



KEMAO INDUSTRIES LIMITED

ACN 625 928 216 | NSX Code: KEM

2020 ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Long Huy Lam	Non-executive Chairman
Dong Chen	Managing Director
Fang Chen	Executive Director
Jianping Zhou	Non-executive Director
Xuekun Li	Non-executive Director

Company Secretary

Xuekun Li

Registered Office in Australia

Office 20
217 Hay St
Subiaco WA6008
Web: www.kemao-tinplate.com
Email: info@kmgroun.cn

Principal Business Address in China

No 5 Songwentou Road
Yunting Town, Jiangyin City
Jiangsu Province 214422 China
Tel: +86 510 6882 6922
Fax: +86 510 6882 6921

Auditor

MGI Perth Audit Services Pty Ltd
322 Hay St
Subiaco WA 6008

Share Registry

Advanced Share Registry
110 Stirling Highway
Nedlands WA6009
Tel: +61 8 9389 8033
Fax: + 61 8 9262 3723

Public Listing

National Stock Exchange of Australia – Code: KEM

Bankers

Australia and New Zealand Banking Group Limited

CONTENTS

Chairperson's Review	3
Review of Activities	4
Corporate Governance Statement	6
Directors' Report	11
Remuneration Report	17
Auditor's Independence Declaration	21
Consolidated Statement of Profit or Loss and Other Comprehensive Income	22
Consolidated Statement of Financial Position	23
Consolidated Statement of Changes in Equity	24
Consolidated Statement of Cash Flows	25
Notes to the Consolidated Financial Statements	26
Directors' Declaration	59
Auditor's Report	60
Additional Information	65

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

It is my great pleasure to present our Annual Report for 2020. Looking back on the year, it was full of challenges and opportunities. First, Kemao completed its first public offering and has been listed on the National Stock Exchange since January 2020. This is a milestone of the Group. Within fifteen years, Kemao has grown from a family-owned business to a public listed company. We are proud of what we have achieved. I would also like to, on behalf of the Board, extend my appreciation to the management and all employees for their hard work and contribution to this success.

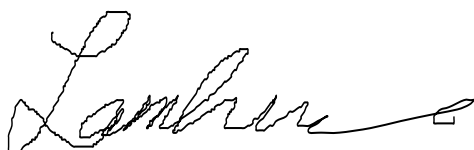
Afterwards, we witnessed the outbreak of COVID-19, which has caused massive global social and economic disruption. While countries and governments have adopted various policies and measures, the infection case of the pandemic is continuing to soar and the time frame of the world resuming normal has remained uncertain. Our employee safety is paramount to us. I am pleased to be able to inform that there has been no infection within our workforce.

Global economies and businesses have been hit hard by the chaos and the uncertainties arising from COVID-19. Kemao is no exception. Overseas sales dropped significantly as a result of large-scale lockdowns and logistics restrictions. Total sales therefore decreased by 13% for the whole year. On the other hand, prices of raw materials and shipping costs jumped sharply, severely affecting the business's margin and net profit. The Group recorded a net loss of AUD10 million for the year.

Nevertheless, we believe there are great opportunities ahead. With strict virus containment measures, social and business environment have become stable and normalised in China. Market concentration of the industry has increasingly become higher as a great number of ineffective business were closed down during the pandemic. This is an opportunity for Kemao who is one of the largest tinplate manufactures in China. We saw domestic sales had resumed pre-COVID 19 levels in the second half of 2020 and even exceeded the year before in the last quarter. We have adjusted our product ranges to better meet market demands. We will continue to improve internal operation management to further reduce costs and waste during the production.

All in all, I would like to thank and acknowledge the efforts of the management and the staff who have been committed to the past challenging year.

On behalf of the Board, I would like to thank our shareholders for their continued support to Kemao. We expect 2021 will be a critical year for Kemao. We believe the business will be able to catch up and position well to capitalise on opportunities when they arise.



Long Huy Lam
Non-Executive Chairman

REVIEW OF ACTIVITIES

Kemao Industries Limited ("the Company" or "KEM"), together with its controlled entities ("the Group"), is a professional metal packaging solution provider. The Group specialise in the production and supply of tinplate and cold-rolled steel coils to the global market.

Tinplate has increasingly become a popular packing material around the world. It has the best sealing property and opaqueness compared to other packing materials. It is also a "clean material", generating low pollution and having high recovery rate. Almost all infant formulas around the world are stored in tinplate cans. 25 billion tinplate cans are consumed in Japan every year, and the use rates of tinplate cans in German and France are both higher than 80%.

Cold-rolled steel coils as a semi-finished material are widely supplied to other steel further processing industries such as construction, automotive, household electronic appliances, furniture, machinery hardware, and so on.

Kemao New Materials Technology Co., Ltd ("Kemao China"), a wholly owned subsidiary of the Company, is the production base and business centre of the Group. Located in the heart of the Yangtze River Golden Delta Economic Circle, Kemao China has grown from a family business to one of the largest and most prestigious metal packaging solution providers in China within 15 years.

Key Business Highlights and Achievements during 2020:

- **Challenges from COVID-19 Pandemic**

Year 2020 was a year full of unprecedented challenges. The outbreak of COVID-19 has caused massive global social and economic disruption that the world has never seen before. The outbreak firstly started in China early 2020, causing month-long national business lockdowns. With strict virus containment measures, social and business environment have become stable and gradually normalised in China since late 2020. KEM China always regards its employee's health and safety the highest priority. During the pandemic, the management has implemented and expanded a range of measures to protect the employee and contribute to efforts to contain the spread of the disease. As a result, no inflection case has been identified among KEM China's workforce. With sufficient safety measures, KEM China started to resume operation in March 2020 and within months returned to full production. Over the course of the pandemic disruption, a lot ineffective small and medium manufacturers were closed down, therefore market concentration has become increasingly higher. As one of the top tin-plate manufacturers in China, this has provided KEM China new opportunities to enhance its market share. Sales picked up strongly in the second half of the year, especially the last quarter. By the year-end of 2020, domestic sales had not only recovered to pre-COVID-19 levels, but increased to AUD113.7 million, up by 10.5% compared with AUD102.9 million for 2019.

The pandemic has spread around the world widely and quickly since March 2020. Notwithstanding countries and governments have implemented strict restrictions and lockdowns, the number of global infections has continued to surge and the timeframe of recovery remains unclear. Under such circumstances, KEM China's overseas sales dropped to AUD27.3 million, down by 53.3% compared with last year.

Due to the significant decline in overseas sales, total revenue for the year ended 31 December 2020 slipped to AUD141.0 million (2019: AUD161.3 million).

In addition to the severe impact on overseas sales, the prices of raw materials jumped sharply to a historical high due to the uncertainties arising from COVID-19. Shipping costs also went higher as there were less transportation capacities because of global logistic restrictions. These rising rates and prices caused a great increase in the costs of goods. Under such circumstances, the Group had a gross loss of AUD4.3 million compared with a gross profit of AUD7.5 million of last year.

Facing these challenges, KEM has quickly taken actions to mitigate the market risk including:

- Adjusting product ranges to better meet market demands and increase market shares;
- Continuing to improve production management to reduce operation costs; and
- Adopting tight credit terms, particularly for overseas sales.

At 31 December 2020 the Group had \$7.9 million cash and bank and negative working capital of AUD2.9 million. The Group managed to repay RMB\$10 million (equivalent to approximately AUD2 million) borrowings during the year. The repayment will reduce finance costs and improve the Group's overall gearing ratio.

• **Continuous investment in Research & Development (R&D)**

One major contributing factor to Kemao's competitive advantage is continuous investment in R&D. This is also a key strategy that the Group has been sticking to since its business was established. The Group consider that key technology advantages will, not only effectively differentiate Kemao's products but improve productivity and cost reduction.

For over 15 years, Kemao China has accumulated extensive experience and knowledge on tinplate manufacturing. It has registered 20 patents and plan to invest more in developing industry-leading technologies.

Kemao China has seen more than \$6 million invested to upgrade its factory machinery since 2015. Fund was spent on the acquisition of advanced processing equipment, and timely upgrades of routine or necessary old units as well.

Kemao China prepared its application for the qualification of "High and New Technology Enterprise" (HNTE) in 2020 and will submit its application in 2021. The qualification requires the applicant to continuously spending in R&D and carrying out innovation projects. As a HNTE, Kemao China will be able to access 10% income tax reduction which is a significant tax incentive available under current China tax laws.

Despite the business challenges of last year, the Group continued to invest in R&D amounting to AUD4 million (2019: AUD5 million).

• **Completing \$500,000 IPO and listing on the National Stock Exchange ("NSX")**

On 9 January 2020, the Company was admitted to the official list of the NSX. It was a milestone in Kemao's 15-year history. As a publicly listed company, the Company will increase transparency to enhance Kemao's corporate image in overseas markets, which in return will help the Group achieve bigger success.

• **Other Information**

NSX Listing Rule 6.9 requires the Group provide a summary of the results, assets and liabilities of the Group for the last five (5) financial years (or, for such of those years during which the Group traded). The Company was incorporated on 28 May 2018. The relevant information since then are presented as follows:

	At 31 December 2018 000's \$	At 31 December 2019 000's \$	At 31 December 2020 000's \$
Results	2,734	809	(10,003)
Assets	71,133	78,578	59,165
Liabilities	55,088	63,607	53,796

CORPORATE GOVERNANCE STATEMENT

Our corporate governance practices are based on the principles and recommendations set out in Corporate Governance Council's Principles and Recommendations, 4th Edition issued by the Australian Securities Exchange Corporate Governance Council, which we have modified to take into account the Company's current size and scale of its operations. Our corporate governance statement which is also our "if not, why not" statement.

No. Y/N If not, why not

Principle 1: Lay solid foundations for management and oversight

- 1.1 Y The Board has formally adopted a board charter which sets out the respective roles and responsibilities of the board and management, and those matters expressly reserved to the Board and those delegated to management. A copy of the Board Charter is available on the corporate governance page on the company's website at <https://www.kemao-tinplate.com/governance-policy.html>

- 1.2 Y The Company's board charter sets out the processes to appoint or remove a Director.

When a candidate is standing for election as a director, detailed biographical details, including their relevant qualifications and experience and the skills, are circulated to the Board for consideration. The Board conducts appropriate checks into the candidate's background and experience. Confirmation of any other material directorships currently held by the candidate and his/her own interest in the Company's securities is required from the candidate. The newly appointed director holds office only until the next following annual general meeting and is then eligible for election by shareholders.

All material biographical information of the candidate as well as the Board's statement as to whether it supports the election or re-election of the candidate are disclosed in the Notice of the Meeting.

Ms Fang Chen and Mr Jianping Zhou will retire by rotation in 2021 and stand for re-election at the 2021 AGM. Ms Xunkun Li, who was appointed a director on 3 March 2021, will stand for election. Details of their respective skills and experience are outlined in the Notice of Annual General Meeting 2021. The Board considers that their experience and skills complements and strengthens the Board's existing skills and experience. The re-election of Ms Chen and Mr Zhou and election of Ms Li are unanimously supported by all other directors.

- 1.3 Y On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The appointment letters are between the Company and the directors personally. The letter summarises the Board policies and terms of appointment, including compensation relevant to the office of director, the requirement to disclose the director's interests and any matters which could affect the director's independence.

As the Company's operating business is currently located in China, some senior executives may be employed by Kemao China on a full-time basis and have signed employment contracts under relevant labour laws of China.

- 1.4 Y Our Company Secretary is appointed and removed by the Board and is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

- 1.5 N The Board supports workplace diversity, including gender diversity but considers that the Company is not of a size or maturity to justify a formal diversity policy. The Board's priority has been to ensure that its members have the appropriate level of experience and skills to manage the Company at its early stages of operations rather than focusing on gender and other diversity factors. The Board currently consists of two female directors and three male directors.

- 1.6 N The chair is expected to meet with each Director at least annually to discuss individual performance and ideas for improvement. The Board will also, at least annually, meet to discuss and evaluate its

own performance for that financial year so as to make improvements for the following year.

This is the first year for the Company as a public listed company. The Company did not have a performance evaluation on its committees and individual director during the period.

- 1.7 Y The Company has a formal process to evaluate the performance of its senior executives. The Executive Directors review the performance of the senior management according to their job responsibilities. Evaluation meetings are held at the year-end where both parties discuss performance during the year against the pre-set targets. The performance evaluation was undertaken during the year.

Principle 2: Structure the board to add value

- 2.1 Y The Board has a remuneration and nomination committee that is chaired by Mr ZHOU Jianping (Non-Executive Director) and consists of two other members, Mr Bill LAM (Non-Executive Director) and Ms CHEN Dong (Executive Director). The committee undertakes the process of reviewing the skill base and experience of existing Directors to enable identification of attributes required in new Directors. Where appropriate, independent consultants will be engaged to identify possible new candidates for the Board either as addition to the Board to supplement its current skills and experience or as part of succession planning for the Board.

- 2.2 Y The skills matrix setting out the mix of skills and diversity that the Board currently has is set out below:

	LEONG Chong Peng (Resigned 3 March 2021)	LAM Long Huy (Bill)	CHEN Dong	CHEN Fang	ZHOU Jianping	LI Xuekun (Appointed 3 March 2021)
Corporate governance	✓	✓				✓
General and administrative management			✓	✓	✓	✓
Sales and marketing			✓		✓	
Risk management	✓	✓				✓
Financial management	✓	✓				✓
Entrepreneurship			✓	✓		

- 2.3 Y As of the date of this corporate governance statement, the Board comprises of three independent Non-Executive Directors and two Executive Directors. Mr LAM Long Huy, Mr ZHOU Jianping and Ms LI Xuekun are considered as independent directors as they are free of any material interest, position, association or relationship that might influence, or reasonable be perceived to influence, in a material respect their capacities to bring an independent judgement.

Except for Ms LI Xuekun who was appointed on 3 March 2021, all the other directors were appointed on 28 May 2018.

- 2.5 Y Currently, the chair of the Board is Mr LAM Long Huy (Bill) who is an independent non-executive director. The person that performs the role of the CEO is Mr CHEN Dong, the Executive Director and also the General Manager of Kemao China.

- 2.6 Y The Board has put in place a programme in which all new directors will be assessed by the Company's nominated adviser as to the extent of his or her awareness of his or her responsibilities as a director of a company which is listed on NSX, and where such awareness is insufficient, to undergo such training or induction as may be recommended by the nominated adviser.

The present members of the Board are aware of their personal responsibilities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively and, if so requested by a Director, the Company will bear reasonable costs and expenses of any continuing education programme or course which a Director may request to attend.

Principle 3: Act ethically and responsibly

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| 3.1 | Y | The Company's goal is to develop to be a professional and reliable partner of the metal packaging businesses around the world. The Company's value is to be consistent, reliable and quality assured. This is disclosed at https://www.kemao-tinplate.com/growth-strategy.html |
| 3.2 | Y | The Company has adopted and disclosed a Code of Conduct applicable to all Directors, senior executives and employees at https://www.kemao-tinplate.com/governance-policy.html |
| 3.3 | N | The Group does not have a whistle-blower policy. If any employee has concerns, they can directly report to the directors. |
| 3.4 | N | The Group does not have an anti-bribery and corruption policy. All employee are required to comply with Code of Conduct and other internal policies and regulations. |
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Principle 4: Safeguard integrity in corporate reporting

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| 4.1 | Y | The board has an audit committee that is chaired by Ms LEONG Chong Peng (Sharon) (Non-executive Director, resigned on 2 March 2021) and consists of two other members, Mr LAM Long Huy (Bill) and Mr ZHOU Jianping, both of whom are non-executive Directors. The committees in consultation with the incumbent external auditor, undertakes the selection and proper application of accounting policies, the integrity of financial reporting, the identification and management of risk and review of the operation of the internal control systems. |
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The board has maintained regular communication with the external auditor and monitor its performance on a yearly basis. The Company's auditor has a proper policy regarding the rotation of the audit engagement partner and signs an independent declaration to the Company every year.

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| 4.2 | Y | The Board has received an annual assurance in the form of a declaration from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) as required by the Corporations Act 2001. |
| 4.3 | Y | The Company releases market update announcements that are not audited or reviewed by an external auditor from time to time. The reports are discussed at the Board meeting and prepared by the Company Secretary who has rich knowledge and experience in corporate governance. The reports are reviewed by the Chairman and be verified with external sources whenever possible. |
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Principle 5: Make timely and balanced disclosure

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| 5.1 | Y | The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. A summary of these policies and procedures is available at https://www.kemao-tinplate.com/governance-policy.html . To ensure it meets its continuous disclosure obligations, the Board has nominated the Chairman and the Company Secretary as responsible for all disclosure matters. Their role is to collate and, where appropriate, disclose share price sensitive information. |
| 5.2 | Y | All market announcements are discussed by the Board, Material market announcements require the Board's approval. |
| 5.3 | N/A | The Company has not given any new and substantive investor or analyst presentation for the reporting period. |
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Principle 6: Respect the rights of security holders

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| 6.1 | Y | The Company maintains a company website (www.kemao-tinplate.com). The website contains information about the Company and its operating subsidiaries. |
| 6.2 | Y | The Company encourages communication with shareholders. A business report is presented to |
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shareholders at the annual general meeting and shareholders can ask questions directly of the Board. On each NSX announcement, the Company provides contact details, including phone number and email address to facilitate shareholder communication.

- 6.3 Y The Board has adopted a shareholder Communication Policy and provide Shareholders with opportunities to have questions addressed at shareholders' meetings. A copy of the Shareholder Communication Policy is available at <https://www.kemao-tinplate.com/governance-policy.html>
- 6.4 Y All resolutions at the 2020 AGM were decided by proxy.
- 6.5 Y The Company's security registry has in place and has implemented a system in which security holders are given the option to receive communication from, and send communication to, the entity and its security registry electronically.

Principle 7: Recognise and manage risk

- 7.1 Y The Board has a risk management committee that is chaired by Mr LAM Long Huy (Bill) (Non-Executive Director) and consists of two other members, Mr ZHOU Jianping (Non-Executive Director) and Mr CHEN Dong (Executive Director). The committee oversees the risk management for the Company, taking into account key material risks faced by the Company as identified by the Board and how these risks or, if the risks materialises, its possible impact can be minimised. A copy of the Risk Management and Internal Control Policy is available at <https://www.kemao-tinplate.com/governance-policy.html>

The Board ensures that risk management is included on the agenda of meetings of the board.

- 7.2 Y The board reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound. A review of risk management framework was conducted during the reporting period.

- 7.3 N The Company does not have an internal audit function.

The primary responsibility for risk management and internal controls on a day-to-day basis at the operations level vests with the Board. The Board discusses business risks at the directors' meetings. The Executive Directors ensure the daily operation complies with the Group's internal control policies. The Board communicates with the external auditor regarding internal control and fraud every year.

- 7.4 Y The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory. The Board considers the Company does not have material exposure to economic, environmental or social sustainability risks.

The Group's Chinese operating subsidiary is subject to regulations under the relevant Chinese environmental law. The Group's manufacturing operations have not been significantly affected by Chinese environmental laws and regulations.

Principle 8: Remunerate fairly and responsibly

- 8.1 Y The Board has a remuneration and nomination committee that is chaired by Mr ZHOU Jianping (Non-Executive Director) and consists of two other members, Mr Bill LAM (Non-Executive Director) and Ms CHEN Dong (Executive Director).

The Company adopts the following policies and practices regarding the remuneration of Executive Directors, Non-Executive Directors and senior executives:

- Executive Directors and Non-Executive Directors are paid only Directors' fees or salaries.
- The Company's non-executive directors receive a fixed fee for their services and do not receive performance-based remuneration. Fees for non-executive directors are not linked to the performance of the Company. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently set at \$100,000 per annum. No retirement benefits are provided to Non-executive directors.
- The Board sets and determines the remuneration for senior executives and will do so having regard to prevailing levels paid to executives performing similar roles at comparable companies.

8.3 N/A This Recommendation is not applicable as the Company does not have an equity-based remuneration scheme.

Principle 9: Additional recommendations that apply only in certain cases

9.1 Y All directors can speak Chinese. The Chairman and the Company Secretary are bilingual who act as interpreters at AGM. All key corporate documents, including Board Papers, minutes, financial statements are prepared and discussed in both English and Chinese. Directors may engage independent translation services when necessary.

9.2 N/A The Company is established in Australia and this recommendation is therefore not applicable. It holds its General Meeting every year.

9.3 N/A The Company is established in Australia and this recommendation is therefore not applicable. The Company's external auditors attend to its AGM every year to answer questions from shareholders.

DIRECTORS' REPORT

The directors present their report, together with the consolidated financial statements of Kemao Industries Limited ("the Company") and its controlled entities ("the Group") for the financial year ended 31 December 2020. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information of directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

LEONG, Chong Peng, B.Comm *(Non-Executive Chairperson)(resigned 2 March 2021)*

Experience and expertise Ms Leong is a Certified Practising Accountant and Registered Company Auditor in Australia. She is a director of CPL Corporate, a professional Perth-based practice specialising in providing accounting and corporate services to small and medium sized businesses. Prior to founding CPL Corporate, she was an executive director of the Australian member firm of a mid-tier international accounting network and, in her early career, worked at the Hong Kong, Shanghai and Perth office of a Big-Four international accounting firm. During her career, she had participated in the audits of multinational and listed companies in Hong Kong, China and Australia and had gained experience in accounting, corporate governance, risk management and corporate compliance.

Current and Former directorships in other Australian public companies The Yima Trading Company Ltd (from November 2017 – May 2019)

Special responsibilities Finance and corporate management. Ms Leong was the Chairperson of the Audit Committee.

Interest in shares and options in the Company None

CHEN, Dong *(Managing Director, appointed Chairman from 2 March 2021 – 29 March 2021)*

Experience and expertise Mr Chen joined Kemao New Materials Technology Co. Ltd (Kemao China) in 2016 and in 2018 he became the General Manager. He is responsible for executing the Group's business plans, maintaining business relationship with overseas customers and managing the growth of the Group's export business. He has more than 18 years of experience in the manufacturing sector. He was a recipient of Jiangyin outstanding entrepreneur award and is currently the vice president of Jiangyin Chamber of Commerce.

Current and Former directorships in other Australian public companies None

Special responsibilities Business development. Mr Chen is a member of the Risk Management Committee.

Interest in shares and options in the Company 55,130,000 shares

CHEN, Fang *(Executive Director)*

Experience and expertise	Ms Chen joined Kemao China in 2011 and is currently Chief Business Development Officer of Kemao China. She started as a management trainee in the company and was responsible for managing the manufacturing operations. She is now responsible for the company's overall marketing, raw material procurement and day-to-day management of sales activities. She was a recipient of Wuxi City's Development and Innovation Talents Award.
Current and Former directorships in other Australian public companies	None
Special responsibilities	Business development. Ms Chen is a member of the Nomination and Remuneration Committee.
Interest in shares and options in the Company	10,000,000 shares

LAM Long Huy, B.Bus (Major) *(Non-executive Director, Chairman from 29 March 2021)*

Experience and expertise	Mr Lam is the founder and executive director of ABL Accounting and Taxation Pty Ltd, a boutique accounting firm which he established in 1993. Qualified as a CPA in Australia, his practice focus is in advising clients on accounting, tax planning and compliance and general corporate compliance matters. His corporate clients operate in a range of industries such as retail, property, education, recruitment, hospitality and the medical and legal professions. Prior to founding ABL Accounting and Taxation Pty Ltd, he worked as the financial controller of Wills Australia for 10 years and at AAPT Limited, a company listed on the ASX before it was acquired, then delisted, by Telecom New Zealand.
Current and Former directorships in other Australian public companies	Non-executive director of Jiajiafu Modern Agriculture Limited (ASX:JJF) from 2019 to 2020; Non-executive director of Sanhe Building Materials Technology Company Limited from 2015 to 2017.
Special responsibilities	Finance and corporate management. Mr Lam is the Chairman of the Risk Management Committee, a member of the Audit Committee, and Nomination and Remuneration Committee.
Interest in shares and options in the Company	None

ZHOU, Jianping *(Non-executive Director)*

Experience and expertise	Mr Zhou was a founder of an insulating materials business and acted as the chairperson and general manager between 2000 and 2009. From 2010 until now, he is the chair and general manager of an insulation material technology company that he founded in 2010. The company runs a successful business producing insulated fire-resistant mica tapes which are sold internationally. In 2017, he was the chairperson of Jiangsu Lefu Family Technology Co., Ltd. The company manufactures graphene heating films using its own patented technology which are used for floor heating, steam rooms, foot bath buckets, floor mats, movable heaters, etc. The company has six production bases and more than a hundred franchise stores in China.
Current and Former directorships in other Australian public companies	None
Special responsibilities	Industry research and marketing. Mr Zhou is the Chairman of the Nomination and Remuneration Committee, and a member of the Audit Committee and the Risk Management Committee.
Interest in shares and options in the Company	None

LI, Xuekun *(Non-executive Director, appointed 2 March 2021; Company Secretary)*

Experience and expertise	Ms LI Xuekun, ACCA, ACIS, is a Non-Executive director and Company Secretary of the Company. Ms Li is a chartered company secretary and a qualified accountant with more than 20 years' experience in financial accounting and corporate governance. She worked as an audit manager in the China practice of a Big-Four international accounting firm where she was involved in audits and initial public offerings engagements. She relocated to and commenced her career in Australia in 2006. She is the founder and a director of INP Perth Pty Ltd, a boutique firm providing financial and corporate services. She is the company secretary of Energy Metals Limited (ASX:EME) and Australia United Mining Limited (ASX: AYM).
Current and former directorships in other Australian public companies	None
Special responsibilities	Finance and corporate management.
Interest in shares and options in the Company	None

Principal activities

The principal activities of the Group in the course of the financial year were the manufacture of electrolytic tinplate products.

Operating results

The consolidated loss after tax for the year ended 31 December 2020 amounted to \$10,282,000 (2019: a profit of \$ 563,000).

Review of operations

The Group is a professional metal packaging solution provider. The Group specialises in the production and supply of tinplate and relevant products to domestic China and global markets. The Group's production base and manufacture centre is located in the Jiangsu Province of China.

Revenue for the year ended 31 December 2020 was \$140.99 million, down 12.6% from last year (31 December 2019: \$161.37 million). This was mainly due to the drop of overseas sales amid the outbreak of coronavirus pandemic ("COVID-19"). Under the COVID-19 rapidly developing situations, countries around the world have implemented various measures and restrictions on travel, quarantine, social distance, and border controls. The global economy and world trade have been severely hurt by such unusual disruption and damage. The declines in overseas sales and total revenue for the year were results as expected. Notwithstanding various measures and restrictions have been implemented by countries and governments to prevent the spread of COVID-19, the number of infections is continuing to surge and the timeframe of recovery remains unclear.

The Group had a negative \$4.26 million gross margin, compared with a gross profit of \$7.48 million of last year. In addition to the decrease of sales, the price of raw materials jumped to record high and shipping costs increased continuously. Drop of sales and increase of costs together turned a gross profit to a loss.

At 31 December 2020 KEM had around \$7.9 million cash and bank and negative \$2.9 million working capital. Despite the unprecedented challenges, the Group managed to repay RMB\$10 million (equivalent to approximately AUD2 million) borrowings during the year. The repayment will reduce finance costs and improve the Group's overall gearing ratio.

Review of financial conditions

The net assets of the Group were \$5,369,000 at 31 December 2020 (31 December 2019: \$14,971,000).

Share options granted to directors and senior management

During and since the end of the financial year, no share options were granted to the directors and senior management.

Significant changes in state of affairs

The Company completed an initial public offering and has been listed on the National Stock Exchange of Australia (NSX) since 10 January 2020.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

The Group will continue to develop its tin-plate manufacturing in China and expand in overseas markets.

Environmental regulations

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

The Group's Chinese operating subsidiary is subject to regulations under the relevant Chinese environmental law. The Group's manufacturing operations have not been significantly affected by Chinese environmental laws and regulations.

Dividends

No dividends were paid or declared during the year. No recommendation for payment of dividends has been made.

Shares under option

At 31 December 2020, there were no shares under option (31 December 2019: Nil).

Shares issued on exercise of options

There were no shares issued on exercise of options during the financial year and up to the date of this report.

Indemnification and insurance of officers and auditors

The Company has entered into a deed of indemnity, insurance and access with each of its Directors and Company Secretary under which the Company agreed to indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Company will also use its best endeavour to keep the officers insured for the benefit of the relevant officer and allow the officer to inspect company records in certain circumstances.

No indemnities have been given to the Auditor. The Company has not paid premiums to insure the directors and officers of the Company for the period 1 January 2020 to 31 December 2020 against those liabilities for which insurance is permitted under section 199B of the *Corporations Act 2001*.

Meetings of directors

During the financial year, four meetings of directors were held. Attendances by each director during the year were as follows. No committee meetings were held during the financial year.

	Directors' Meetings	
	Number eligible to attend	Number attended
Ms Leong, Chong Peng	4	4
Mr Lam, Long Huy	4	4
Mr Chen, Dong	4	4
Ms Chen, Fang	4	4
Mr Zhou, Jianping	4	4

Proceedings on behalf of company

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

Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 25 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence, for the following reasons:

- no non-audit services have been occurred during the year; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration is included on page 11 of this report.

Rounding off of amounts

The company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

REMUNERATION REPORT (AUDITED)

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Company's key management personnel for the financial year ended 31 December 2020. The prescribed details for each person covered by this report are detailed below under the following headings:

- remuneration policy
- key management personnel emoluments
- service agreements
- options granted as part of remuneration
- share-based compensation
- securities policy

Directors and Key Management Personnel ("KMP")

Lam, Long Huy	Non-Executive Director
Leong, Chong Peng	Non-Executive Chairperson (resigned 2 March 2021)
Chen, Dong	Managing Director (Executive Chairman, from 2 March 2021 – 29 March 2021)
Chen, Fang	Executive Director
Zhou, Jianping	Non-Executive Director
Li, Xuekun	Non-Executive Director (appointed 2 March 2021)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Remuneration Policy

The remuneration policy of the Group has been designed to align directors' objectives with shareholders and business objectives. The Board of Kemao Industries Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the business, as well as create goal congruence between directors, executives and shareholders. The Board's policy for determining the nature and amount of remuneration for Board members of the Company as follows:

All executives receive either consulting fees or a salary. The Board reviews executive packages annually by reference to the executive's performance and comparable information from industry sectors and other listed companies in similar industries.

The Board's policy is to remunerate non-executive directors at commercial market rates for comparable companies for their time, commitment and responsibilities. The maximum aggregate amount of fees that can be paid to non-executive directors is currently set at \$100,000 per annum and subject to approval by shareholders at the Annual General Meeting for increase. Fees for non-executive directors are not linked to the performance of the Group. Non-executive directors' remuneration may also include an incentive portion consisting of options, subject to approval by Shareholders.

The Board is responsible for determining and reviewing the compensation of the directors and the Executive Directors are responsible for determining and reviewing the remuneration of senior executives. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Group's operations. The Board of Directors assesses market rates and seeks the advice of external advisers, where necessary, in connection with the structure of remuneration packages. The Board also recommends levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum fixed by members of the Company in general meeting.

There is no direct relationship between the Company's Remuneration Policy and its performance. However, in determining the remuneration to be paid in each subsequent financial year, the Board may consider to link with the Company's performance.

The following table shows the share price and the market capitalisation of the Company at the end of 31 December 2020. The Company has been listed on the NSX since 10 January 2020. No dividends have been paid during the year.

	At 31 December 2020
Share Price	\$0.61
Market Capitalisation	\$61.6M
Dividend	-

Key Management Personnel Emoluments

The Group's policy for determining the nature and amount of emoluments of key management personnel is that directors are to be paid by salaries or consulting fees at commercial rates for professional services performed.

Details of the nature and amount of each element of the emoluments of each director of Kemao Industries Limited are set out in the following tables.

		Short-Term Benefits		Post-Employment	Share-Based Payment		Remu- neration Consisting of Options Total	Per- formance related Total
		Directors Fees \$	Cash Salary, Consulting Fees \$	Super- annuation \$	Options \$	Total \$	\$	\$
Non-Executive Directors								
*Leong C. P.		24,000	-	-	-	24,000	-	-
2020		24,000	-	-	-	24,000	-	-
2019								
Lam L. H.	2020	20,000	-	-	-	20,000	-	-
	2019	20,000	-	-	-	20,000	-	-
Zhou J.P.	2020	10,000	-	-	-	10,000	-	-
	2019	10,000	-	-	-	10,000	-	-
**Li X.K.	2020	-	-	-	-	-	-	-
	2019	-	-	-	-	-	-	-
Executive Directors								
Chen. D	2020	1,000	35,700	-	-	1,000	-	-
	2019	1,000	-	-	-	1,000	-	-
Chen. F	2020	1,000	33,600	-	-	1,000	-	-
	2019	1,000	-	-	-	1,000	-	-
Total	2020	56,000	69,300	-	-	125,300	-	-
	2019	56,000	-	-	-	56,000	-	-

*: resigned 2 March 2021

** : appointed 2 March 2021

Service Agreements

On appointment to the Board, all directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms of appointment, including compensation relevant to the office of director. Remuneration and other terms of employment for the directors are also formalised in service agreements as summarised below.

LEONG C. P.

On 28 May 2018, Ms Leong was appointed as the Non-Executive Chairperson. According to a letter of appointment, Ms Leong is entitled to a director's fee of \$24,000 per annum. Ms Leong resigned on 2 March 2021.

LAM L.H.

On 28 May 2018, Mr Lam was appointed as a Non-Executive Director. According to a letter of appointment, Mr Lam is entitled to a director's fee of \$20,000 per annum.

ZHOU J.P.

On 28 May 2018, Mr Zhou was appointed as a Non-Executive Director. According to a letter of appointment, Mr Zhou is entitled to a director's fee of \$10,000 per annum.

CHEN D.

On 28 May 2018, Mr Chen was appointed as an Executive Director. According to a letter of appointment, Mr Chen is entitled to a director's fee of \$1,000 per annum.

CHEN F.

On 28 May 2018, Ms Chen was appointed as an Executive Director. According to a letter of appointment, Ms Chen is entitled to a director's fee of \$1,000 per annum.

LI X.K.

The Group enters into a service agreement with INP Perth Pty Ltd, a corporate consulting company of which Ms Li is a director and shareholder. Fees charged at normal commercial rates and conditions. INP Perth Pty Ltd has provided accounting and secretarial services during the year to the amount of \$30,098 (2019: nil).

Options granted as part of remuneration

There were no options issued during the year to any of the KMP (2019: nil).

Share-based compensation

No shares in the Company were provided as remuneration to directors of Kemao Industries Limited (2019: nil).

Equity instruments held by key management personnel

	<u>Ordinary Shares</u>	<u>Options</u>
LEONG, C.P.	-	-
LAM L.H.	-	-
ZHOU J.P.	-	-
CHEN D.	55,130,000	-
CHEN F.	10,000,000	-
LI X.K.	-	-

Kemao Industries Limited

Directors' Report

31 December 2020

Securities Policy

The Company has implemented a policy on trading in the Company's securities designed to ensure that all directors, senior management and employees of the Company act ethically and do not use confidential inside information for personal gain. The policy states acceptable and unacceptable times for trading in Company securities and outlines the responsibility of directors, senior management and employees to ensure that trading complies with the Corporations Act 2001, the National Stock Exchange of Australia (NSX) Listing Rules and Company Policy.

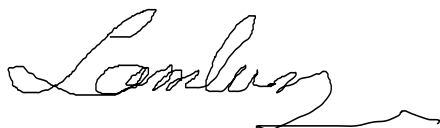
Any transaction conducted by Directors with regards to shares of the Company requires notification to the NSX. Each Director has entered into an agreement to provide any such information with regards to Company dealings directly to the Company Secretary promptly to allow the Company to notify the NSX within the required reporting timeframes.

Shares provided on exercise of options

No ordinary shares in the Company were provided as a result of the exercise of remuneration options to directors of Kemao Industries Limited and key management of the Company during the year (2019: nil).

End of Remuneration Report (Audited).

Signed in accordance with a resolution of the Board of Directors:



Director:
LAM Long Huy

Date: 30 March 2021

KEMAO INDUSTRIES LIMITED AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF KEMAO INDUSTRIES LIMITED AND CONTROLLED ENTITIES

As lead auditor for the audit of Kemao Industries Limited and Controlled Entities for the year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm:


MGI Perth Audit Services Pty Ltd

Chartered Accountants

Name of Auditor:



Clayton Lawrence
Director

Address:

Level 1, 322 Hay Street, Subiaco, Western Australia

Dated this

31st day of March 2021



Kemao Industries Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2020

		2020	2019
	Note	000's	000's
		\$	\$
Revenue	5	140,994	161,365
Cost of sales		(145,250)	(153,890)
Gross Profit/(Loss)		(4,256)	7,475
Other income		5,046	5,497
Administrative expenses	7	(7,433)	(8,138)
Operating expenses		(133)	(1,268)
Allowance for impairment losses	7	(2,016)	(1,001)
Finance costs	8	(1,994)	(2,273)
Profit/(Loss) before income tax		(10,786)	292
Income tax expense	9	504	271
Profit/(Loss) for the year		(10,282)	563
Other comprehensive income, net of income tax			
Exchange differences on translating foreign controlled entities		279	246
Total comprehensive income/(expense) for the year		(10,003)	809
Profit attributable to:			
Members of the parent entity		(10,282)	563
Total comprehensive income/(expense) attributable to:			
Members of the parent entity		(10,003)	809
Earnings/(Loss) per share			
Basic	10	(10.18)c	0.56c
Diluted		(10.18)c	0.56c

The accompanying notes form part of these consolidated financial statements.



Kemao Industries Limited
Consolidated Statement of Financial Position
As at 31 December 2020

	Note	2020 000's \$	2019 000's \$
ASSETS			
Current Assets			
Cash and bank balances	11	7,953	8,842
Trade receivables	12	13,986	15,916
Other receivables and advance payments	13	8,011	14,790
Inventories	14	18,673	26,418
Total Current Assets		48,623	65,966
Non-Current Assets			
Plant and equipment	15	8,690	11,171
Right-of-use assets	16	807	856
Deferred tax assets	17	1,045	585
Total Non-Current Assets		10,542	12,612
TOTAL ASSETS		59,165	78,578
LIABILITIES			
Current Liabilities			
Trade and other payables	18	27,131	32,974
Borrowings	19	24,454	28,439
Total Current Liabilities		51,585	61,413
Non-Current Liabilities			
Borrowings	19	994	1,023
Other payables	18	1,217	1,171
Total Non-Current Liabilities		2,211	2,194
TOTAL LIABILITIES		53,796	63,607
NET ASSETS		5,369	14,971
EQUITY			
Issued capital	21	17,144	16,743
Reserves		1,154	875
Accumulated losses		(12,929)	(2,647)
TOTAL EQUITY		5,369	14,971

The accompanying notes form part of these consolidated financial statements.



Kemao Industries Limited
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2020

	Ordinary Shares 000's \$	Accumulated Losses 000's \$	Foreign Currency Translation Reserve 000's \$	Total 000's \$
Balance at 1 January 2020	16,743	(2,647)	875	14,971
Loss for the year	-	(10,282)	-	(10,282)
Other comprehensive income for the year	-	-	279	279
Total comprehensive expense for the year	-	(10,282)	279	(10,003)
Transactions with owners in their capacity as owners:				
Contributions of equity net of transaction costs	401	-	-	401
Balance at 31 December 2020	17,144	(12,929)	1,154	5,369
Balance at 1 January 2019	16,743	(1,327)	629	16,045
Change in accounting policy to reflect the retrospective adjustments - adoption of AASB 16	-	(1,883)	-	(1,883)
Balance at 1 January 2019 restated	16,743	(3,210)	629	14,162
Profit for the year	-	563	-	563
Other comprehensive income for the year	-	-	246	246
Total comprehensive income for the year	-	563	246	809
Balance at 31 December 2019	16,743	(2,647)	875	14,971

The accompanying notes form part of these consolidated financial statements.



Kemao Industries Limited
Consolidated Statement of Cashflows
For the Year Ended 31 December 2020

	Note	2020 000's \$	2019 000's \$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		145,078	160,825
Payments to suppliers and employees		(140,376)	(152,774)
Interest paid		(2,279)	(2,273)
Income tax credit		504	21
Interest received		72	148
Net cash from operating activities	22	2,999	5,947
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of plant and equipment		-	38
Purchase of plant and equipment		(213)	(1,889)
Change in bank balances for restricted use		2,653	(1,823)
Net cash from/(used in) investing activities		2,440	(3,674)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		25,836	28,947
Repayment of borrowings		(29,197)	(29,780)
Other financing inflows		(99)	435
Net cash used in financing activities		(3,460)	(398)
Net increase in cash and cash equivalents		1,979	1,875
Cash and cash equivalents at beginning of year		4,009	2,173
Effect of foreign exchange rate changes		(220)	(39)
Cash and cash equivalents at end of financial year	8	5,768	4,009

The accompanying notes form part of these consolidated financial statements.



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

1. General information

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the Corporations Act 2001, Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB), and comply with other requirements of the law.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The financial statements comprise the consolidated financial statements of Kemao Industries Limited ("the Company") and its controlled entities ("the Group"). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial report was authorised for issue by the Directors on 30 March 2021.

Presentation currency and comparative figures

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Comparatives are consistent with prior years, unless otherwise stated. The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and, accordingly amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

Basis of accounting

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Going concern

The Group incurred a net loss of \$10.28 million during the year ended 31 December 2020 and, as of that date, the Group has accumulated loss of \$12.92 million. Also the Group had a negative working capital of \$2.96 million. Accordingly, the ability of the Group and the Company to meet its obligations is therefore dependent on further capital raising and viable operations existence for the foreseeable future, adjustments may have to be made to reflect the situation that assets may need to be realised other than the amounts at which they are currently recorded in the financial position.

In addition, the Group may have to provide for further liabilities that might arise. The consolidated financial statements do not include such adjustment, as the Directors are optimistic that the Company will operate in a profitable manner in the foreseeable future, and accordingly they believe that it is appropriate for the financial statements of the Group to be prepared on the going concern basis.



2. Adoption of new and revised Australian Accounting Standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 January 2020. New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

This standard amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and makes consequential amendments to several other pronouncements and publications. The Group has adopted these amendments for the first time in the current year. The amendments make the definition of material in AASB 101 easier to understand and are not intended to alter the underlying concept of materiality in Australian Accounting Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in AASB 108 has been replaced by a reference to the definition of material in AASB 101. In addition, the Standard also amends other Australian Accounting Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency. These amendments had no impact on the consolidated financial statements of, not is there expected to be any future impact to, the Group.

AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

This Standard makes amendments to AASB 1054 *Additional Australian Disclosures* by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* on the potential effect of an IFRS Standard that has not yet been issued by the AASB. The Group has adopted these amendments for the first time in the current year.

At the date of authorization of the financial statements, the Group has not applied the following new and revised Australian Accounting Standards, interpretations and amendments that have been issued but are not yet effective:

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an investor and its Associates or Joint Venture [AASB 10 & AASB 128], AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections, effective for annual reporting periods beginning on or after 1 January 2022;



AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current, AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current, effective for annual reporting periods beginning on or after 1 January 2022;

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments, effective for annual reporting periods beginning on or after 1 January 2022.

3. Summary of Significant Accounting Policies

(a) Basis for consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

(b) Revenue

The Group recognises revenue from the sale of electrolytic tinplate products.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

(c) Leases – the Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise :

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).



- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

(d) Foreign currencies

In preparing the financial statements of the Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.



For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve (attributed to non-controlling interests as appropriate).

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(f) Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

(g) Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.



(h) Income Tax

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



(i) Goods and services tax (GST) & Value added tax (VAT)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payable are stated inclusive of GST or VAT.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST or VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(j) Plant and equipment

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss. Plant and equipment are measured using the cost model.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixed asset class	Depreciation rate
Plant and Equipment	10% to 33%
Furniture, Fixtures and Fittings	10% to 20%
Motor Vehicles	20%
Computer Equipment	20% to 33%
Leasehold improvements	33%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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



(k) Impairment of plant and equipment

At each reporting date, the Group reviews the carrying amounts of its plant and equipment assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.



(n) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

At initial recognition, financial assets are classified as either measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. The classification depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The Group classifies its financial assets as measured at amortised cost.

Financial assets at amortized cost are financial assets held within a business model aimed at holding the asset in order to collect contractual cash flows. Timing of these cash flows is determined in the contract and comprise solely payments of principal and interest. Assets measured at amortized cost are initially recognized at fair value plus any directly attributable transaction costs. For trade receivables, the transaction price is deemed to be equal to the fair value. Subsequently, these assets are carried at amortized cost using the effective interest method less any allowance for expected credit losses.

Interest income on assets is recognized in the consolidated Income Statement.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group). Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iv) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date;



For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used. The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

(o) Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(p) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(q) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.



4. Critical accounting judgements and estimate

In applying the Group's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Impairment of plant and equipment

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Deferred tax assets

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset based on budgets, current and future expected economic conditions.

**Kemao Industries Limited****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

5. Revenue

The Group delivers its revenue from contracts with customers for the transfer of goods at a point in time in the following major items. The disclosure of revenue by product line is consistent with the revenue information that is disclosed for each reportable segment (see note 6).

	2020 000's \$	2019 000's \$
External revenue:		
- sale of electrolytic tinplate products	<u>140,994</u>	<u>161,365</u>
	<u>140,994</u>	<u>161,365</u>

6. Operating segments

The Group identifies its operating segments based on the nature of the products and the nature of the production processes and other economic characteristics. The Group has identified a single operating segment, being the sale of electrolytic tinplate products.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of the central administration costs including directors' salaries, finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive Officer for the purpose of resource allocation and assessment of segment performance.

The Group's revenue from external customers are categorised from two geographical regions, being mainland China and overseas.



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

	Sale of electrolytic tinplate products		Unallocated		Total	
	2020	2019	2020	2019	2020	2019
	000's	000's	000's	000's	000's	000's
	\$	\$	\$	\$	\$	\$
Revenue						
Revenue from external customers	140,994	161,365	-	-	140,994	161,365
Total segment revenue	140,994	161,365	-	-	140,994	161,365
Result						
Gross profit	(4,256)	7,475	-	-	(4,256)	7,475
Other income – sales of scrape	4,122	5,087	924	410	5,046	5,497
Administration costs	-	-	(7,566)	(9,406)	(7,566)	(9,406)
Impairment loss allowance on trade and other receivables	(2,016)	(1,001)	-	-	(2,016)	(1,001)
Finance costs	-	-	(1,994)	(2,273)	(1,994)	(2,273)
Profit before income tax	(2,150)	11,561	(8,636)	(11,269)	(10,786)	292
Income tax	-	-	504	271	504	271
Profit/(loss) for the year	(2,150)	11,561	(8,132)	(10,998)	(10,282)	563
Segment assets	48,861	67,606	10,304	10,972	59,165	78,578
Other segment information						
Depreciation	2,243	2,350	254	77	2,497	2,427
Additions to non-current assets	80	1,857	118	32	198	1,889

Geographical information

The Group's revenue from external customers and information about its segment assets by geographical location are detailed below:

	2020		2019		Total	
	China	Overseas	China	Overseas	2020	2019
	000's	000's	000's	000's	000's	000's
	\$	\$	\$	\$		
Revenue	113,688	27,306	102,872	58,493	140,994	161,365
Assets	57,886	1,279	74,939	3,639	59,165	78,578



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

7. Profit/(Loss) for the year

Profit for the year has been arrived at after charging/(crediting):

	2020 000's \$	2019 000's \$
Employee benefits expense	3,269	3,518
Depreciation of plant and equipment	2,497	2,427
Depreciation of right-of-use assets	49	31
Gain/(loss) on disposal of plant and equipment	-	46
Research and development costs	4,089	4,967
Allowance for impairment losses	2,016	1,001
Net foreign exchange losses/(gains)	136	(300)
Crediting:		
Government incentive	(630)	(223)
Interest income	(146)	(148)

8. Finance costs

	2020 000's \$	2019 000's \$
Interest on long-term payables	256	435
Interest on lease liabilities	73	73
Interest on loans	1,665	1,765
	<u>1,994</u>	<u>2,273</u>

9. Income tax expense

The reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Company's applicable income tax rate is as follows:

	2020 000's \$	2019 000's \$
Profit/(Loss) before income tax	(10,786)	292
Income tax – Parent Company @27.5%	-	-
Income tax expense/ (benefit)- subsidiary @ 25%	(2,698)	(73)
Tax effect of amounts which are not deductible in calculating taxable income:		
- Non-deductible expenses	77	(199)
- Deferred tax assets not recognised	2,674	-
- Adjustments of last year	-	21
Tax incentive	(557)	522
Income tax expenses/(credit) reported in the income statement	<u>504</u>	<u>271</u>

The franking account balance at period end was nil (2019: nil).



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

10. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2020 000's \$	2019 000's \$
Profit from continuing operations	(10,282)	563
	No.	No.
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.	101,000,000	101,000,000
	Cents	Cents
Earnings/(Loss) per share		
Basic	(10.18)	0.56
Diluted	(10.18)	0.56

11. Cash and bank balances

	2020 000's \$	2019 000's \$
Cash and bank balances	7,953	8,842
Reconciliation of cash:		
Cash and cash equivalents	7,762	8,646
Term deposits	191	196
Bank balances restricted for use	(2,185)	(4,833)
Balance as per consolidated statement of cash flows	<u>5,768</u>	<u>4,009</u>

12. Trade receivables

	2020 000's \$	2019 000's \$
CURRENT		
Trade receivables	17,102	17,287
Provision for impairment	(a) <u>(3,116)</u>	<u>(1,371)</u>
Total current trade receivables	<u>13,986</u>	<u>15,916</u>

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

(a) Impairment of receivables

The average credit period on sales of goods is 0-60 days. No interest is charged on outstanding trade receivables. The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has recognised a loss allowance of 100 per cent against all receivables over 3 years past due because historical experience has indicated that these receivables are generally not recoverable.

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

	Current	Over 30 days less than 1 year	Over 1 year less than 2 years	Over 2 years less than 3 years	> Over 3years	Total
Expected loss rate (%)	2.00	2.00	2.00	10.00	100.00	
31 December 2020:						
Gross carrying amount (\$)	9,131	912	1,885	3,495	1,679	17,102
ECL provision	(181)	(18)	(189)	(1,049)	(1,679)	(3,116)
Total	8,950	894	1,696	2,446	-	13,986
31 December 2019:						
Gross carrying amount (\$)	8,169	3,485	3,905	1,401	327	17,287
ECL provision	(163)	(70)	(391)	(420)	(327)	(1,371)
Total	8,006	3,415	3,514	981	-	15,916

The following table shows the movement in lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach which are assessed collectively.

	2020 000's \$	2019 000's \$
Opening balance of the year	1,371	-
Net measurement of loss allowance	1,808	1,393
Foreign exchange gains and losses	(63)	(22)
Ending balance of the year	3,116	1,371

(b) Collateral held as security

The Group does not hold any collateral over any receivables balances.



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

13. Other receivables and advance payments

Advance payments represent payments required to made to some suppliers for the purchase of raw materials.

	2020 000's \$	2019 000's \$
Gross carrying amount	8,860	15,078
Allowance for impairment provision	(849)	(288)
	<u>8,011</u>	<u>14,790</u>

14. Inventories

	2020 000's \$	2019 000's \$
Raw materials and consumables	5,089	5,674
Work in progress	9,583	15,169
Finished goods	4,001	5,575
	<u>18,673</u>	<u>26,418</u>

Write downs of inventories to net realisable value during the year were \$ NIL.

15. Plant and equipment

	2020 000's \$	2019 000's \$
<u>Plant and equipment</u>		
At cost	33,690	33,516
Accumulated depreciation	(25,075)	(22,479)
Total plant and equipment	<u>8,615</u>	<u>11,037</u>
<u>Furniture, fixtures and fittings</u>		
At cost	64	62
Accumulated depreciation	(47)	(41)
Total furniture, fixtures and fittings	<u>17</u>	<u>21</u>
<u>Motor vehicles</u>		
At cost	123	101
Accumulated depreciation	(80)	(63)
Total motor vehicles	<u>43</u>	<u>38</u>
<u>Leasehold Improvements</u>		
At cost	134	134
Accumulated amortisation	(119)	(59)
Total leasehold improvements	<u>15</u>	<u>75</u>
Total plant and equipment	<u>8,690</u>	<u>11,171</u>



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment 000's \$	Furniture, Fixtures and Fittings 000's \$	Motor Vehicles 000's \$	Leasehold Improvements 000's \$	Total 000's \$
Year ended 31 December 2020:					
Balance at the beginning of year	11,037	21	38	75	11,171
Additions	174	2	22	-	198
Depreciation expense	(2,413)	(6)	(16)	(62)	(2,497)
Foreign exchange movements	(183)	-	(1)	2	(182)
Balance at the end of the year	8,615	17	43	15	8,690
Year ended 31 December 2019:					
Balance at the beginning of year	11,598	23	150	90	11,861
Additions	1,857	5	-	26	1,888
Disposals	-	-	(84)	-	(84)
Depreciation expense	(2,349)	(6)	(29)	(41)	(2,425)
Foreign exchange movements	(69)	(1)	1	-	(69)
Balance at the end of the year	11,037	21	38	75	11,171

16. Right-of-use assets

	2020 000's \$	2019 000's \$
Year ended 31 December 2020:		
Opening balance of the year	856	887
Amortisation	(49)	(31)
Ending balance of the year	807	856

17. Deferred tax assets

	2020 000's \$	2019 000's \$
Year ended 31 December 2020:		
Opening balance of the year	585	341
Charge to profit or loss	589	244
Exchange difference	(129)	-
Ending balance of the year	1,045	585



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

18. Trade and other payables

	2020 000's \$	2019 000's \$
CURRENT		
Trade payables	9,267	15,317
Deposits received in advance	13,175	13,102
Other payables	4,689	4,555
	<u>27,131</u>	<u>32,974</u>
NON-CURRENT		
Other payables*	<u>1,217</u>	<u>1,171</u>

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

*: The amount represented a loan payable of \$1,217,000 owing to Mr Chuandu Chen, a close family member of Mr Dong Chen (2019: \$1,171,000). The payable was unsecured, interest free and with a fixed terms of five years from May 2018.

19. Borrowings

	2020 000's \$	2019 000's \$
CURRENT		
Secured liabilities:		
Bank loans	24,454	28,439
NON-CURRENT		
Secured liabilities:		
Bank loans	994	1,023
Total borrowings	<u>25,448</u>	<u>29,462</u>

As at 31 December 2020 borrowings as secured by: (a) Machinery and equipment; (b) Guaranteed by Mr Dong Chen and his close family members; (c) Guaranteed provided by a third party.

Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

20. Lease

(a) Amounts recognised in the balance sheet

The balance sheet shows the amounts relating to the lease of its manufactory property at 31 December 2020 \$807,000 (2019: \$856,000), the lease liabilities were \$974,000.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amount relating to the lease of its property:

	2020 000's	2019 000's
	\$	\$
Depreciation expense of right-of-use assets	49	31
Interest expense on lease liabilities	73	73
Total amount recognised in profit or loss	<u>122</u>	<u>104</u>

(c) The Group's leasing activity and how these are accounted for

The group leases property for its manufacture factories. The lease agreement has a fixed term of 3 years with an extension option of further 2 years. The lease agreement does not impose any covenants.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments. Lease payments to be made under the extension option are also included in the measurement of liability.

The lease payments are discounted using the interest rate of a readily observable amortising loan rate. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the payment of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received

Right-of-use assets are depreciated over the lease term on a straight-line basis.

The Group does not have any short-term leases or low-value assets.

(d) Variable lease payments

The office lease agreement does not contain variable payment terms.

(e) Extension and termination option

Extension and termination options are included in the office lease agreement. They are used to maximise operational flexibility in terms of managing the office held in the group's operations. The extension and termination options held are exercisable only by the group and not by the lessor.

(f) Residual value guarantees

The group does not provide residual value guarantees in relating to its property lease.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

21. Issued capital

	2020 000's \$	2019 000's \$
Opening balance	16,743	16,743
Additions	401	-
Ending balance	17,144	16,743
	No. 101,000,000	No. 101,000,000
At the beginning/ending of the reporting period		

Ordinary Shares

Ordinary shares entitled the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Capital risk management

The Group's objectives when managing capital is to safeguard the ability to continue as a going concern, so that the group can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to achieve this objective, the Group seeks to maintain a capital structure that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There have been no other significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

22. Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities:

	2020 000's \$	2019 000's \$
Profit for the year	(10,282)	563
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	2,546	2,453
- loss on foreign exchange change	(77)	-
- loss on disposal of property, plant and equipment	-	46
- impairment of receivables	2,016	1,001
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	241	(467)
- (increase)/decrease in other assets	5,771	(5,423)
- (increase)/decrease in inventories	7,394	(1,768)
- increase/(decrease) in trade and other payables	(5,405)	6,374
- increase/(decrease) in other payables	795	3,168
Cash flows from operations	<u>2,999</u>	<u>5,947</u>

23. Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below:

- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Trade and other payables
- Fixed rate bank loans

The Board of Directors have overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.



The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Executive Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Mitigation strategies for specific risks faced are described below:

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day 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 manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

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 period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the consolidated statement of financial position due to the effect of discounting.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.



Trade receivables and contract assets

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group review includes external ratings, if they are available, financial statements, credit agency information and industry information. Credit limits are established for each customer and the utilisation of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

The key customers individually and the Group's other customers analysed by industry sector as well as a list of customers currently transacting on a prepayment basis or who have balances in excess of their credit limits.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which the customers operate.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties.

On a geographical basis, the Group has significant credit risk exposures in Australia, the Middle East, Europe and China given the location of its operations in those regions.

The following table details the Group's trade receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

	Gross amount	Past due and	Past due but not	Within initial trade
	000's	impaired	impaired	terms
	\$	\$	\$	\$
2020				
Trade receivables	17,102	3,116	5,036	8,866
Total	17,102	3,116	5,036	8,866
2019				
Trade receivables	17,287	1,371	7,911	8,005
Total	17,287	1,371	7,911	8,005

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in Chinese Reminbi and US Dollars.

To mitigate the Group's exposure to foreign currency risk, non-Australian Dollar cash flows are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies. The policy is to hedge between -% and -% of forecast foreign currency cash flows

Whilst these forward contracts are economic hedges of the cash flow risk, the Group does not apply hedge accounting to these transactions. The implications of this decision are that unrealised foreign exchange gains and losses are recognised in profit and loss in the period in which they occur.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

Forward exchange contracts are mainly entered into for significant long term foreign currency exposures that are not expected to be offset by other currency transactions.

In order to monitor the effectiveness of this policy, the Board receives a monthly report showing the settlement date of transactions denominated in non-Australian Dollar currencies and expected cash reserves in that currency.

Foreign currency denominated financial assets and liabilities, translated into Australian Dollars at the closing rate, are as follows:



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

	2020 000's \$	2019 000's \$
2020		
Nominal amounts		
Financial assets	21,939	26,281
Financial liabilities	(53,796)	(63,607)
	(31,857)	(37,326)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Renminbi – Australian Dollar exchange rate. There have been no changes in the assumptions calculating this sensitivity from prior years.

It assumes a +/- 8% change of the Australian Dollar / Renminbi exchange rate for the year ended 31 December 2020 (31 December 2019: 8%). These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

The year end rate is 5.0298 Renminbi.

The sensitivity analysis is based on the foreign currency financial instruments held at the reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates. If the Australian Dollar had strengthened and weakened against the Renminbi (31 December 2019: 8%) and 8% respectively then this would have had the following impact:

	2020		2019	
	+8%	-8%	+8%	-8%
RMB				
Net results	(821)	821	(42)	46
Equity	(821)	821	(42)	46

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

(ii) Interest rate risk

The Group is exposed to interest rate risk as funds are borrowed at fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

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 the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.



Kemao Industries Limited

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2020

	2020	2019
	000's	000's
	\$	\$
Fixed rate instruments		
Borrowings	25,448	29,462

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +2.00% and -2.00% (2019: +2.00%/-2.00%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions and economist reports.

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

	2020		2019	
	+2.00%	-2.00%	+2.00%	-2.00%
	\$	\$	\$	\$
Net results	(508,960)	508,960	(559,775)	559,775
Equity	(508,960)	508,960	(559,775)	559,775

24. Key management personnel

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the remuneration report within the Directors' Report. The aggregate compensation made to directors and other key management personnel of the Company and the Group is set out below:

	2020	2019
	000's	000's
	\$	\$
Short-term employee benefits	125	56
Post-employment benefits	-	-
	125	56



Kemao Industries Limited
Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2020

25. Auditors' remuneration

	2020 000's \$	2019 000's \$
Remuneration of the auditor MGI Perth Audit Services Pty Ltd, for:)		
- Auditing or reviewing the financial statements	18	7
- expenses	-	2
- other services	-	18
	18	27
Remuneration of other auditors of subsidiaries for:		
- auditing or reviewing the financial statements of subsidiaries	36	36
Total	54	63

26. Controlled entities

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2020	Percentage Owned (%)* 2019
Subsidiaries:			
Global Newmat Sdn. Bhd.	Malaysia	100	100
Jiangyin Fuke New Materials Co. Ltd.	China	100	100
Jiangsu Kemao New Materials Technology Co. Ltd.	China	100	100

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

27. Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 December 2020 (31 December 2019: None).

28. Related parties

(a) The Group's main related parties are subsidiaries within the group, directors, directors' close family members and companies controlled by directors.

(b) Loans from related parties

Refer to Note 18.

(c) Balances and transactions with related parties

At 31 December 2020, the Group had other receivable of \$3,102,000 from Jiangyin Fumao Textile Chemical Fibre Co., Limited, a company controlled by Mr Dong Chen and his close family members (2019: \$3,207,000).

At 31 December 2020, the Group had other receivable of \$70,000 from Jiangyin Hao Days Spirit Import and Export Trade Co., Ltd, a company controlled by Mr Dong Chen and his close family members (2019: \$96,000).

At 31 December 2020, the Group had other payable of \$60,000 to Mr Jianping Zhou (2019: \$239,000).

**Kemao Industries Limited****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

At 31 December 2020, in addition to the loan payable disclosed in note 18, the Group had payable of \$2,220,000 to Mr Chuandu Chen, a close family member of Mr Dong Chen (2019: \$2,465,000).

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred and balances with related parties:

	Sales 000's \$	Purchases 000's \$	Advances to/(from) 000's \$
For the year ended 31 December 2020:			
Jiangyin Fumao Textile Chemical Fibre Co., Limited	-	-	1,616
Jiangyin Hao Days Spirit Import and Export Trade Co., Ltd	-	-	2,299
Mr Dong Chen and his close family members	-	-	100
For the year ended 31 December 2019:			
Jiangyin Fumao Textile Chemical Fibre Co., Limited	-	18,805	2,307
Jiangyin Hao Days Spirit Import and Export Trade Co., Ltd	-	-	-
Mr Dong Chen and his close family members	-	-	(993)

**Kemao Industries Limited****Notes to the Consolidated Financial Statements****For the Year Ended 31 December 2020**

29. Parent entity

The following information has been extracted from the books and records of the parent, Kemao Industries Limited and has been prepared in accordance with Australian Accounting Standards. The financial information for the parent entity, Kemao Industries Limited has been prepared on the same basis as the consolidated financial statements.

	2020 000's \$	2019 000's \$
Consolidated Statement of Financial Position		
Assets		
Current assets	210	5,349
Non-current assets	<u>6,803</u>	<u>1</u>
Total Assets	<u>7,013</u>	<u>5,350</u>
Liabilities		
Current liabilities	<u>22</u>	<u>509</u>
Total Liabilities	<u>22</u>	<u>509</u>
Equity		
Issued capital	7,301	6,801
Retained earnings	<u>(310)</u>	<u>(1,960)</u>
Total Equity	<u>6,991</u>	<u>4,841</u>
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Revenue for the year	-	-
Total loss for the year	<u>(203)</u>	<u>(1,960)</u>
Total comprehensive expense for the year	<u>(203)</u>	<u>(1,960)</u>

30. Events occurring after reporting date

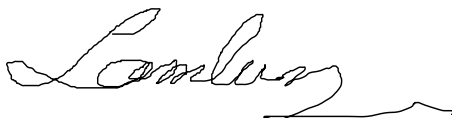
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations, the results of those operations, or the state of affairs of the Company in future financial years.

Directors' Declaration

The directors of the Company declare that:

1. The financial statements, comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash flows, Consolidated Statement of Changes in Equity and accompanying notes are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) giving a true and fair view of the financial position as at 31 December 2020 and of the performance for the year ended on that date of the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the Chief Executive Officer as required by section 295A of the *Corporations Act 2001*.
4. The consolidated entity has included in the notes to the financial statements an unreserved and explicit statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Director
Lam, Long Huy

Dated this 30th day of March 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEMAO INDUSTRIES LIMITED FOR THE YEAR ENDED 31 DECEMBER 2020

Report on the Audit of the Financial Report

Opinion

We have audited the accompanying financial report of Kemao Industries Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the consolidated entity comprising Kemao Industries Limited and the entities it controlled at the year's end or from time to time during the year.

In our opinion, the accompanying financial report of Kemao Industries Limited and its Controlled Entities, is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (c) the financial report also complies with the *International Financial Reporting Standards* as disclosed in Note 1.

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 Kemao Industries Limited in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kemao Industries Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Group incurred a net loss of \$10,282,000 during the year ended 31 December 2020, and, as of that date, the Group has accumulated losses of \$12,920,000 as a result of losses sustained over the years and its current liabilities exceeded its current assets by \$2,962,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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
<i>Audit Strategy for Overseas Operations</i>	
The Group's structure comprises largely of trading operations in China. Component auditors were engaged to audit Jiangsu Kemao New Materials Technology Co. Ltd. Co-ordination between ourselves as the lead auditors and the component auditors was crucial to ensuring the audit plan could be executed effectively and in a timely manner.	<p>Our procedures included, but were not limited to:</p> <p>Understanding the operations of trading subsidiaries, including their operating locations and the environment in which they operate.</p> <p>Engaging with component auditor to complete audit of the material operations located in China.</p> <p>Assessing whether the component auditor has sufficient skills and competence to conduct the audit of trading components within the Group.</p> <p>Providing detailed group audit instructions agreed with the component auditor to ensure alignment in our audit approach and to capture relevant information required for our audit of the Group.</p> <p>Perform a detailed review of the component auditors work papers to ensure appropriate audit procedures had been carried out and sufficient appropriate audit evidence had been obtained. Where any work was deemed deficient in this regard, we perform our own audit procedures to mitigate any deemed deficiencies.</p>

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Revenue Recognition</i></p> <p>The Group's main source of revenue is from the manufacture of tin and related products. Revenue recognition was identified as a key audit matter due to the significance of revenue to the financial report and the judgement required in assessing whether the adoption of AASB 15 Revenue from Contract with Customers has an impact on revenue recognition.</p>	<p>We assessed the accounting policy for revenue recognition for compliance with the accounting standards and performed testing to ensure that revenue had been accounted for in accordance with the accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with the accounting standards, and that revenue has been accounted for in accordance with the accounting policy.</p> <p>We performed substantive tests on revenue by tracing sales transactions through to relevant supporting documentation.</p> <p>Evaluated the occurrence of sales revenue by seeking direct confirmation from a number of the Group's customers.</p> <p>Performed analytical procedures on revenue, cost of sales and gross profit percentages both within the audit period and between years to identify trends and assess whether these are in accordance with our expectations and understanding of the Group.</p> <p>No material differences were identified.</p>

Other Information

The directors of Kemao Industries Limited are responsible for the other information. The other information comprises the information in the annual report for the year ended 31 December 2020, but does not include the financial report and the auditor's report thereon.

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 Kemao Industries Limited 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply with *International Financial Reporting Standards*.

In preparing the financial report, the directors are responsible for assessing the Company'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 Company 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: https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 7 to 10 of the directors' report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of Kemao Industries Limited for the year ended 31 December 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of Kemao Industries Limited 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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Kemao Industries Limited and Controlled Entities for the year ended 31 December 2020 included on Kemao Industries Limited's website. The directors of the Company are responsible for the integrity Kemao Industries Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Name of Firm:


MGI Perth Audit Services Pty Ltd

Chartered Accountants

Name of Auditor:



Clayton Lawrence

Address:

Level 1, 322 Hay Street, Subiaco, Western Australia

Dated this

31st day of March 2020

ADDITIONAL INFORMATION

SUBSTANTIAL SHAREHOLDERS

There were two substantial shareholders as at 23 April 2021:

- i. Dong Chen holds 55,130,00 ordinary shares, or 54.58% of the voting rights in the Company;
- ii. Fang Chen holds 10,000,000 ordinary shares, or 9.9% of the voting rights in the Company.

ISSUED SECURITIES

Quoted Securities NSX Code	Number of Holders	Security Description	Total Securities
KEM	151	Ordinary Fully Paid	101,000,000

VOTING RIGHTS

Shareholders are entitled to one vote for each share held. On a show of hands every shareholder present in person or by proxy shall have one vote and upon a poll, every shareholder so present shall have one vote for every share held.

DISTRIBUTION SCHEDULE

Spread of Holdings	Ordinary Shares (KEM)	units	%
1-1,000	-	-	-
1,001 – 5,000	1	2,900	0
5,001-10,000	5	46,290	0.05
10,001-100,000	91	5,650,110	5.59
Over 100,000	54	95,300,700	94.36
TOTAL HOLDERS	151	101,000,000	100%

UNMARKETABLE PARCELS

As at 23 April 2021 there were no shareholders holding less than a marketable parcel of shares.

BUY-BACK

There is no current on-market buy-back.

20 LARGEST SHAREHOLDERS

The names of the twenty largest shareholders (NSX Code: KEM) are listed below:

Name	Number of Ordinary Shares	% of Issued Securities
1. Dong Chen	55,130,000	54.58
2. Fang Chen	10,000,000	9.9
3. Jiangnan Xu	3,200,000	3.17
4. Kaifeng Gu	3,000,000	2.97
5. Jiang Jie	2,000,000	1.98
6. Huang Tian	1,800,000	1.78
7. Chunxiao Fan	1,550,000	1.53
8. Dehong Zhou	1,200,000	1.19
9. Jifa Xia	1,000,000	0.99
10. Wei Chen	1,000,000	0.99
11. Yan Lu	1,000,000	0.99
12. Jianding Zhou	1,000,000	0.99
13. Wenzhen Xu	1,000,000	0.99
14. Wei Xu	1,000,000	0.99
15. Qin Lu	800,000	0.79
16. Weiqing Jiang	600,000	0.59
17. Xuelong Wang	550,000	0.54
18. Jiangang Gu	500,000	0.50
19. Donghua Chen	500,000	0.50
20. Bo Yang	500,000	0.50
Total	87,330,000	86.47%