076**	**5,598,548**
Other comprehensive income:			
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on translating foreign operations		365,011	244,000
Total comprehensive income for the year		**7,605,087**	**5,842,548**
Earning per share (Pre split)			
Basic earnings per share (cents)	19	N/A	274.17
Diluted earnings per share (cents)	19	N/A	274.17
Earning per share (Post split)			
Basic earnings per share (cents)	19	1.66	1.77
Diluted earnings per share (cents)	19	1.66	1.77

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017	2016
Assets			
Current			
Cash and cash equivalents	10	12,362,653	105,849
Trade and other receivables	11	64,759,159	11,892,004
Inventories	12	5,713,581	8,616,753
Other assets		2,749,683	1,671,051
Total current assets		**85,585,076**	**22,285,657**
Non-current			
Property, plant and equipment	13	22,529,284	24,575,346
Intangible Assets		-	29,871
Deferred tax asset	14	317,807	-
Goodwill	15	1,671,435	1,671,435
Total non-current assets		**24,518,526**	**26,276,652**
Total assets		**110,103,602**	**48,562,309**
Liabilities			
Current			
Trade and other payables	16	12,192,868	8,541,309
Income tax liabilities		391,987	944,575
Borrowings	17	42,006,855	23,645,236
Total current liabilities		**54,591,710**	**33,131,120**
Non-current			
Trade and other payables	16	-	7,546,642
Borrowings	17	2,691,171	-
Total non-current liabilities		**2,691,171**	**7,546,642**
Total liabilities		**57,282,881**	**40,677,762**
Net assets		**52,820,721**	**7,884,547**
Equity			
Equity attributable to owners of the parent:			
Share capital	18	39,373,087	2,042,000
Statutory reserve	18	638,026	-
Foreign exchange translation reserve	18	609,011	244,000
Retained earnings		12,200,597	5,598,547
Total equity		**52,820,721**	**7,884,547**

This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share Capital	Statutory Reserve	Retained Earnings	Foreign Translation Reserve	Total Equity
Balance at 21 January 2016 (registration)		**-**	**-**	**-**	**-**	**-**
Transaction with owners in their capacity as owners						
Issue of share capital	18	2,042,000	-	-	-	2,042,000
Total transaction with owners		2,042,000		-	-	2,042,000
Profit for the period		-	-	5,598,547	-	5,598,547
Other comprehensive income		-	-	-	244,000	244,000
Total comprehensive income for the period		-	-	5,598,547	244,000	5,842,547
Balance at 31 December 2016		**2,042,000**	**-**	5,598,547	**244,000**	**7,884,547**
Balance at 1 January 2017		**2,042,000**	**-**	**5,598,547**	**244,000**	**7,884,547**
Transaction with owners in their capacity as owners						
Issued capital, net of transaction costs	18	28,848,011	-	-	-	28,848,011
Debt to equity conversion	18	8,483,076	-	-	-	8,483,076
Transfer to statutory reserve from retained earnings			638,026	(638,026)	-	-
Total transaction with owners		37,331,087	638,026	**(638,026)**	-	37,331,087
Profit for the period		-	-	7,240,076	-	7,240,076
Other comprehensive income		-	-	-	365,011	365,011
Total comprehensive income for the period		**-**	**-**	**7,240,076**	**365,011**	**7,605,087**
Balance at 31 December 2017		**39,373,087**	**638,026**	**12,200,597**	**609,011**	**52,820,721**

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017	2016
Operating activities			
Receipts from customers		28,332,363	12,913,000
Payments to suppliers and employees		(36,015,494)	(9,109,000)
Taxes refund / (paid)		(1,813,023)	201,000
Interest Income		1,115,864	-
Interest expense		(413,803)	(564,000)
Net cash (used in) / from operating activities	**20**	**(8,794,093)**	**3,441,000**
Investing activities			
Purchase of property, plant and equipment		(2,188,549)	(1,912,000)
Proceeds from disposals of property, plant and equipment		2,143,559	-
Payment for acquisition of subsidiary		-	(1,872,000)
Net cash used in investing activities		**(44,990)**	**(3,784,000)**
Financing activities			
Proceeds from borrowings		224,192,364	447,849
Repayments of bank loans		(194,656,501)	-
Related party advances		(131,019,828)	-
Related party receipts		93,478,728	-
Proceeds from issue of share capital		28,848,014	1,000
Net cash from financing activities		**20,842,777**	**448,849**
Net change in cash and cash equivalents		12,003,694	105,849
Cash and cash equivalents, beginning of year		**105,849**	**-**
Exchange differences on cash and cash equivalents		253,110	-
Cash and cash equivalents, end of year	10	**12,362,653**	**105,849**

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Consolidated Financial Statements

1. Nature of operations

ZKP Group designs, manufacturer and sale of optical communication products for telecommunication in China. 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 statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). ZKP Group Limited is a for-profit entity for the purpose of preparing the financial statements.

ZKP Group Limited is the Group's Ultimate Parent Company. ZKP Group Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office is Level 1, 254 Rundle Street, Adelaide SA 5000.

ZKP Group Limited, the parent company was incorporated on 21 January 2016.

The consolidated financial statements for the year ended 31 December 2017 were approved and authorised for issue by the Board of Directors on 31 March 2018.

3. Changes in accounting policies

3.1 New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 January 2017. Information on the more significant standard(s) is presented below.

AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15

This standard extends the mandatory effective date of AASB 15 Revenue from Contracts with Customers by 12 months so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017.

AASB 2015-8 is applicable to annual reporting periods beginning on or after 1 January 2017. The adoption of these amendments has not had a material impact on the Group.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

AASB 2016-2 amends AASB 107 Statement of Cash Flows to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

AASB 2016-2 is applicable to annual reporting periods beginning on or after 1 January 2017. The adoption of these amendments has not had a material impact on the Group.

AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.

This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations in accordance with AASB 5 Non- current Assets Held for Sale and Discontinued Operations.

ASB 2017-2 is applicable to annual reporting periods beginning on or after 1 January 2017 The adoption of these amendments has not had a material impact on the Group.

4. Summary of accounting policies

4.1 Overall considerations

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

4.2 Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 31 December 2017. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

4.3 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian Dollars ($AUD), which is also the functional currency of the Parent Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the Australian-Dollar ($AUD) are translated into $AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into $AUD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into $AUD at the closing rate. Income and expenses have been translated into $AUD at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

4.4 Segment reporting

The Group has one operating segments fibre-optic cables for the electronic information industry. In identifying its operating segments, management generally follows the Group's service lines, which represent the main products and services provided by the Group (see Note 1).

The activities undertaken by the fibre-optic cables for the electronic information industry is to design, manufacture and sell ceramic ferrules.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

4.5 Revenue

Revenue arises from the sale of goods and measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

Sale of goods

Sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken delivery of the goods.

Interest

Interest income and expenses are reported on an accrual basis using the effective interest method.

4.6 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

4.8 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

4.9 Other intangible assets

Recognition of other intangible assets

Acquired intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

Subsequent measurement

All intangible assets except goodwill, are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date.

The following useful lives are applied:

- software: 10 years

Amortisation has been included within depreciation, amortisation and impairment of non-financial assets. Subsequent expenditures on the maintenance of computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

4.10 Property, plant and equipment

Leasehold improvements, plant and equipment, motor vehicle and furniture and fittings

Leasehold improvements, plant & equipment, motor vehicle and furniture & fittings are initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management. Leasehold improvements, plant & equipment, motor vehicle and furniture & fittings are subsequently measured using the cost model, less subsequent depreciation and impairment losses.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of Leasehold improvements, IT equipment and other equipment. The following useful lives are applied:

- Leasehold improvements: 10 years
- Plant and equipment: 2-5 years
- Motor Vehicle: 3-12 years
- Furniture and Fittings 3-12 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

4.11 Leases

Operating leases

All leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

4.12 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill. Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash- generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash- generating unit's recoverable amount exceeds its carrying amount.

4.13 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- Held-to-maturity (HTM) investments; or
- Available-for-sale (AFS) financial assets

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss (FVTPL) include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity (HTM) investments

Held-to-maturity (HTM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. The Group currently holds listed bonds designated into this category.

Held-to-maturity (HTM) investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

4.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4.15 Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and / or liabilities comprise those obligations to, or claims from, the Australian Taxation Office (ATO) and the People's Republic of China's Tax Office and other fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Group's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.17 Equity and reserves

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Other components of equity include the following:

- **reserves** – comprises the statutory reserve; pursuant to the current People's Republic pf China Company Law, the Company is required to transfer between 5% to 10% of its after tax profit to a statutory reserve until the reserve reached 50% of the contributed equity. The transfer to this reserve must be made before the distribution of dividends.
- **foreign currency translation reserve** – comprises foreign currency translation differences arising on the translation of financial statements of the Group's foreign entities into $AUD

Retained earnings include all current and prior period retained profits.

All transactions with owners of the parent are recorded separately within equity.

4.18 Employee benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

4.19 Provisions, contingent liabilities and contingent assets

Provisions for legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote in which case no liability is recognised.

4.20 Value Added Tax (VAT)/Goods & Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of VAT/GST, except where the amount of VAT/GST incurred is not recoverable from the authority. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT/GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT/GST components of investing and financing activities, which are disclosed as operating cash flows.

4.21 Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with the current year disclosure.

4.22 Significant management judgement in applying accounting policies

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In 2017, No impairment loss on goodwill is recognized.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Doubtful debts

The provision for doubtful debts is based on management's estimates relating to the expected collection of each debtor at 31 December 2017.

4.23 Accounting Standards issued but not yet effective and not been adopted early by the Group

Australian Accounting Standards and Interpretations that have been recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, as set out below.

AASB 9 Financial Instruments (December 2014) (Application date: 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

a. Financial assets that are debt instruments will be classified based on: (i) the objective of the Group's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.

b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

    - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
    - the remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2018.

AASB 15 Revenue from Contracts with Customers (Application date: 1 January 2018)

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:

- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

The Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2018 as the company does not engage in multi-element contracts.

AASB 16 Leases (Application date: 1 January 2019)

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2019.

5. Revenue

Revenue for the reporting periods consist of the following

	2017	2016
Sale of optical communication products	**36,664,518**	**15,055,089**

The top 3 customers for the year represent 72% of sales (2016: 62%). Total related party sales comprise 28% of total sales (2016: 60%)

Refer to Note 22 for further detail.

6. Other income

	2017	2016
Gain on sale of raw materials (1)	4,577,173	-
Foreign exchange gain	703,470	-
Debt forgiven	-	2,218,000
Other income	1,156,450	101,062
	6,437,093	**2,319,062**

(1) Refer to Note 22 for further detail.

7. Finance costs and finance income

Finance costs for the reporting periods consist of the following:

	2017	2016
Interest expense	581,250	959,238
Reimbursement of interest expense by related party	(489,349)	-
	91,901	**959,238**

Pursuant to an agreement with Mr Lu $489,349 incurred by the company was reimbursed.

Finance income for the reporting periods consists of the following:

	2017	2016
Interest income	**1,304,943**	**346,929**

Interest income of $1,257,056 is interest received from related parties during the year.

8. General and administration expenses

General and administration expense has been determined after:

	2017	2016
Employee benefits – expense		
Wages and Salaries - administration	646,245	477,099
Social contributions	43,722	24,815
Other	82,421	68,185
Total Employee benefits expense	**772,388**	**570,099**
Depreciation - expense		
Leasehold improvement	137,080	56,489
Plant & Equipment	1,972,712	1,359,653
Motor Vehicle	112,191	54,149
Furniture & Fittings	75,646	24,388
Total Depreciation expense	**2,297,629**	**1,494,679**
Provision for inventory obsolescence	803,286	-
Provision for doubtful debts	1,315,430	-
Other expenses	81,105	68,383
Total general and administrative expenses	**5,269,838**	**2,133,161**

9. Income tax expense

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of ZKP Group Limited. The Australian assessable earning will be taxed at 30% (2016: 30%). The Chinese assessable earnings are taxed at 15% (2016: 15%).

	2017	2016
Current tax	1,260,435	592,503
Deferred tax	(317,807)	-
Current tax expense	**942,628**	**592,503**

	2017	2016
Profit before tax	8,182,704	6,191,051
Prima facie tax payable on profit before income tax at rate of 30%	2,454,811	1,857,315
Adjustment for tax rate differences in foreign jurisdictions	(1,227,405)	(928,658)
Tax impact on acquisition of subsidiary	-	300,707
Adjustment for tax-exempt income:		
- Exempt debt forgiveness	-	(348,653)
- Other tax-exempt income	(417,158)	(317,272)
Research expenses add-on deductions	-	(69,099)
Adjustments for non-deductable expenses	132,380	98,163
Income tax attributable to entity	942,628	592,503
The applicable weight average effective tax rate are as follows	11.5%	9.6%

10. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2017	2016
Cash at bank and in hand:		
· Chinese Yuan (CNY)	12,351,811	56,882
· Hong Kong Dollars ($HKD)	6,690	26,870
· Australian Dollars ($AUD)	2,043	22,097
· US Dollars ($USD)	2,109	-
Cash and cash equivalents	**12,362,653**	**105,849**

Cash at bank and on hand balances as at 31 December 2017 includes Chinese Renminbi dominated equivalent balances of $12,351,811 (RMB 62.7 million) (31 December 2016: $56,882 (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.

11. Trade and other receivables

Trade and other receivables consist of the following:

	2017	2016
Trade Receivable (1)	34,278,755	3,258,003
Provision for doubtful debts	(1,315,430)	-
Other Receivables	2,542,918	7,467,908
Notes Receivable	128,736	-
Related party receivables (2)	29,124,180	1,166,093
	64,759,159	**11,892,004**

(1) The receivable balance consist of $26,491,962 from related parties and are interest bearing at a rate of 10.22% and are secured. Refer to Note 22 for further details. (2016: related party receivables were unsecured and interest free).

(2) Refer to Note 22 for further details. These loans are interest bearing at a rate of 10.22% and are secured. (2016: related party receivables were unsecured and interest free).

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. The provision for doubtful debt amount of $1,315,430 has been recognised for the receivable aged more than 150 days and those specific debtors who are experiencing financial difficulty. No provision relates to the related party receivables.

The security for all related party receivables is the Property, Plant & Equipment of Jiangsu Zhongke Photoelectron Co., Ltd, Zhejiang Zhongke Photoelectron Co., Ltd and Hengyang Zhongke Dianzi Photoelectron Co., Ltd.

The movement in the allowance for credit losses can be reconciled as follows:

	2017	2016
Reconciliation of provision for doubtful debts		
Opening balance	-	-
Provision for doubtful debts	(1,315,430)	-
	(1,315,430)	**-**

An analysis of unimpaired trade receivables that are past due is given in Note 25.3.

12. Inventories

Inventories consist of the following:

	2017	2016
Raw materials and consumables	878,116	989,124
Work in progress	901,095	564,762
Finished goods	4,737,656	7,199,195
Obsolete stock provision	(803,286)	(136,328)
Total	**5,713,581**	**8,616,753**

13. Property, plant and equipment

Details of the Group's property, plant and equipment and their carrying amount are as follows:

	Leasehold Improvement	Plant & Equipment	Motor Vehicle	Furniture & Fittings	Total
Gross carrying amount					
Balance at 1 January 2017	**1,433,076**	**30,825,574**	**401,649**	**612,290**	**33,272,589**
Additions	21,555	1,385,551	780,446	997	**2,188,549**
Disposals	(11,580)	(2,056,562)	(20,712)	(11,601)	**(2,100,455)**
Net exchange differences	(14,348)	(328,450)	11,065	(4,253)	**(335,986)**
Balance at 31 December 2017	**1,428,703**	**29,826,113**	**1,172,448**	**597,433**	**33,024,697**
Depreciation and impairment					
Balance at 1 January 2017	**506,957**	**7,601,897**	**155,395**	**432,994**	**8,697,243**
Disposals	(2,751)	(424,074)	(16,554)	(4,660)	**(448,039)**
Net exchange differences	8,663	(53,533)	96,683	(103,233)	**(51,420)**
Depreciation	137,080	1,972,712	112,191	75,646	**2,297,629**
Balance at 31 December 2017	**649,949**	**9,097,002**	**347,715**	**400,747**	**10,495,413**
Carrying amount at 31 December 2017	**778,754**	**20,729,111**	**824,733**	**196,686**	**22,529,284**
Balance at 21 January 2016	**1,433,076**	**32,957,065**	**432,597**	**638,190**	**35,460,928**
Additions	-	1,021,606	-	11,069	**1,032,675**
Transferred to inventories	-	(793,660)	-	-	**(793,660)**
Reclassification	-	(8,125)	-	8,125	**-**
Currency translation differences		(2,351,312)	(30,948)	(45,093)	**(2,427,353)**
At 31 December 2016	**1,433,076**	**30,825,574**	**401,649**	**612,291**	**33,272,590**
Depreciation and impairment					
Balance at 21 January 2016	431,922	6,665,499	107,337	395,013	**7,599,771**
Depreciation	102,916	1,490,524	54,149	24,388	**1,671,977**
Transferred to inventories	-	(77,576)	-	-	**(77,576)**
Reclassification	-	(39,965)	-	39,965	**-**
Currency translation differences	(27,881)	(436,584)	(6,091)	(26,372)	**(496,928)**
At 31 December 2016	**506,957**	**7,601,898**	**155,395**	**432,994**	**8,697,244**
Carrying amount at 31 December 2016	**926,119**	**23,223,676**	**246,254**	**179,297**	**24,575,346**

14. Deferred tax assets and liabilities

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

Deferred tax liabilities / (assets)	1 January 2017	Recognised in other comprehensive income	Recognised in profit and loss	31 December 2017
Inventory	-	-	120,493	120,493
Trade and other receivables	-	-	197,314	197,314
	-	**-**	**317,807**	**317,807**

No deferred tax assets have been recognised with respect to tax losses in Australia as it is not probably they will be utilised.

15. Goodwill

The movements in the net carrying amount of goodwill are as follows:

	2017	2016
Balance 1 January	1,671,435	-
Acquired through business combination	-	1,671,435
Balance 31 December	**1,671,435**	**1,671,435**

There have been no impairment indicators identified on goodwill. Details of the business combination are included in the 2016 annual report.

16. Trade and other payables

Trade and other payables consist of the following:

	2017	2016
Trade and other payables		
Current:		
Trade payables	3,438,736	4,593,576
Accrued expense	579,103	13,602
Other Payables	3,979,074	1,292,714
Notes payable	1,575,830	-
Wages and salaries payables	289,035	242,868
Related party payables (1)	2,331,090	2,398,549
Current total	**12,192,868**	**8,541,309**
Non-Current		
Trade payables	-	7,546,642
Non-Current total	-	**7,546,642**
Total trade and other payables	**12,192,868**	**16,087,951**

(1) Refer to Note 22 for further details. Related party payables are interest bearing. (2016 – Non interest bearing)

All amounts are short-term. The carrying values of trade payables and other payables are a reasonable approximation of fair value.

17. Borrowings

	2017			2016		
	Current	Non Current	Total	Current	Non Current	Total
Bank loan	-	-	-	1,044,576	-	**1,044,576**
Borrowings - non-financial institutions	42,006,855	2,691,171	**44,698,026**	7,551,257	-	**7,551,257**
Loan from investors	-	-	-	15,049,403	-	**15,049,403**
Total	**42,006,855**	**2,691,171**	**44,698,026**	**23,645,236**	**-**	**23,645,236**

Of the non-financial institutions borrowings,

- $3,503,821 current borrowing was from related party Jiangsu Zhongke Photoelectron Co., Ltd.
- $2,691,171 non-current borrowing was from Hengnan Zhongxuan Mold Automatic Technology Co., Ltd
- On 29 June 2017, ZKP Group Limited issued 48,230,807 shares to individual creditors to convert loans owed by the Group to a large pool of financiers.
- $38,503,034 was related to short term borrowing from peer to peer platforms (P2P). The summary of P2P outstanding borrowings liabilities has been summarised as follows:

Interest rate	Maturity Dates as at 31 Dec 2017			
	< 30 days	**< 90 days**	**< 180 days**	**Total**
5.00%	9,842	39,369	-	**49,211**
6.00%	2,401,496	-	-	**2,401,496**
7.00%	980,873	-	-	**980,873**
8.00%	1,692,031	-	-	**1,692,031**
9.00%	4,006,886	5,859,767	-	**9,866,653**
10.00%	1,226,384	283,376	-	**1,509,760**
11.00%	984,029	2,259,249	14,865,809	**18,109,087**
12.00%	539,789	266,343	1,633,726	**2,439,858**
13.00%	68,895	290,546	98,422	**457,863**
14.00%	-	454,764	354,626	**809,390**
15.00%	69,624	98,383	-	**168,007**
16.00%	18,805	-	-	**18,805**
Total	**11,998,654**	**9,551,797**	**16,952,583**	**38,503,034**

P2P loans are secured against specific sales contracts.

18. Equity

18.1 Share capital

The share capital of ZKP Group Limited consists only of fully paid ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of ZKP Group Limited.

	2017 $	2016 $	2017 Number of shares	2016 Number of shares
Opening balance	**2,042,000**	-	**2,042,000**	**-**
Issued through share placement	-	2,042,000	-	2,042,000
Issued through share placement (1)	9,470,350	-	306,300	-
Issued from share split (2)	-	-	361,638,200	-
Issued under debt to equity conversion (3)	8,483,076	-	48,230,807	-
Issued through share placement (4)	9,598,300	-	63,000,000	-
Issued through share placement (5)	9,795,100	-	47,250,000	-
Transaction costs	(15,739)	-	-	-
Shares issued and fully paid	**39,373,087**	**2,042,000**	**522,467,307**	**2,042,000**

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

(2) On 23 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 creditors 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 (post share split) to a sophisticated investor.

(5) On 26 October 2017, ZKP Group Limited issued 47,250,000 ordinary shares at AUD$0.21 per share (post share split) to a sophisticated investor.

18.2 Foreign currency translation and statutory reserve

	Foreign currency translation reserve	Statutory Reserve	Total
Balance at 21 January 2016	-	-	**-**
Exchange difference on translation foreign operations	244,000	-	244,000
Balance at 31 December 2017	**244,000**	**-**	**244,000**
Exchange difference on translation foreign operations	365,011	-	365,011
Transfer to statutory reserve	-	638,026	638,026
Balance at 31 December 2017	**609,011**	**638,026**	**1,247,037**

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

Statutory General Reserve

Pursuant to the People's Republic of China Company Law, the Company is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches a minimum of 50% of the registered capital. For the purposes of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the People's Republic of China's accounting standards. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

19. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (ZKP Group Limited) as the numerator (i.e. no adjustments to profit were necessary in 2017 or 2016).

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

	2017	2016
Profit used to calculate basic and dilutive EPS	7,240,076	5,598,547
Earnings per share (Pre-Split)		
Weighted average number of shares used in basic earnings per share	N/A	2,042,000
Weighted average number of shares used in diluted earnings per share	N/A	2,042,000
Earnings per share (Post Split)		
Weighted average number of shares used in basic earnings per share	435,363,713	316,510,000
Weighted average number of shares used in diluted earnings per share	435,363,713	316,510,000

20. Reconciliation of cash flows

	2017
Reconciliation of cash flows from operating activities	
Cash flows from operating activities	
Profit for the period	**7,240,074**
Adjustments for:	
-Depreciation	2,297,629
-Impairment of intangible	29,873
-Net gain on disposal of plant and equipment	(491,143)
-Foreign currency	396,467
Net changes in working capital:	
- Decrease/(Increase) in trade and other receivables	(15,258,597)
- Decrease/(Increase) in inventory	2,903,172
- Decrease/(Increase) in other assets	(1,078,632)
- Decrease/(Increase) in deferred tax assets	(317,807)
- Increase/(Decrease) in trade and other payables	(3,962,541)
- Increase/(Decrease) in tax liabilities	(552,588)
Net cash from operating activities	**(8,794,093)**

Due to the complex nature of the acquisitions and the loss of interim data it was not possible to provide the shareholders with an accurate reconciliation of cash flow. The directors felt that the Information would be misleading. Therefore no reconciliations have been included in the report.

21. Auditor remuneration

	2017	2016
Audit and review of financial statements		
• auditors of ZKP Group Ltd - Grant Thornton Australia	120,000	-
• auditors of ZKP Group Ltd – Hall Consulting Group Pty Ltd	-	96,800
Due Diligence		
• Hall Consulting Group Pty Ltd	-	34,000
Total auditor's remuneration	**120,000**	**130,800**

Grant Thornton Australia has not performed any non-audit services during the 2017 financial year.

22. Related party transactions

The Group's related parties include key management for the Group's employees and others as described below.

22.1 Transactions with key management personnel

Key management of ZKP Group Limited Board includes the Directors and other key management personnel. Key management personnel remuneration includes the following expenses:

	2017	2016
Short term employee benefits:		
• salaries and fees	191,815	86,000
Total remuneration	**191,815**	**86,000**

Detailed remuneration disclosures are provided in the remuneration report.

22.2 Transactions with related parties:

	2017	2016
Transactions with related parties:		
Sale of various goods and services from entities controlled by key management personnel		
-Jiangsu Zhongke Photoelectron Co., Ltd.	409,974	9,272,000
-Zhejiang Zhongke Photoelectron Co., Ltd.	526,301	772,000
-Hengyang City Branch Electronics Co., Ltd.	9,914,807	526,000
Total	**10,856,462**	**10,570,000**
Purchase of various goods and services from entities controlled by key management personnel		
-Jiangsu Zhongke Photoelectron Co., Ltd.	298,041	-
-Zhejiang Zhongke Photoelectron Co., Ltd.	405,874	-
-Hengyang City Branch Electronics Co., Ltd.	8,221,838	-
Total	**8,925,753**	**-**
Other income/reimbursements from key management personnel		
-Hengyang City Branch Electronics Co., Ltd.	4,577,173	-
- Lu Lijian	489,349	-
Total	5,066,522	-
Interest income from entities controlled by key management personnel		
-Hengyang Huahui Real Estate Development Co., Ltd	244,303	-
-Hengyang Zhongke Dianzi Co., Ltd.	995,635	-
-Hengyang Branch Information Technology Co., Ltd司	15,625	-
-Hunan Zhongke Photoelectron Co., Ltd	1,492	-
Total	**1,257,055**	**-**
Interest expense from entities controlled by key management personnel		
-Jiangsu Zhongke Photoelectron Co., Ltd.	6,310	-
-Zhejiang Zhongke Photoelectron Co., Ltd.	41,284	-
-Lijian LU	425,420	-
Total	**473,014**	**-**

	2017	2016
Purchase of advisory services from key management personnel.		
-Brendan Connell (Connell Lawyers)	175,500	10,000
-Andrew Martin (Augur Primacy)	300,000	-
	475,500	**10,000**

22.3 Outstanding balance of loan to/(from) related parties

	2017	2016
Related party payables		
-Jiangsu Zhongke Photoelectron Co., Ltd	1,240,061	-
-Zhejiang Zhongke Photoelectron Co., Ltd	167,001	1,788,175
-Hengnan Zhongxuan Mold Automatic Technology Co., Ltd	89,091	-
-Lu Li Jian	834,938	-
-Hengyang Huahui Real Estate Development Co., Ltd	-	431,213
-Hunan Zhongke Communications Equipment Co., Ltd	-	87,991
- Hengnan Zhongxuan Automatic Technology Co., Ltd	-	91,170
Total related payables	**2,331,091**	**2,398,549**
Related party receivables		
-Jiangsu Zhongke Photoelectron Co., Ltd	20,119,175	6,824,257
-Zhejiang Zhongke Photoelectron Co., Ltd	7,428,779	-
-Hengyang Zhongke Dianzi Photoelectron Co., Ltd.	26,983,220	77,130
-Hengyang Huahui Property Development Co., Ltd.	288,328	-
-Hunan Zhongke Photoelectron Co., Ltd.	174,356	-
-Hengyang Zhongke Information Tech Co., Ltd.	114,363	-
-Hengnan Zhongxuan Mold Automatic Technology Co., Ltd	5,798	-
- Hengyang Branch Information Technology Co., Ltd	-	75,794
-Lu Li Jian	499,161	-
-Lu Jian	2,962	-
Total related receivables	**55,616,142**	**6,977,181**
Related party loan		
-Jiangsu Zhongke Photoelectron Co., Ltd	3,503,821	-
-Hengnan Zhongxuan Mold Automatic Technology Co., Ltd	2,691,171	**2,691,171**
Total related party loan	**6,194,992**	**2,691,171**

The security for all related party receivables is the Property, Plant & Equipment of Jiangsu Zhongke Photoelectron Co., Ltd, Zhejiang Zhongke Photoelectron Co., Ltd and Hengyang Zhongke Dianzi Photoelectron Co., Ltd.

Also refer to Note 31 for subsequent payment of loans.

22.4 Advances and receipted to/(form) related parties

	2017	2016
Advances to related party		
-Jiangsu Zhongke Photoelectron Co., Ltd.	26,214,696	-
-Zhejiang Zhongke Photoelectron Co., Ltd.	21,545,993	-
-Hengyang Huahui Real Estate Development Co., Ltd	36,307,289	-
-Lijian LU	13,246,494	-
-Hengnan Zhongxuan Automatic Technology Co.,	33,772,814	-
Total related party advances	**131,087,286**	**-**
Loans receipted from related parties		
-Jiangsu Zhongke Photoelectron Co., Ltd.	10,506,680	-
-Zhejiang Zhongke Photoelectron Co., Ltd.	15,100,576	-
-Hengyang Huahui Real Estate Development Co., Ltd	35,951,546	-
-Lijian LU	9,647,164	-
-Hengnan Zhongxuan Automatic Technology Co.,	18,768,941	-
-Jiangsu Zhongke Photoelectron Co., Ltd	3,503,821	-
Total related party receipts	**93,478,728**	**-**

23. Segment reporting

The Board has considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Managing Director) in allocating resources and have concluded, due to the Group being solely focused on design and manufacturing fibre-optic cables for the electronic information industry, at this time that there are no separately identifiable segments.

24. Financial assets and liabilities

24.1 Categories of financial assets and liabilities

Note 4.13 provides a description of each category of financial assets and financial liabilities and the related accounting policies.
The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Notes	Assets at fair value through OCI $	Assets at fair value through profit or loss $	Derivatives used for hedging $	Financial assets at amortised cost $	Total $
31 December 2017						
Financial assets						
Trade and other receivables	11	-	-	-	64,759,159	64,759,159
Cash and cash equivalents	10	-	-	-	12,362,653	12,362,653
		-	**-**	**-**	**77,121,812**	**77,121,812**

	Notes	Derivatives used for hedging $	Designated at fair value through profit or loss $	Other liabilities at fair value through profit or loss $	Other liabilities $	Total $
31 December 2017						
Financial liabilities						
Non-current borrowings	17	-	-	-	-	-
Current borrowings	17	-	-	-	42,006,855	42,006,855
Trade and other payables	16	-	-	-	12,192,868	12,192,868
		-	**-**	**-**	**54,199,723**	**54,199,723**

	Notes	Assets at fair value through OCI $	Assets at fair value through profit or loss $	Derivatives used for hedging $	Financial assets at amortised cost $	Total $
31 December 2016						
Financial assets						
Trade and other receivables	11	-	-	-	11,892,004	11,892,004
Cash and cash equivalents	10	-	-	-	105,849	105,849
		-	**-**	**-**	**11,997,853**	**11,997,853**

	Notes	Derivatives used for*hedging $	Designated at fair value through profit or loss $	Other liabilities $	Other liabilities at fair value through profit or loss $	Total $
31 December 2016						
Financial liabilities						
Non-current borrowings	17	-	-	-	7,546,642	7,546,642
Current borrowings	17	-	-	-	23,645,236	23,645,236
Trade and other payables	16	-	-	-	8,541,309	8,541,309
			-	**-**	**39,733,187**	**39,733,187**

A description of the Group’s financial instrument risks, including risk management objectives and policies is given in Note 25.

The methods used to measure financial assets and liabilities reported at fair value are described in Note 35.1.

24.2 Borrowings

Borrowings include the following financial liabilities:

	Current		Non-current	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Financial liabilities				
Carrying amount at amortised cost:				
• Bank loan	-	1,044,576	-	-
• Non-financial institutions	42,006,855	7,551,257	2,691,171	-
• Loans from investors	-	15,049,403	-	-
	42,006,855	**23,645,236**	**2,691,171**	**-**

All borrowings are denominated in RMB.

Borrowings at amortised cost

Non-financial institutions borrowings are secures against future sale contracts (see Note 17).

24.3 Other financial instruments

The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- trade and other receivables (including related party receivables)
- cash and cash equivalents; and
- trade and other payables (including related party payables)

25. Financial instrument risk

25.1 Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 24.1. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

25.2 Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

Foreign currency sensitivity

The Group does not have significant balances denominated in foreign currency other than the functional currency of the respective companies within the Group (Renminbi – RMB).

Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 31 December 2017, the Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. Other borrowings are at fixed interest rates. The exposure to interest rates for the Group's money market funds is considered immaterial.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 1% (2016: +/- 1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

	Profit for the year		Equity	
	$ +1%	$ -1%	$ +1%	$ -1%
31 December 2017	72,391	(72,391)	528,207	(528,207)
31 December 2016	55,995	(55,995)	78,845	(78,845)

25.3 Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2017 $	2016 $
Classes of financial assets		
Carrying amounts:		
• cash and cash equivalents	12,362,653	105,849
• trade and other receivables (including related party receivables)	64,759,159	11,892,004
	77,121,812	**11,997,853**

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all of the above financial assets that are not impaired or past due for each of the 31 December reporting dates under review are of good credit quality.

At 31 December, the Group has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The amounts at 31 December analysed by the length of time past due, are:

	2017 $
Not more than two (2) months	19,136,371
More than two (2) months but not more than five (5) months	10,489,865
More than five (5) months but not more than one (1) year	3,075,963
More than one (1) year	252,390
Total	**32,954,589**

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents, money market funds, debentures and derivate financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

25.4 Liquidity risk analysis

Liquidity risk is the risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables (see Note 24) significantly exceed the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

As at 31 December 2017, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current		Non-current	
	Within 6 mths $	**6 - 12 mths $**	**1 - 5 yrs $**	**5+ yrs $**
31 December 2017				
Bank loan	-	-	-	-
Non-financial institutions	42,006,855	-	2,691,171	-
Loans from investors	-	-	-	-
Trade and other payables	12,192,868	-	-	-
Total	**54,199,723**	**-**	**2,691,171**	**-**

This compares to the maturity of the Group's non-derivative financial liabilities in the previous reporting periods as follows:

	Current		Non-current	
	Within 6 mths $	**6 - 12 mths $**	**1 - 5 yrs $**	**5+ yrs $**
31 December 2016				
Bank loan	1,044,576	-	-	-
Non-financial institutions	7,551,257	-	-	-
Loans from investors	15,049,403	-	7,546,642	-
Trade and other payables	8,541,309	-	-	-
Total	**32,186,545**	**-**	**7,546,642**	**-**

26. Fair value measurement

Financial assets and financial liabilities measured at fair value in the Statement of Financial Position are grouped into three levels of a fair value hierarchy. The three (3) levels are defined based on the observability of significant inputs to the measurement, as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3:** unobservable inputs for the asset or liability

The Group does not hold any financial assets or liabilities carried at fair value as at 31 December 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.

27. Contingent liabilities

An agreement was entered into for the legal work relating to the transfer from the NSX to the ASX. Amounts were paid to Connell Lawyers. This contract is currently in dispute. The dispute is in the Supreme Court of South Australia - Civil Jurisdiction (Supreme Court Action Number: SCCIV – 18 – 143).

Other than above there are no contingent liabilities at year end.

28. Interests in subsidiaries

Composition of the Group

Set out below details of the subsidiaries held directly by the Group:

Name of the Subsidiary	Country of incorporation and principal place of business	Principal activity	Group proportion of ownership interests	
			2017	**2016**
Hengyang Zhongke Photoelectron Co., Ltd	China	Research, design, manufactured and sales of ceramic ferrule products	100%	100%
ZKP Group (Hong Kong) Co., Ltd	China	Investment	100%	100%

29. Capital management policies and procedures

The management's objectives when managing capital are to ensure that the group can fund its operations and continue as a going concern and to provide shareholders with adequate returns.

The management monitors capital on the basis of debt to equity ratio. This ratio is calculated as net liabilities divided by equity. Net liabilities is "Total liabilities" as shown on the consolidated statement of financial position less cash and cash equivalent and equity is "equity" as shown on the consolidated statement of financial position.

There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year, which is to maintain the debt to equity ratio at not more than 100%. The debt-equity ratios as at 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Total liabilities	57,282,882	40,677,762
Less: Cash and cash equivalents	(12,362,653)	(105,849)
Net liabilities (net of cash)	**44,920,299**	**40,571,913**
Total equity	52,820,721	7,884,547
Net liabilities to equity ratio	**85%**	**515%**

30. Parent entity information

Information relating to ZKP Group Ltd (the Parent Entity):

	2017	2016
Statement of financial position		
Current assets	36,198,734	1,542,607
Total assets	38,242,338	3,765,587
Current liabilities	80,000	2,083,715
Total liabilities	80,000	2,083,715
Net assets	38,162,338	1,681,872
Issued capital	39,373,087	2,042,000
Retained earnings	(1,210,749)	(360,128)
Total equity	**38,162,338**	**1,681,872**
Statement of profit or loss and other comprehensive income		
Profit for the year	850,622	360,128
Other comprehensive income	-	-
Total comprehensive income	**850,622**	**360,128**

No guarantee was provided by the parent entity in relation to debts of its subsidiary at 31 December 2017. The Parent Entity has no commitment, contingent liabilities or contingent assets at 31 December 2017 (2016: $ Nil).

The Parent Entity has not entered into a deed of cross guarantee nor are there any contingent liabilities at the year end.

31. Post-reporting date events

Following the end of the financial year the following events have occurred:

Repayment of Related Party Loans

During the year the company advanced funds to related companies to assist them with their operations. These loans were advanced on favourable terms to ZKP Group Limited and secured. Since the end of the financial year over $15.9 million (RMB 76.5 million) has been repaid by the related companies. The funds will now be used to retire external debt of the Group.

Directors' Declaration

1 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 31 December 2017 and of its performance for the financial year ended on that date; and

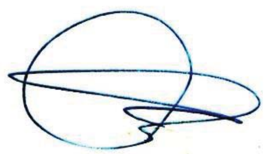
ii Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

b There are reasonable grounds to believe that ZKP Group Limited will be able to pay its debts as and when they become due and payable.

2 The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2017.

3 Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



Andrew Martin
Director
Dated, 31 March 2018

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

Report on the audit of the financial report

Opinion

We have audited the financial report of ZKP Group Limited and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Revenue **Note 4.5 and 5**	
Revenue is the key driver of the Group and is generated through the sale of optical communication products for telecommunication. The Group focuses on revenue as a key performance indicator and revenue is also a key driver by which the performance of the Group is measured. Additionally ASA 240 The Auditors Responsibility in relation to Fraud in an Audit of A Financial Report requires us to consider the risk of material misstatement due to fraudulent financial reporting relating to revenue recognition. . This area is a key audit matter due to the volume of transactions and the total balance of revenue.	Our procedures included, amongst others: • Documenting the processes and assessing the internal controls relating to revenue processing and recognition; • Reviewing the revenue recognition policy to ensure it is in line with AASB 118 *Revenue*; • Performing analytical procedures to understand the movements and trends in revenue for comparison against expectations and market benchmark; • Tracing a sample revenue transactions to supporting documentation to ensure revenue is being recognised in line with the revenue recognition policy and accounting standards; • Performing cut off testing to ensure that revenue transactions at or around year end have been recorded in the correct period; and • Assessing the adequacy of the related disclosures within the financial statements.
Provision for doubtful debt not adequate **Note 11**	
Due to the significant ageing of invoices included within trade debtors, there is a risk the provision for doubtful debts (“the provision”) is not adequate. The Group’s policy is to recognise a provision on the basis of ageing of receivables, historical collection rates and specific knowledge of the individual debtor’s financial position. This area is a key audit matter due to the significant management judgment required to estimate the provision.	Our procedures included, amongst others: • Documenting the processes and assessing the internal controls relating to recoverability of receivables; • Agreeing the provision for doubtful debt listing to the general ledger; • Checking the mathematical accuracy of management’s calculation for the provision; • Understanding the methodology and estimates used by management in determining the provision; • Developing an independent estimation of the provision based on historical collection rates, age of invoices and knowledge of the individual debtor’s financial position and comparing to management’s estimate; and • Assessing the adequacy of the related disclosures within the financial statements.

Inventory valuation **Note 4.14 and 12**	
Inventories are a significant asset of the Group and at 31 December 2017 represent 5% of the total assets. There is an increased risk associated with inventory obsolescence due to continual changes within the technology industry. This may impact the price at which items could be sold. In accordance with AASB 102 Inventories, inventories shall be measured at the lower of cost and net realisable value. This area is considered a key audit risk given the nature of inventories held and the total value.	Our procedures included, amongst others: • Documenting the processes and assessing the internal controls relating to inventory valuation; • Selecting samples from the inventory list and agreeing to purchase invoices to ensure inventory items are initially recorded at their acquisition cost. • Selecting samples from the inventory list to agree to the latest sales transactions to identify if there is any inventory items were sold below their net realisable value. • Reviewing inventory aging report and to understand the nature and amount of any inventory provisioning for aged inventory; • Performing analytical reviews of gross margin achieved during the year and comparing to auditor expectations; and • Assessing the adequacy of the related disclosures within the financial statements.
Related party transactions **Note 22**	
Material elements of the Group's revenue and expenditure arise through related party transactions. Related party transactions are generally considered material by their nature and there is an increased risk of material misstatement where related party transactions are significant. Under ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, significant transactions with related parties represent significant risks, which require additional focus from the audit team. This area is a key audit matter due to the accounting for and disclosure of related party transactions being a significant risk.	Our procedures included, amongst others: • Documenting the processes and assessing the internal controls relating to the capture, accounting for and disclosure of related party transactions; • Reviewing agreements with related parties and assessing whether the related party transactions recorded were in accordance with the terms and conditions of the agreements; • Confirming transactions and balances directly with related parties; and • Assessing the adequacy of the related disclosures within the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information.

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

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

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

Responsibilities of the Directors' for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of ZKP Group Limited, for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

J L Humphrey

Partner – Audit & Assurance

Adelaide, 31 March 2018

ADDITIONAL INFORMATION

Unless otherwise stated, the information relating to shares provided below is provided as at 26 March 2018.

Ordinary Share Capital

522,467,307 fully paid ordinary shares are held by 246 individual shareholders.

Options

There are no unlisted options.

Class of shares and voting rights

1. at meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney; and
2. on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

On-market buy-back

There is no current on-market buy-back.

Distribution of listed equity securities

Holding Ranges	Holders
1 - 1,000	1
1,001 - 5,000	13
5,001 - 10,000	34
10,001 - 100,000	115
100,001 - 9,999,999,999	83
Totals	**246**

Marketable Parcels as at 26 March 2018

The number of holders holding less than a marketable parcel (UMP) is 60 (at a market price of 2.7 cents). UMP number of securities is 561,719. UMP as a percentage of total shares on issue is 0.11%.

Substantial Shareholdings

At 26 March 2018, the names of the substantial shareholders listed in the holding company's register are:

Holder Name	Holding Balance	% Issued Capital
Lijian Lu	204,741,930	39.19%
Guozhu Li	66,165,100	12.66%
Yuanfei Cai	54,439,720	10.42%
Qi Xu	47,267,964	9.05%
Ru Zhou	26,903,350	5.15%
Total	399,518,064	76.47%

Twenty largest shareholders as at 26 March 2018

Position	Holder Name	Holding	% IC
1	Lijian Lu	204,741,930	39.19%
2	Guozhu Li	66,165,100	12.66%
3	Mr Yuanfei Cai	54,439,720	10.42%
4	Qi Xu	47,267,964	9.05%
5	Ru Zhou	26,903,350	5.15%
6	Li Wenjie	15,559,365	2.98%
7	Jian Lu	15,508,990	2.97%
8	Dingbo Liu	13,500,000	2.58%
9	Mr Zaisen Chen	12,660,400	2.42%
10	Mr Hongde He	5,185,916	0.99%
11	Zhaohua Hu	4,050,000	0.78%
12	Augur Capital Pty Ltd	3,300,000	0.63%
13	Wenbin Wu	3,165,100	0.61%
13	Mr Jun Li	3,165,100	0.61%
13	Mei Tan	3,165,100	0.61%
13	Juguo Wang	3,165,100	0.61%
14	Mr Shaodong Zhang	2,920,048	0.56%
15	Qingbao Chen	2,700,000	0.52%
15	Shaomeng Yu	2,700,000	0.52%
15	Shengdong Lv	2,700,000	0.52%
16	Jingjue Zhou	2,636,978	0.50%
17	Pinsu Lu	2,373,825	0.45%
18	Zhang Shaodong	2,079,952	0.40%
19	Mr Jiandong Ling	1,410,000	0.27%
20	Zhongguo Zheng	1,000,000	0.19%
	Total	**499,298,838**	**95.57%**

Registered Office

The address of the principal registered office and place of business in Australia is:

Level 1
254 Rundle Street
Adelaide SA 5000

Registers of securities are held at the following address

Level 3
50 Holt Street
Surry Hills NSW 2010

Unquoted Securities

A total of 229,406,355 fully paid ordinary shares are currently unquoted. These shares were restricted for two years from the date of listing and will therefore be released from the restriction and quoted on or around 29 August 2018.

Sources of information for shareholders

Amendments to the Corporations Act have allowed changes to the way the Company delivers the Annual Report to shareholders each year. The Company sends to shareholders a letter asking shareholders to nominate how they wish to receive the Annual Report. The Company will send you a hardcopy Annual Report, free of charge, only if you elect to receive it. Alternatively, the Company will provide details to shareholders on how to access the Annual Report in electronic form from the Company's website when the Company sends you the Notice of Meeting for the Annual General Meeting. This report is located at: http://www.en.zkpgroup.com/cgd.html. Shareholders can access the Company's documents, Governance and corporate information from its website (www.zkpgroup.com).

Annual General Meeting ("AGM")

This report and financial statements will be presented to shareholders for their approval at the AGM. The Notice of the AGM will be distributed to shareholders together with the Annual Report.

Statement of disclosure of information to auditors

As at the date of this report the serving Directors confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.