

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED

(Incorporated in Hong Kong with limited liability)

REPORTS AND FINANCIAL STATEMENTS
PERIOD FROM 1ST JANUARY 2019 TO 31ST OCTOBER 2019

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HONG KONG KELIXIN METAL MATERIALS CO. LIMITED

REPORT OF THE DIRECTOR

The director presents herewith his report and the financial statements for the period from 1st January 2019 to 31st October 2019.

1. FINANCIAL STATEMENTS

The results for the period are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 5.

The state of affairs of the company as at 31st October 2019 are set out in the Statement of Financial Position on page 6.

The changes in equity for the period are set out in the Statement of Changes in Equity on page 7.

The cash flows for the period are set out in the Statement of Cash Flows on pages 8 and 9.

2. PRINCIPAL ACTIVITY

The company was engaged in trading of metal materials.

3. SHARE CAPITAL

Details of share capital of the company are set out in Note 13 to the financial statements.

4. DIRECTOR

The director who held office during the period was:-

Lin Fensheng

The sole director continues in office.

5. DIRECTOR'S INTEREST IN CONTRACTS

Apart from the information disclosed in Note 16 on page 20, no contract of significance in relation to the company's business to which the company was a party, and in which any director had a material interest, subsisted at the end of the period or at any time during the period.

6. DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the company a party to any arrangements to enable the director of the company to acquire benefits by means of acquisition of shares in or debentures of the company or any other body corporate.

7. AUDITORS

Chee Chan & Co. retire and, being eligible, offer themselves for re-appointment.



Lin Fensheng
Sole Director

Date : 25 NOV 2019

CHEE CHAN & CO

Certified Public Accountants (Practising)

池陳會計師事務所

Eric Chee CA, CPA (Can.), CPA (Practising)

Francis Chan ACA, FCCA, CPA (Practising)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

1. We have audited the financial statements of HONG KONG KELIXIN METAL MATERIALS CO. LIMITED ("the Company") set out on pages 5 to 20, which comprise the Statement of Financial Position as at 31st October 2019, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the period from 1st January 2019 to 31st October 2019, and notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st October 2019, and of its financial performance and its cash flows for the period from 1st January 2019 to 31st October 2019 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with Hong Kong Companies Ordinance.

Basis for Opinion

3. We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditors' Report Thereon

4. The director is responsible for the other information. The other information comprises all information included in the annual report, but does not include the financial statements and our auditors' report thereon.
5. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
6. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 Director and Those Charged with Governance for the Financial Statements

7. The director is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the financial statements, the director is 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 director either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.
9. Those charged with governance are responsible for overseeing the Company's financial reporting process.

CHEE CHAN & CO

Certified Public Accountants (Practising)

池陳會計師事務所

Eric Chee CA, CPA (Can.), CPA (Practising)

Francis Chan ACA, FCCA, CPA (Practising)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF HONG KONG KELIXIN METAL MATERIALS CO. LIMITED

(Incorporated in Hong Kong with limited liability)

Auditors' Responsibilities for the Audit of the Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.
11. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 these financial statements.
12. As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the director.
 - Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Certified Public Accountants (Practising)
Hong Kong,

25 NOV 2019

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
PERIOD FROM 1ST JANUARY 2019 TO 31ST OCTOBER 2019

	Note	Period from 1.1.2019 to 31.10.2019 HK\$	Year Ended 31.12.2018 HK\$
TURNOVER	5	33,250,257	313,839,307
COST OF GOODS SOLD		<u>(32,986,366)</u>	<u>(311,614,540)</u>
GROSS PROFIT		263,891	2,224,767
OTHER REVENUE	6	161,311	63,685
ADMINISTRATIVE EXPENSES		(546,342)	(1,640,025)
OTHER OPERATING EXPENSES		<u>(2,100)</u>	<u>(2,927)</u>
OPERATING (LOSS) / PROFIT		(123,240)	645,500
FINANCE COSTS	7	<u>(683,652)</u>	<u>(565,863)</u>
(LOSS) / PROFIT BEFORE TAXATION	8	(806,892)	79,637
(TAX CREDIT) / TAXATION	9	<u>8,787</u>	<u>(1,377)</u>
(LOSS) / PROFIT AND TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD / YEAR		<u><u>(798,105)</u></u>	<u><u>78,260</u></u>

The notes on pages 10 to 20 form an integral part of these financial statements.

Independent Auditors' Report - Pages 3 and 4

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31ST OCTOBER 2019

		As at 31.10.2019	As at 31.12.2018
	Note	HK\$	HK\$
CURRENT ASSETS			
Deposits Paid		-	34,038,975
Accounts Receivable		9,099,088	1,269,088
Time Deposits		-	12,533,628
Cash and Cash Equivalents		31,488,665	1,417,790
		<u>40,587,753</u>	<u>49,259,481</u>
CURRENT LIABILITIES			
Due to a Director	11	41,192,924	13,787,924
Bills Payable		-	35,277,907
Accrued Charges		60,000	49,000
Taxation	12	1,377	13,093
		<u>41,254,301</u>	<u>49,127,924</u>
NET CURRENT (LIABILITIES) / ASSETS		<u>(666,548)</u>	<u>131,557</u>
NET (LIABILITIES) / ASSETS		<u>(666,548)</u>	<u>131,557</u>
CAPITAL AND RESERVES			
SHARE CAPITAL	13	1	1
(ACCUMULATED LOSSES) / RETAINED PROFITS		<u>(666,549)</u>	<u>131,556</u>
(CAPITAL DEFICIENCY) / TOTAL EQUITY		<u>(666,548)</u>	<u>131,557</u>

Approved by the Sole Director on

25 NOV 2019



Lin Fensheng

The notes on pages 10 to 20 form an integral part of these financial statements.

Independent Auditors' Report - Pages 3 and 4

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
STATEMENT OF CHANGES IN EQUITY
PERIOD FROM 1ST JANUARY 2019 TO 31ST OCTOBER 2019

	Share Capital HK\$	Retained Profits / (Accumulated Losses) HK\$	Total HK\$
Balance at 1st January 2018	1	53,296	53,297
Total comprehensive income for the year	<u>-</u>	<u>78,260</u>	<u>78,260</u>
Balance at 31st December 2018 and 1st January 2019	1	131,556	131,557
Total comprehensive loss for the period	<u>-</u>	<u>(798,105)</u>	<u>(798,105)</u>
Balance at 31st October 2019	<u><u>1</u></u>	<u><u>(666,549)</u></u>	<u><u>(666,548)</u></u>

The notes on pages 10 to 20 form an integral part of these financial statements.
Independent Auditors' Report - Pages 3 and 4

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
STATEMENT OF CASH FLOWS
PERIOD FROM 1ST JANUARY 2019 TO 31ST OCTOBER 2019

	Note	Period from 1.1.2019 to 31.10.2019 HK\$	Year Ended 31.12.2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Generated from / (Used in) Operations	(a)	18,077,188	(7,540,525)
Profit Tax Paid		(2,929)	-
Interest Paid		<u>(680,965)</u>	<u>(452,694)</u>
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES		17,393,294	(7,993,219)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received		143,953	12,859
Receipt of Time Deposits		12,533,628	-
Placement of Time Deposits		-	(12,533,628)
NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES		<u>12,677,581</u>	<u>(12,520,769)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		30,070,875	(20,513,988)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD / YEAR		<u>1,417,790</u>	<u>21,931,778</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD / YEAR		<u><u>31,488,665</u></u>	<u><u>1,417,790</u></u>

The notes on pages 10 to 20 form an integral part of these financial statements.
Independent Auditors' Report - Pages 3 and 4

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
STATEMENT OF CASH FLOWS
PERIOD FROM 1ST JANUARY 2019 TO 31ST OCTOBER 2019

NOTE TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of (Loss) / Profit before taxation to Net Cash Inflow Generated from / (Outflow Used in) Operations:-

	Period from 1.1.2019 to 31.10.2019 HK\$	Year Ended 31.12.2018 HK\$
(Loss) / Profit before taxation	(806,892)	79,637
Adjustments for:-		
- Interest Income	(143,953)	(12,859)
- Interest Expenses	<u>680,965</u>	<u>452,694</u>
Operating (Loss) / Profit before Working Capital Changes	(269,880)	519,472
Decrease in Deposit Paid	34,038,975	4,836,145
Increase in Accounts Receivable	(7,830,000)	(1,269,088)
Increase / (Decrease) in Amount Due to a Director	27,405,000	(25,420,800)
(Decrease) / Increase in Bills Payable	(35,277,907)	35,277,907
Decrease in Accounts Payable	-	(12,631,503)
Decrease in Deposit Received	-	(8,852,658)
Increase in Accrued Charges	<u>11,000</u>	<u>-</u>
Net Cash Inflow Generated from / (Outflow Used in) Operations	<u><u>18,077,188</u></u>	<u><u>(7,540,525)</u></u>

The notes on pages 10 to 20 form an integral part of these financial statements.
Independent Auditors' Report - Pages 3 and 4

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31ST OCTOBER 2019

1. GENERAL

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED (“the company”) is principally engaged in trading of metal materials.

The company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Beverly House, Nos. 93-107 Lockhart Road, Wanchai, Hong Kong.

2. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The company’s financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, that include Hong Kong Financial Reporting Standards and the requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies is set out in note 4.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs)

New and revised standards and interpretation issued and effective for the year

The following new and revised Standards and Interpretation have been issued and effective for the current financial year of the company.

<i>Standards or interpretation</i>	<i>Effective for annual periods commencing on or after</i>
HKFRS 16 - Leases	1 January 2019
Amendments to HKFRS 9 - Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 19 - Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKFRS 28 - Long-term interests in associates and joint ventures	1 January 2019
HK(IFRIC)-Int 23 - Uncertainty over Income Tax Treatment	1 January 2019
Annual improvements 2015 – 2017 cycle - Amendments to HKFRSs	1 January 2019

The application of these new and revised Standards and Interpretation has not had material impact on the amounts reported for the current and prior years.

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31ST OCTOBER 2019

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs) (CONT'D)

New and revised standards and interpretation in issue but not yet effective

<i>Standards or interpretation</i>	<i>Effective for annual periods commencing on or after</i>
HKFRS 17 - Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28 - Sale or contribution of assets between an investor and its associate or joint venture	To be confirmed
Conceptual Framework for Financial Reporting 2018 - Revised conceptual framework for financial reporting	1 January 2020

The company has not early adopted the above new and revised standards and interpretation and is not in a position to state whether substantial changes to the company's accounting policies and presentation of financial statements will result.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation of Financial Statements

The measurement basis used in preparing the financial statements is historical cost.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

(b) Impairment of Assets

Assets that have an indefinite useful life and not subject to amortisation, which are at least tested annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Related Parties

- (a) A person or a close member of that person's family is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has a significant influence over the company; or
 - (iii) is a member of key management personnel of the company or of the company's parent.
- (b) An entity is related to the company if any of the following conditions applies:
- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the company or an entity related to the company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(d) Trade and Other Receivables

Trade and other receivables are recognised when the company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the company has an unconditional right to receive consideration, the amount is presented as a contract asset.

(e) Financial Instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. 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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Financial Instruments (Cont'd)

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.

On initial recognition, the company classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using the effective interest method and net of any impairment loss, if:-

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are classified as measured at fair value, with all changes in fair value recognised in profit or loss, except as stated below.

For investments in equity instruments that are not held for trading, the company may elect at initial recognition, on an instrument by instrument basis, to present gains and losses in other comprehensive income (“OCI”). For such investments measured at FVTOCI, gains and losses are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss (“FVTPL”) and FVTOCI, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Financial Instruments (cont'd)

Financial assets (cont'd)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade debtors, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, loans receivable and amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

HONG KONG KELIXIN METAL MATERIALS CO. LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31ST OCTOBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Financial Instruments (cont'd)

Financial liabilities and equity instruments (cont'd)

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The company 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.

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

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

(f) Loss allowances for expected credit losses

The company recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the company measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, contract assets and lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables, contract assets and lease receivables) has not increased significantly since initial recognition, the company measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

(g) Cash and Cash Equivalents

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

For the purpose of the statement of cash flows, bank overdrafts which are repayable on demand form an integral part of the company's cash management are included as a component of cash and cash equivalents.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(h) Trade and Other Payables

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

(i) Income Tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognized directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

(j) Revenue Recognition

Income is classified by the company as revenue when it arises from the sale of goods, the provision of services or the use by others of the company's assets under leases in the ordinary course of the company's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the company, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. Revenue is recognised as follows:

- (i) sale of goods - the company recognises the revenue at the time point when the control over the relevant goods are passed to the customers.
- (ii) interest income - using the effective interest method.

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NOTES TO THE FINANCIAL STATEMENTS – 31ST OCTOBER 2019

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Foreign Currency Translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. At each reporting date, monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair value was determined. Exchange gains and losses are recognised in profit or loss.

(l) Employee Benefit

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

5. TURNOVER

Turnover represents the value of goods sold to customers.

6. OTHER REVENUE

	Period from 1.1.2019 to 31.10.2019 HK\$	Year Ended 31.12.2018 HK\$
Exchange gains, net	17,358	50,826
Interest income	<u>149,953</u>	<u>12,859</u>
	<u>161,311</u>	<u>63,685</u>

7. FINANCE COSTS

	Period from 1.1.2019 to 31.10.2019 HK\$	Year Ended 31.12.2018 HK\$
Bank charges	2,687	113,169
Loan interest	<u>680,965</u>	<u>452,694</u>
	<u>683,652</u>	<u>565,863</u>

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8. (LOSS) / PROFIT BEFORE TAXATION

	Period from 1.1.2019 to <u>31.10.2019</u> HK\$	Year Ended <u>31.12.2018</u> HK\$
(Loss) / Profit before taxation is arrived at:-		
After crediting the following item:		
Exchange gains, net	17,358	50,826
And after charging the following item:		
Auditors' remuneration		
- Current year	60,000	45,000
- Underprovision of pervious year	<u>15,000</u>	<u>-</u>
	75,000	45,000
Staff costs:		
- Wages and salaries	-	560,000

9. (TAX CREDIT) / TAXATION

- (a) Hong Kong Profits Tax has been provided at the rate of 8.25% (2018: 8.25%) on the estimated assessable profits for the period / year.

	Period from 1.1.2019 to <u>31.10.2019</u> HK\$	Year Ended <u>31.12.2018</u> HK\$
Hong Kong Profits Tax		
- Current	-	1,377
- Overprovision in previous year	<u>(8,787)</u>	<u>-</u>
	<u>(8,787)</u>	<u>1,377</u>

- (b) Reconciliation between income tax expense and accounting (loss) / profit at applicable tax rates:

	Period from 1.1.2019 to <u>31.10.2019</u> HK\$	Year Ended <u>31.12.2018</u> HK\$
(Loss) / Profit before taxation	<u>(806,892)</u>	<u>79,637</u>
Notional tax on profit before taxation (Note)	(66,568)	6,570
Tax reduction	-	(4,132)
Tax effect on non-taxable revenue	(1,019)	(1,061)
Tax effect of unused tax losses not recognised	67,587	-
Overprovision for previous year	<u>(8,787)</u>	<u>-</u>
	<u>(8,787)</u>	<u>1,377</u>

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9. TAXATION (CONT'D)

Note: For the period ended 31st October 2019 and year ended 31st December 2018, the notional tax is calculated in accordance with the two-tiered profits tax rate regime under which tax on the first HK\$2 million of profits is calculated at 8.25% and tax on the remaining profits is calculated at 16.5%.

10. DIRECTOR'S REMUNERATION

Director's remuneration disclosed pursuant to Section 383(1)(a) to of the Hong Kong Companies Ordinance is as follows:-

	Period from 1.1.2019 to 31.10.2019 HK\$	Year Ended 31.12.2018 HK\$
Salaries and allowances	<u> -</u>	<u> 420,000</u>

11. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and has no fixed term of repayment.

12. TAXATION

Hong Kong taxation represents the amount provided at the rate of 8.25% on the estimated assessable profits for the previous year.

13. SHARE CAPITAL

	As at 31.10.2019		As at 31.12.2018	
	No. of share	HK\$	No. of share	HK\$
Ordinary share, issued and fully paid At 31st October / December	<u> 1</u>	<u> 1</u>	<u> 1</u>	<u> 1</u>

14. CAPITAL DISCLOSURE

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide return for shareholder and benefits for other stakeholders, and to provide an adequate return to shareholder.

The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the period of 2019 and year of 2018.

15. FINANCIAL RISK MANAGEMENT

The company is exposed to credit risk, liquidity risk and market risk arising in the normal course of its business and financial instruments. The company's risk management objectives, policies and processes and position by closely monitoring the individual exposure as follows:-

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15. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit Risk

At 31st October 2019, the company's credit risk is primarily attributable to accounts receivable and cash and cash equivalents. The company's maximum exposure to credit risk which will cause a financial loss to the company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The director considers the credit risk of the company's accounts receivable and cash and cash equivalents are relatively low as they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term.

The company deposited its bank balances with reputable bank. Bankruptcy or insolvency of the bank may cause the company's right with respect to bank balances held to be delayed or limited. The director of the company monitors the credit rating of the bank on an ongoing basis, and considers that the company's exposure to credit risk at 31 October 2019 and 31st December 2018 were minimal. The company does not have any other significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

(b) Liquidity Risk

The company is exposed to liquidity risk on financial liabilities. It manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

(c) Market Risk

Currency Risk

The company purchases and sells in various foreign currencies, mainly US dollars and Renminbi, that exposes it to foreign currency risk arising from such purchases and sales and the resulting receivables and the payables. The company closely and continuously monitors the exposure as follow:

- Since HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

16. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the company had the following material related party transactions during the period / year:-

	Period from 1.1.2019 to <u>31.10.2019</u> HK\$	Year Ended <u>31.12.2018</u> HK\$
Goods purchased from a related company	-	32,760,720
Goods sold to a related company	33,250,257	280,938,246

All the transactions with related party were negotiated at arm-length basis and in accordance with common commercial terms in the same manner as other external customers and suppliers.