

LMW Textile Machinery (Suzhou) Co., Ltd.

AUDIT REPORT

HUARUISHENZI [2018]NO. 101050

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD

FINANCIAL STATEMENTS AND

AUDITOR'S REPORT

FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018

[English Translation for Reference Only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

Auditor's Report

[English Translation for Reference Only]

HUARUISHENZI [2018]NO. 101050

The shareholders of LMW Textile Machinery (Suzhou) Co., Ltd. ("the Company")

We have audited the accompanying financial statements of LMW Textile Machinery (Suzhou) Co., Ltd, which comprise the balance sheet as at March 31, 2018, and the income statement, cash flow statement for the period from April 1, 2017 to March 31, 2018, and a summary of significant accounting policies and other explanatory notes.

1. Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes: (1)prepare and fairly present the financial statements in accordance with Enterprise accounting standards and Enterprise accounting regulations. (2) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

2. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Certified Public Accountants Standards on Auditing. Those standards require that we comply with CPA's ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

3. Audit Opinion

In our opinion, in all material respects, the financial statements have been prepared in accordance with Enterprise accounting standards and Enterprise accounting regulations. And fairly present the financial position of LMW Textile Machinery (Suzhou) Co., Ltd as of March 31, 2018, and its financial performance and its cash flows for the period from April 1, 2017 to March 31, 2018.

Materials included:

1. The Company's financial report as of March 31, 2018.
2. Notes to the financial report as of March 31, 2018.



China Suzhou

CICPA 
CICPA 
杨胜远
320580000014
320580000014
April 18th, 2018

LMW Textile Machinery (Suzhou) Co., Ltd.

Balance Sheet

2017/4/1 To '2018/03/31

RMB (Yuan)

<u>Assets</u>	<u>Notes</u>	<u>2018/03/31</u>	<u>2017/03/31</u>
Current Assets:			
Cash at bank and in hand	6.1	59,520,073.40	31,321,789.03
Allowance receivable			
Notes receivable	6.2	200,000.00	13,000,000.00
Accounts receivable	6.3	6,992,812.47	6,289,666.71
Advances to suppliers	6.4	3,507,791.29	2,101,038.88
Other receivables		52,459.68	48,664.21
Inventory	6.5	38,523,532.16	34,331,447.09
Deferred expenses		0.00	0.00
Other current assets		97,395.00	287,873.50
Total current assets		<u>108,894,064.00</u>	<u>87,380,479.42</u>
Long-term investment			
Long-term share investment		0.00	0.00
Long-term debt investment		0.00	0.00
Total Long-term investment		<u>0.00</u>	<u>0.00</u>
Fixed assets:			
Original cost	6.6	71,986,744.92	71,557,645.83
Less: Accumulated depreciation	6.6	20,285,488.43	15,236,263.09
Fixed assets-net value	6.6	51,701,256.49	56,321,382.74
Construction in progress		0.00	0.00
Total fixed assets		<u>51,701,256.49</u>	<u>56,321,382.74</u>
Intangible assets and other assets			
Intangible assets	6.7	5,130,192.84	5,244,621.00
Long-term prepaid expenses		12,308.40	20,087.03
Other assets			
Total intangible assets and other assets		<u>5,142,501.24</u>	<u>5,264,708.03</u>
Total assets		<u>165,737,821.73</u>	<u>148,966,570.19</u>

Notes to the financial report is included in the financial reports

Enterprise Person in charge: MUTHULINGAM SANKAR Chief accountant: Xu Chunlan

LMW Textile Machinery (Suzhou) Co., Ltd.

Balance Sheet

2017/4/1 To '2018/03/31

RMB (Yuan)

<u>Liabilities and owner's equity</u>	<u>Notes</u>	<u>2018/03/31</u>	<u>2017/03/31</u>
Current liabilities:			
short-term loan		0.00	0.00
Bills payable	6.8	1,934,854.47	8,763,043.83
accounts payable	6.9	35,142,058.72	36,326,975.89
Advance receipts	6.10	23,717,299.73	8,005,716.64
Accrued payroll		1,842,265.10	1,579,766.72
Taxes payable	6.11	-1,347,147.53	-734,040.22
Other payables		38,032.99	77,130.88
Unpaid interest		25,591.44	0.00
Deferred income	6.12	4,792,631.76	2,505,641.64
Other current liabilities	6.13	6,772,730.56	5,578,460.81
Non-current liabilities due within one year		0.00	0.00
Total current liabilities		<u>72,918,317.24</u>	<u>62,102,696.19</u>
Long-term liabilities:			
Long term loan	6.14	2,850,000.00	0.00
Long-term payables		0.00	0.00
Total long-term liabilities		<u>2,850,000.00</u>	<u>0.00</u>
Total liabilities		<u>75,768,317.24</u>	<u>62,102,696.19</u>
Owner's equity:			
Paid-in capital	6.15	80,494,171.89	80,494,171.89
Capital surplus		877.65	877.65
Earned surplus		0.00	0.00
Undistributed profit	6.16	9,474,454.95	6,368,824.46
Total owner's equity		<u>89,969,504.49</u>	<u>86,863,874.00</u>
Total liabilities and owner's equity		<u>165,737,821.73</u>	<u>148,966,570.19</u>



Notes to the financial report is included in the financial reports

Enterprise Person in charge: MUTHULINGAM SANKAR Chief accountant: Xu Chunlan

LMW Textile Machinery (Suzhou) Co., Ltd.

Income statement and profit appropriation

2017-04-01 To 2018-03-31

RMB (Yuan)

<u>Items</u>	<u>Notes</u>	<u>2017-04-01 To 2018-03-31</u>	<u>2016-04-01 To 2017-03-31</u>
Operating Revenue	6.17	<u>153,158,047.46</u>	<u>89,533,789.13</u>
Less: Cost of operations	6.18	134,708,888.07	79,313,897.65
Sales tax and additionals		235,111.86	0.00
Operation expenses	6.19	7,453,136.64	5,245,682.74
Administrative expenses	6.20	10,580,100.26	9,297,763.49
Finance expenses	6.21	-2,920,394.59	1,404,566.26
Asset impairment loss		0.00	0.00
Add: Investment income		0.00	0.00
Asset disposal income		0.00	0.00
Other income		0.00	0.00
Operating income		<u>3,101,205.22</u>	<u>-5,728,121.01</u>
Add: Non-operating income		54,425.27	167,876.89
Less: Non-operating expenses		50,000.00	3,514.12
Income before tax		<u>3,105,630.49</u>	<u>-5,563,758.24</u>
Less: Income taxes		0.00	0.00
Net income		<u>3,105,630.49</u>	<u>-5,563,758.24</u>
Net profit from continuing operations		0.00	0.00
Termination of operating net profit		0.00	0.00
Profit distribution		<u>3,105,630.49</u>	<u>-5,563,758.24</u>
Add: Undistributed profit at Beg. of year/(accumulated deficit)		6,368,824.46	12,265,085.19
Profit that can be distributed		<u>9,474,454.95</u>	<u>6,701,326.95</u>
Less: Earned surplus		0.00	0.00
Previous year profit and loss adjustment		0.00	332,502.49
Profit that can be distributed to shareholders		<u>9,474,454.95</u>	<u>6,368,824.46</u>
Less: Distributed profit		0.00	0.00
Undistributed profit at end of period		<u>9,474,454.95</u>	<u>6,368,824.46</u>

Notes to the financial report is included in the financial reports

LMW Textile Machinery (Suzhou) Co., Ltd.

Cash Flow Statement

2017-04-01 To 2018-03-31

RMB (Yuan)

<u>Items</u>	<u>2017-04-01 To 2018-03-31</u>	<u>2016-04-01 To 2017-03-31</u>
1. Cash flow from operating activities		
Cash received from sales of goods or rendering services	194,658,415.37	138,808,159.17
Cash received from tax return	5,943,741.12	2,333,377.25
Other cash received from operating activities	400,569.09	981,890.46
Sub-total of cash inflows	<u>201,002,725.58</u>	<u>142,123,426.88</u>
Cash paid for goods and services	150,948,175.90	110,952,633.60
Cash paid to and on behalf of employees	13,571,731.75	11,692,010.68
Taxes paid	3,986,981.60	1,333,211.10
Other cash paid relating to operating	5,718,800.58	2,644,618.96
Sub-total of cash outflows	<u>174,225,689.83</u>	<u>126,622,474.34</u>
Net cash flows from operating activities	<u>26,777,035.75</u>	<u>15,500,952.54</u>
2. Cash from investment activities		
Cash received from recovering investment	0.00	0.00
Cash received from investment income	0.00	0.00
Cash received from disposal of fixed assets	0.00	0.00
Other cash received from investment	0.00	0.00
Sub-total of cash inflows	<u>0.00</u>	<u>0.00</u>
Cash paid to acquire fixed assets and intangible assets	1,319,644.80	2,421,725.47
Cash paid to investment	0.00	0.00
Other cash paid to investment	0.00	0.00
Sub-total cash outflows	<u>1,319,644.80</u>	<u>2,421,725.47</u>
Net cash flows from investment activities	<u>-1,319,644.80</u>	<u>-2,421,725.47</u>
3. Cash from financing activities		
Cash received from absorbing investment	0.00	0.00
Proceeds from loans	2,850,000.00	0.00
Other cash received from financing activities	0.00	0.00
Sub-total of cash inflows	<u>2,850,000.00</u>	<u>0.00</u>
Cash repayments of amounts borrowed	0.00	0.00
Cash payments of interests payment	109,106.58	42,775.00
Other cash payments from financing activities	0.00	0.00
Sub-total of cash outflows	<u>109,106.58</u>	<u>42,775.00</u>
Net cash flows from financing activities	<u>2,740,893.42</u>	<u>-42,775.00</u>
4. Effect of foreign exchange rate changes	0.00	0.00
5. Net increases in cash and cash equivalent	<u>28,198,284.37</u>	<u>13,036,452.07</u>



Notes to the financial report is included in the financial reports

Enterprise

Person in charge: MUTHULINGAM SANKAR

Chief accountant: Xu Chunlan

LMW Textile Machinery (Suzhou) Co., Ltd.

Cash Flow Statement

2017-04-01 To 2018-03-31

RMB (Yuan)

<u>Items</u>	<u>2017-04-01 To 2018-03-31</u>	<u>2016-04-01 To 2017-03-31</u>
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	3,105,630.49	-5,563,758.24
Add: Preparation of losses on asset	0.00	0.00
Depreciation of fixed assets	5,049,225.34	5,035,080.98
Amortization of intangible assets	114,428.16	114,428.16
Amortization of long-term prepaid expenses	7,778.63	31,556.50
Decrease in prepaid expenses (less increase)	190,478.50	-122,399.68
Increase in accrued expenses (less decrease)	3,481,259.87	1,879,265.09
Loss on disposal of fixed assets (less gain)	0.00	0.00
Loss on discard of fixed assets as worthless (less gain)	0.00	0.00
Financial expenses	109,106.58	42,775.00
Loss on investment (less: gain)	0.00	0.00
Credit of deferred taxes (less: debt)	0.00	0.00
Decrease in inventory (less increase)	-4,192,085.07	718,547.49
Decrease in operating receivable (less increase)	10,686,306.36	41,890,118.66
Increase in operating payable (less decrease)	8,224,906.89	-28,524,661.42
Others	0.00	0.00
Net cash flows operating activities	<u>26,777,035.75</u>	<u>15,500,952.54</u>
2. Investment and financing activities that do not involve in cash receipts /payments		
Liabilities into capital	0.00	0.00
Convertible bond within one year	0.00	0.00
Fixed asset leased by financing	0.00	0.00
3. Net increase in cash and cash equivalence		
Cash at end of period	59,520,073.40	31,321,789.03
Less: Cash at beg. of year	31,321,789.03	18,285,336.96
Add: Cash equivalence at end of period	0.00	0.00
Less: Cash equivalence at beg. of year	0.00	0.00
Net increase in cash and cash equivalence	<u>28,198,284.37</u>	<u>13,036,452.07</u>

Notes to the financial report is included in the financial reports

Enterprise

Person in charge: MUTHULINGAM SANKAR

Chief accountant: Xu Chunlan

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
(All amounts are stated in RMB Yuan unless otherwise stated)

1. CORPORATE INFORMATION

LMW Textile Machinery (SUZHOU) Co., Ltd. ("the Company") is a wholly foreign owned enterprise located in Wujiang Economic Development Park. The Company was allowed to establish by Foreign Economic & Trade Cooperation Bureau (Wu Wai Jing Zi Zi [2008] No.796), and was set up on September 4, 2008. The Company obtained an approval certificate (Shang Wai Zi Su Fu Zi Zi 【2008】 78475 from Jiangsu Province, obtained the business license (No.320584400014650) from Wujiang Administration Bureau for Industry and Commerce. Address: South of Ye Gang Road, West of Guang Ming Road, Wujiang Economic Development Zone. Legal representative: MUTHULINGAM SANKAR. The total investment of the Company is USD 29,000,000, the registered capital is USD 12,500,000, and the business duration is 50 years. The Company's approved scope of business includes: research, development and manufacturing of new-type textile machinery and key components; sales of the self manufactured product and providing installation, commissioning and repairing of the above mentioned product and related technical and after sales service. Engagement in the wholesale and import/export of similar products of the above category (If the products are not involved in state management, but subject to export licensing and quota control, the matter shall be handled in accordance with the relevant regulations).

In November 2016, after three in one the business license number changed to a unified social credit Code: 91320509679801831M.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Financial Statements are prepared on the basis of going-concern assumption and actual transactions, in accordance with Enterprise Accounting Regulations and its supplementary provisions. Financial Statements have to be prepared based on the following policies and regulations

3. DECLARE TO OBEY ACCOUNTING STANDARD AND REGULATIONS

The financial statements prepared by the company present accurately, fairly, completely in all material respects of financial, business and cash flow conditions and in accordance with Enterprise Accounting Standard (Accounting Regulation).

4. PRINCIPAL ACCOUNTING POLICIES

The company uses the Accounting Standards for Enterprises and Accounting Regulations of the People's Republic of China for Enterprises. The following accounting policies are based on the two regulations.

(4.1) Accounting Period

Current reporting period is from April 1st. 2017 to March 31st , 2018.

(4.2) Reporting currency

The Company uses the Renminbi ('RMB') as reporting currency.

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
(All amounts are stated in RMB Yuan unless otherwise stated)

(4.3) Accounting basis and measurement basis

The Company uses the accrual method as its basis of accounting. Assets are initially recorded at their acquired costs.

(4.4) Foreign currency translations

Transactions denominated in foreign currencies are translated into Renminbi at the official exchange rates stipulated by the People's Bank of China prevailing at the first day of the month when transactions take place. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the official exchange rates at the balance sheet date. Exchange differences arising from these translations are expensed as the profit and loss of foreign currency translation.

(4.5) Doubtable account

The company directly cancels the doubtable account after verification

(4.6) Cash equivalent

(4.6.1) Cash refers to cash in hand and those that can be used to pay at any time.

(4.6.2) Cash equivalent are short-term (3 months from bought date) highly liquid investments that are readily convertible into known amount of cash, and that are subject to an insignificant risk of changes in value.

(4.7) Inventories

(4.7.1) Inventories include raw materials, semi-finished goods, finished goods, unfinished goods, consigning process goods, low-value consumables, packing materials and so on.

(4.7.2) Inventories are recorded according to the following principles: Inventories that acquired are presented at actual cost. Cost is accounted for using the weighted average method when issued.

(4.7.3) The low-value consumables should be amortized once when it is used by the company. The cost of it should be amortized within several years when the amount is large.

(4.7.4) The inventory examination system adopts the everlasting inventory system.

(4.8) Fixed Assets and Depreciation

(4.8.1) Fixed assets refer to the assets that the useful life is over one year, including buildings and constructions, machines and mechanical equipments, transportation facilities, other equipments, instruments and tools.

(4.8.2) Fixed asset include buildings, Machinery equipments, Vehicles, Electric device and other equipments.

(4.8.3) Fixed assets are recorded at its cost. The cost contains purchasing price and the expenses that will enable the asset in use. The maintaining expenses that occurred after the fixed assets were devoted into the Company should be recorded as the expenses; the significant improvement and renovation expenditure that would bring into the economical benefit should be capitalized to the asset.

(4.8.4) Fixed assets are depreciated using the straight-line method over their estimated useful life after deducting the reasonable residual value. The classification and applicable useful life of fixed assets are as follows:

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
 (All amounts are stated in RMB Yuan unless otherwise stated)

Items	Estimated useful life	Annual depreciation rate
Buildings	20 years	4.95%
Machinery equipment	10 years	9%
Vehicles	4-5 years	18%-22.5%
Office equipment	5 years	18%
Other equipment	5 years	18%~20%

(4.9) Construction in progress

Construction in progress records the fixed assets or other capitalized expenditure that to be built, fixed or prepared for a period to reach the working condition of the asset construction, asset installment and asset preparation. Cost of construction in progress includes all direct expenditures incurred for construction projects, and other related expenses. Construction in progress is transferred to fixed assets when it has reached the working condition for its intended use.

(4.10) Intangible assets

Intangible assets refer to assets that is purchased or acquired by applying through legal process. It is recorded at the actual payment (including commission charge, lawyer fee, registration charge and other related charges). Intangible assets from investment are recorded according to the contract or the evaluating price.

Intangible assets are amortized by straight line method within their useful life. Like Land Use Right should be amortized within 50 years.

(4.11) Long-term prepaid expenses

It refers to the expenses that have occurred, and should be undertaken in current and later period that the amortization period is over 1 year, which includes the improvement expenditure for the fixed assets rented by operating lease method. The long-term prepaid expenses are amortized averagely within the revenue period relating to relevant items. The software expense of the Company is amortized within 2 years.

(4.12) Borrowing cost recognize and measurement

(4.12.1) Principles for capitalization

Borrowing cost should be capitalized when they can be directly attributable to the cost of assets under acquisition or production. Other borrowing cost need to be expensed at its cost when it happens. Assets like available-for-sale assets, investment property and inventor that can be capitalized need to experience a long period of construction or production to reach usable or sale condition.

(4.12.2) Accounting treatment

(1) Cost begin to be capitalized when meet following conditions: 1) cost of assets incurred; 2) borrowing expense incurred; 3) construction and production to take the assets to use and sale condition already happen.

(2) Capitalization suspension: If qualified assets are suspended during construction or production and the suspension period is over 3 months, capitalization process needs to be suspended too. Cost during the suspension period is expensed until construction and production start again.

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
(All amounts are stated in RMB Yuan unless otherwise stated)

(3) Cessation of capitalization: when assets reach their use and sale condition, capitalization can be ceased.

(4.12.3) Amount of capitalization

The amount which is Interest expense of borrowing cost less interest income of unused loan or income from investing the unused amount need to be capitalized. General borrowing used for the acquisition and construction or production of assets eligible for capitalization of assets, according to accumulated cost of assets minus cost of assets weighted average especially for borrowing cost and then multiplied by the capitalization rate occupying the general borrowing (weighted average interest rate of the general borrowing), the amount of interest should be capitalized. Translation differences need to be capitalized. Other expenses for special borrowing relating to the borrowing also need to be capitalized before their usable and sale condition. After the condition, expenses should be recognized in profit or loss. Expenses relate to normal borrowing should be expensed once happened.

(4.13) Revenue recognition

(4.13.1) Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefits associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

(4.13.2) Revenue from the service (except long-term contract) is recorded as the percentage of the finished service. When the economic benefits associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably, the revenue from the service can be recognized.

(4.13.3) Revenue from supplying other parties with intangible assets should be recorded according to the contract.

(4.14) Income tax

The Company applies tax payable method to recognize income tax.

5. ILLUSTRATION OF SIGNIFICANTS PRIOR PERIOD ERRORS CORRECTION AND CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATE

The company does not have any major early stage errors correction and changes in accounting policies and accounting estimate that need to be disclosed.

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
 (All amounts are stated in RMB Yuan unless otherwise stated)

6. NOTES TO FINANCIAL STATEMENTS

(6.1) MONETARY ASSETS

	2018-03-31	2017-03-31
Cash on hand	19,289.03	6,067.30
Cash in banks	59,500,784.37	31,315,721.73
Other monetary assets	--	--
Total	59,520,073.40	31,321,789.03

(6.2) NOTES RECEIVABLE

	2018-03-31	2017-03-31
Bank notes	200,000.00	13,000,000.00



The balances mainly include:

Name of the Company	End. Balance	Nature
Chaohu Youngor Colour Spinning Technology Co., LTD	200,000.00	sale

(6.3) ACCOUNTS RECEIVABLE

	2018-03-31	2017-03-31
Accounts receivable	6,992,812.47	6,289,666.71
Less: provisions for bad debts	--	-
Total:	6,992,812.47	6,289,666.71

AGEING Analysis:

	2018-03-31		2017-03-31	
	Carrying Amount	Provision for bad debts % Amount	Carrying Amount	Provision for bad debts % Amount
Within 1 year	6,992,812.47	- -	6,289,666.71	- -
1~2 years	--	- -	--	- -
Total	6,992,812.47	- -	6,289,666.71	- -

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
 (All amounts are stated in RMB Yuan unless otherwise stated)

Accounts balance of accounts receivable includes:

Name	Accounts balance	Nature
Bros Macao Commercial Offshore Services Ltd.	6,943,199.61	SALE

As of March 31, 2018, the management of the Company doesn't think there are any unrecoverable accounts in the receivables.

(6.4) ADVANCE TO SUPPLIERS

	2018-03-31	2017-03-31
	3,507,791.29	2,101,038.88

The advance to suppliers mainly includes:

Suppliers	End balance	Nature
Wuxi Machine Tool Company Limited	855,900.00	Sale
Wujiang Custom	1,731,474.94	Custom duty

(6.5) INVENTORIES

	2018-03-31	2017-03-31
Raw materials	20,535,862.15	16,941,707.95
WIP & self-manufactured goods	9,990,327.26	7,286,988.00
Finished goods	7,997,342.75	10,102,751.14
Less: provisions for inventory impairment	- -	- -
Total	38,523,532.16	34,331,447.09

As of March 31, 2018, the management of the Company doesn't think there has any evidence indicating a possible impairment of inventories.

LMW TEXTILE MACHINERY (SUZHOU) CO., LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 1, 2017 to MARCH 31, 2018
(All amounts are stated in RMB Yuan unless otherwise stated)

(6.6) FIXED ASSETS

Original Value	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Vehicle</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Total</u>
2017-03-31	50,790,877.93	10,797,498.63	508,689.65	3,337,189.96	6,123,389.66	71,557,645.83
Increase	--	2,527,271.79	182,779.93	--	492,157.14	3,202,208.86
Decrease	--	--	--	--	2,773,109.77	2,773,109.77
2018-03-31	50,790,877.93	13,324,770.42	691,469.58	3,337,189.96	3,842,437.03	71,986,744.92
Accumulated Depreciation						
2017-03-31	5,656,834.01	4,668,149.88	377,461.77	1,828,423.26	2,705,394.17	15,236,263.09
Increase	2,514,148.45	1,572,328.67	44,364.04	507,356.37	411,027.81	5,049,225.34
Decrease	--	--	--	--	--	--
2018-03-31	8,170,982.46	6,240,478.55	421,825.81	2,335,779.63	3,116,421.98	20,285,488.43
Net Value						
2017-03-31	45,134,043.92	6,129,348.75	131,227.88	1,508,766.70	3,417,995.49	56,321,382.74
2018-03-31	42,619,895.47	7,084,291.87	269,643.77	1,001,410.33	726,015.05	51,701,256.49

As of March 31, 2018, the management of the Company doesn't think there has any evidence indicating a possible impairment of fixed assets.

(6.7) INTANGIBLE ASSETS

	2018-03-31	2017-03-31
Beginning of year	5,244,621.00	5,359,049.16
Add: Increase this year	--	--
Less: Carry forward this year	--	--
Amortize this year	114,428.16	114,428.16
Net balance at the end of year	5,130,192.84	5,244,621.00

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Balance mainly include :

Item	Original value	Useful life	Beg. Bal.	Increase	Decrease	End. Bal.
Land use right	5,721,408.00	50	5,244,621.00	--	114,428.16	5,130,192.84
Total	5,721,408.00	--	5,244,621.00	--	114,428.16	5,130,192.84

(6.8) NOTES PAYABLE

	2018-03-31	2017-03-31
Bank notes	1,934,854.47	8,763,043.83

Balance mainly include :

Name	End Balance	Nature
Suzhou Jiema Trade Co., Ltd.	661,088.14	Purchase
Suzhou Huazhu Wood Industry Co., Ltd.	200,850.86	Purchase
Maanshan Wanxin Casting Co., Ltd.	200,939.46	Purchase

(6.9) ACCOUNTS PAYABLE

2018-03-31	2017-03-31
35,142,058.72	36,326,975.89

Accounts balance of accounts payable includes:

Name of the Company	Accounts Balance	Nature
LAKSHMI MACHINE WORKS LIMITED	16,786,574.53	Material
Wujiang Ruien Precision Machinery Co., Ltd..	1,792,098.12	Material
Xinchang County Shengsheng Transmission Parts Co., Ltd.	1,536,175.95	Material

(6.10) ADVANCE FROM CUSTOMERS

2018-03-31	2017-03-31
23,717,299.73	8,005,716.64

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Accounts balance of advance from customers includes:

Name of the Company	Accounts Balance	Nature
Bros Macau Offshore Commercial Services Co., Ltd.	8,203,950.00	Advance on sales
Jiangyin Longxi Yarn Industry Co., Ltd..	4,700,000.00	Advance on sales
Xinjiang Ruize Textile Co., Ltd.	2,192,954.66	Advance on sales
Zaoyang Wantong Cotton Spinning Industry Co., Ltd.	2,550,134.40	Advance on sales

(6.11) TAXES PAYABLE

	2018-03-31	2017-03-31
	-1,347,147.53	-734,040.22

Main Items of taxes payable are as follow:

Item	Beginning balance	Payable	Paid	Ending balance
VAT	-937,753.65	1,099,001.52	1,796,406.26	-1,635,158.39
PIT	56,849.59	438,248.24	363,091.17	132,006.66
Urban construction and education	--	--	--	--
EIT	--	--	--	--
Housing property tax	116,591.84	502,928.80	493,788.44	125,732.20
Land tax	30,272.00	121,088.00	121,088.00	30,272.00
Total	-734,040.22	2,161,266.56	2,774,373.87	-1,347,147.53

The main taxations and the related tax rates include

(6.13.1) Enterprise income taxes ("EIT")

According to the tax law of China, the applicable tax rate of the Company is 25%.

(6.13.2) Value Added Tax ("VAT")

According to the tax law of China, the applicable tax rate for overseas sales is 0%. The applicable tax rate for domestic sales is 17%. VAT of 17% of the sales amount will be paid to the Company by the buyers together with the sales amount. VAT payable is the net difference between output and deductible input VAT.

(6.13.3) Personal Income Tax ("PIT")

The Company withholds and pays the personal income tax according to the regulation of the People's Republic of China.

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(6.12) DEFERRED INCOME

2018-03-31	2017-03-31
4,792,631.76	2,505,641.64

(6.13) OTHER CURRENT LIABILITIES

2018-03-31	2017-03-31
6,772,730.56	5,578,460.81

The main items of accrued expense are as follows:

Item	2018-03-31	2017-03-31
Sales service fee	2,192,752.41	747,659.20
Technology license	1,221,068.50	2,055,271.67
Import expense	1,463,095.00	419,600.00
spindle cost	1,104,480.00	2,045,780.00

(6.14) LONG TERM LOAN

2018-03-31	2017-03-31
2,850,000.00	--

Borrowing details are as follows:

NO.	Loan unit	Amount	interest rate	Note
1	Standard Chartered Bank (China) Limited	2,850,000.00	5.75%	
Total		2,850,000.00		

(6.15) PAID IN CAPITAL

2018-03-31	2017-03-31
80,494,171.89	80,494,171.89

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Investor	Ending balance of paid-in capital		% to paid-in capital	% to registered capital	Remarks
	USD	RMB			
LAKSHMI MACHINE WORKS LIMITED	12,500,000.00	80,494,171.89	100	100	Received
Total	12,500,000.00	80,494,171.89	100	100	

The above paid-in capital was verified by Wujiang Huazheng CPAs Co., Ltd., Suzhou Huarui CPAs Partnership, Suzhou Huaderui CPAs respectively.

(6.16) UNDISTRIBUTED PROFIT

	2018-03-31	2017-03-31
Net Profit	3,105,630.49	-5,563,758.24
Add: The beginning undistributed profit of this year	6,368,824.46	12,265,085.19
Less: Adjustment for prior years	-	332,502.49
Transfer to Statutory Surplus Reserve	-	-
Transfer to welfare fund	-	-
Transfer to capital	-	-
The undistributed profit of this year	<u>9,474,454.95</u>	<u>6,368,824.46</u>

(6.17) Revenue from main operation activities

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Main business income	153,093,850.52	89,497,601.10
Including: Domestic sales	80,476,571.19	66,328,679.01
Overseas sales	72,617,279.33	23,168,922.09
Other operating income	64,196.94	36,188.03
Total	<u>153,158,047.46</u>	<u>89,533,789.13</u>

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(6.18) COST OF MAIN OPERATING ACTIVITIES

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Cost of goods sold	134,708,888.07	79,313,897.65
Total	<u>134,708,888.07</u>	<u>79,313,897.65</u>

(6.19) OPERATING EXPENSES

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Total	<u>7,453,136.64</u>	<u>5,245,682.74</u>

Accounts balance of operating expenses includes:

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Salaries	1,791,296.91	1,820,352.84
Travelling expense	1,180,324.17	1,198,591.69
Sales Commission	1,926,479.67	628,003.38
Exportation expense	1,822,873.48	482,383.47
Warranty	387,726.15	438,895.48

(6.20) ADMINISTRATIVE EXPENSES

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Total	<u>10,580,100.26</u>	<u>9,297,763.49</u>

Accounts balance of administrative expenses includes:

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Salaries	2,905,444.18	2,842,330.78
Rent expense	76,618.17	83,582.30
Catering fee	531,906.27	302,887.34
Travelling expense	224,305.74	403,822.76
Depreciation	805,690.18	850,646.44
Telephone bills	111,084.89	126,663.69
Consultation expense	45,283.02	51,174.68
Security expense	239,932.10	235,200.00
Technology license	3,378,463.46	2,084,342.44
Service expense	186,106.87	171,908.73

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(6.21) FINANCIAL EXPENSE

	2017-04-01 To 2018-03-31	2016-04-01 To 2017-03-31
Interest expense	109,106.58	42,775.00
Less: Interest income	346,143.82	814,013.57
Add: Exchange gain & loss	-2,774,820.62	2,111,586.73
Add: other charges	91,463.27	64,218.10
Total	-2,920,394.59	1,404,566.26



7. OTHER MATERIAL ISSUES

A. Disclosure of related parties and the transactions between them

Related party	Nature	Transactions			
		Sales revenue	Procurement of materials	Technical royalty	Service fee
		Amount	Amount	Amount	Amount
LAKSHMI MACHINE WORKS LIMITED	parent company	7,290,678.21	52,678,850.99	3,378,463.46	-

B. There are no other significant issues need to be disclosed.

Enterprise

Person in charge

Chief accountant

(Signature)

(Signature)

(Signature)