

**FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.**

**FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

Translator: Jason P Li

PricewaterhouseCoopers Zhong Tian LLP  
Guangzhou Branch



**FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.**

**Financial Statements and Auditor's Report  
For the Year Ended 31 December 2016**  
[English translation for reference only]

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[English Translation for Reference Only]

## **Auditor's Report**

PwC ZT Sui Shen Zi (2017) No. 440  
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To the Board of Directors of  
Frigoglass (Guangzhou) Ice-Cold Equipment Co., Ltd.,

We have audited the accompanying financial statements of Frigoglass (Guangzhou) Ice-Cold Equipment Co., Ltd. (hereinafter "the Company"), which comprise the balance sheet as at 31 December 2016, and the income statement and the cash flow statement for the year then ended, and the notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **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 Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 the 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.

#### **Basis for Qualified Opinion**

As at 31 December 2015, the Company made no provisions for impairment for machinery and equipment that had an indication of impairment with a carrying amount of RMB 60,750,166. Therefore, we issued a qualified opinion for the financial statements for the year ended 31 December 2016.

As described in Note 10 to the financial statements, the machinery and equipment that had an indication of impairment was tested for impairment as at 31 December 2016. RMB 44,271,701 of provisions for impairment was made and recorded into non-operating expenses in 2016. Such accounting treatment made by the Company does not comply with regulations regarding significant accounting error correction of prior periods under the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises". If the accounting treatment is made based on the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises", the items including non-operating expenses in previous and current periods, fixed assets in previous period and retained earnings at the beginning of the period will be significantly influenced. However, we cannot determine the detailed amounts affected.



## **Opinion**

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises and the “Accounting System for Business Enterprises”.

## **Emphasis of Matters**

We hereby remind users of the financial statements to pay attention to that, as described in Note 2 to the financial statements, the losses incurred in 2016 amounted to RMB 98,499,767. As at 31 December 2016, the accumulated losses amounted to RMB 439,632,192, and the current liabilities exceeded current assets by RMB 12,814,693. The above matters have been disclosed in Note 2 to the financial statements. However, there are significant uncertainties relating to the above matters that may cast significant doubts on the Company’s ability to continue as a going concern. This paragraph would not affect the issued audit opinion.

PricewaterhouseCoopers Zhong Tian LLP  
Guangzhou Branch

Guangzhou, the People’s Republic of China  
25 May 2017



FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**BALANCE SHEET**

**AS AT 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)

[English translation for reference only]

ASSETS	Note	31 December 2016	31 December 2015
<b>Current assets</b>			
Cash at bank and on hand	5	989,915	6,196,013
Short-term investments	6	3,500,000	4 000,000
Accounts receivable	7	32,058,198	32,951,965
Other receivables	8	52,126	153,194
Advances to suppliers		626,797	553,178
Inventories	9	6,372,508	31,664,304
Prepaid expenses		121,600	94,320
<b>Total current assets</b>		<u>43,721,144</u>	<u>75,612,974</u>
<b>Fixed assets</b>			
Fixed assets - cost		186,296,475	205,745,766
Less: Accumulated depreciation		<u>(100,332,755)</u>	<u>(103,189,921)</u>
Fixed assets - net book value		85,963,720	102,555,845
Less: Provision for impairment of fixed assets		<u>(44,271,701)</u>	-
Fixed assets - net	10	41,692,019	102,555,845
Construction in progress	11	-	889
<b>Total fixed assets</b>		<u>41,692,019</u>	<u>102,556,734</u>
<b>Intangible assets</b>	12	-	148,207
<b>TOTAL ASSETS</b>		<u>85,413,163</u>	<u>178,317,915</u>

FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**BALANCE SHEET (CONT'D)**

**AS AT 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2016	31 December 2015
<b>Current liabilities</b>			
Accounts payable		38,582,458	74,695,917
Advances from customers		10,000	7,226,028
Accrued payroll		1,608,985	616,377
Taxes payable	13	9,538,220	4,074,326
Other payables		1,047,036	1,521,035
Accrued expenses		5,749,138	6,750,293
<b>Total current liabilities</b>		<u>56,535,837</u>	<u>94,883,976</u>
<b>Long-term liabilities</b>			
Long-term borrowings	14, 21(e)	176,055,558	134,637,779
Other long-term payables		2,484,048	501,920
<b>Total long-term liabilities</b>		<u>178,539,606</u>	<u>135,139,699</u>
<b>Total liabilities</b>		<u>235,075,443</u>	<u>230,023,675</u>
<b>Owners' equity</b>			
Paid-in capital (2016 and 2015: USD 40,345,600)	1	283,211,482	283,211,482
Capital surplus	15	6,758,430	6,215,183
Accumulated losses	16	<u>(439,632,192)</u>	<u>(341,132,425)</u>
<b>Total owners' equity</b>		<u>(149,662,280)</u>	<u>(51,705,760)</u>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<u>85,413,163</u>	<u>178,317,915</u>

The accompanying notes form an integral part of these financial statements

Legal representative:      Principal in charge of accounting:      Head of accounting department:

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FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

	Note	2016	2015
<b>Revenue from main operations</b>	17	154,468,274	195,830,727
Less: Cost of main operations		(132,443,833)	(173,648,415)
Taxes and surcharges		(1,031,531)	(1,285,307)
<b>Profit from main operations</b>		<u>20,992,910</u>	<u>20,897,005</u>
Add: Profit from other operations		364,901	495,489
Less: Selling and distribution expenses		(19,358,757)	(16,039,816)
General and administrative expenses		(30,639,882)	(42,843,261)
Financial expenses - net	18	(19,097,018)	(9,363,012)
<b>Operating loss</b>		<u>(47,737,846)</u>	<u>(46,853,595)</u>
Add: Non-operating income	19	1,254,679	455,697
Less: Non-operating expenses	20	(52,016,600)	(310,012)
<b>Total loss</b>		<u>(98,499,767)</u>	<u>(46,707,910)</u>
Less: Income tax	4(a)	-	-
<b>Net loss</b>	16	<u>(98,499,767)</u>	<u>(46,707,910)</u>

The accompanying notes form an integral part of these financial statements.

Legal representative:    Principal in charge of accounting:    Head of accounting department:



FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
{English translation for reference only}

<b>1. Cash flows from operating activities</b>	
Cash received from sales of goods	169,938,138
Refund of taxes and surcharges	3,755,642
Cash received relating to other operating activities	992,183
<b>Sub-total of cash inflows</b>	<u>174,685,963</u>
Cash paid for goods and services	(118,795,981)
Cash paid to and on behalf of employees	(31,137,431)
Payments of taxes and surcharges	(3,052,078)
Cash paid relating to other operating activities	(58,150,477)
<b>Sub-total of cash outflows</b>	<u>(211,135,967)</u>
<b>Net cash flows used in operating activities</b>	<u>(36,450,004)</u>
<b>2. Cash flows from investing activities</b>	
Cash received from disposal of investments	500,000
Net cash received from disposal of fixed assets and intangible assets	7,857,873
Cash paid to acquire fixed assets and other long-term assets	(596,861)
<b>Net cash flows from investing activities</b>	<u>7,761,012</u>
<b>3. Cash flows from financing activities</b>	
Cash received from borrowings	<u>23,547,601</u>
<b>4. Effect of foreign exchange rate changes on cash</b>	<u>(64,707)</u>
<b>5. Net decrease in cash</b>	<u>(5,206,098)</u>



FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

**1 COMPANY BACKGROUND AND PRINCIPAL ACTIVITIES**

Frigoglass (Guangzhou) Ice-Cold Equipment Co., Ltd. (the "Company") is a wholly foreign-owned enterprise incorporated in Guangzhou City, Guangdong Province of the People's Republic of China (the "PRC") on 25 May 2006 by Frigorex Cyprus Limited. The Company has an approved operating period of 50 years. The registered capital is USD 10,800,000. Frigorex Cyprus Limited made capital injection to the Company in 2007, and the registered capital was increased to USD 19,800,000 after contribution.

In 2007, Frigorex Cyprus Limited transferred its 100% equity shares in the Company to Frigoglass S.A.I.C. The business license after change of registration was obtained in 2008.

Frigoglass S.A.I.C. made capital injection to the Company in June 2009, and the registered capital was increased to USD 25,000,000 after contribution.

In 2010, Frigoglass S.A.I.C. transferred its 100% equity shares in the Company to its subsidiary - Letel Holdings Limited. The business license after change of registration was obtained in 2011.

On 17 February 2012, the Company's original investor - Letel Holdings Limited was merged by Coolinvest Holdings Limited, which is controlled by the same ultimate holding company. The equity rights and creditor's rights of original investor were assumed by Coolinvest Holdings Limited. The Company's investor was changed into Coolinvest Holdings Limited, which made capital injection to the Company. The registered capital was increased to USD 33,000,000 after contribution.

On 18 December 2013, the Company's investor - Coolinvest Holdings Limited changed its name as Coolinvest Holdings B.V.

On 10 January 2014, the Company's investor - Coolinvest Holdings B.V. was merged by Frigoinvest Holdings B.V. registered in Netherlands. The equity rights and creditor's rights of original investor - Coolinvest Holdings B.V. were assumed by Frigoinvest Holdings B.V. The Company's investor was changed into Frigoinvest Holdings B.V.

On 30 May 2014, Frigoinvest Holdings B.V. transferred its long-term borrowings of EUR 5,300,000 (equivalent to RMB 7,345,600) to registered capital, which was increased to RMB 40,345,600.

The approved scope of business of the Company includes manufacturing of refrigeration equipment and air-condition equipment; sales of general mechanical equipment; import & export of cargoes (excluding products under special control); commission agent. In 2016, the actual principal activities of the Company were consistent with its approved business scope.

**2 BASIS OF PREPARATION**

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" as promulgated by the central government of the People's Republic of China.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

**2 BASIS OF PREPARATION (CONT'D)**

The losses incurred in 2016 amounted to RMB 98,499,767. As at 31 December 2016, the accumulated losses amounted to RMB 439,632,192, and the current liabilities exceeded current assets by RMB 12,814,693. The Company's ability to continue as a going concern still depends on capability to obtain necessary operating funds to liquidate its matured debts in the foreseeable future. The Company's ultimate holding company - Frigoglass S.A.I.C. has confirmed that it will provide continuous funding support for the operation of the Company in the following year, so that the Company is able to repay the matured debt obligations without curtailing existing operation scale to a large extent in the foreseeable future. Therefore, the Board of Directors believes that the Company will operate continuously in the foreseeable future, and continues to prepare the current year's financial statements on a going concern basis.

**3 PRINCIPAL ACCOUNTING POLICIES**

(a) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(b) Recording currency

The recording currency of the Company is the Renminbi ("RMB").

(c) Basis of accounting and measurement bases

The Company follows the accrual basis of accounting. Assets are initially recorded at actual costs on acquisition and subsequently adjusted for impairment, if any.

(d) Foreign currency translation

Except for the accounting treatment for foreign currency capital, foreign currency transactions are translated into RMB at the exchange rates stipulated by the People's Bank of China (the "stipulated exchange rates") on the first day of the month in which the transactions took place. The foreign currency balances of the foreign currency accounts at the balance sheet date are translated into RMB at the stipulated exchange rates at the balance sheet date. Exchange differences arising from these translations are recorded into profit or loss, except for those attributable to foreign currency borrowings that have been taken out specifically for the construction of fixed assets, which are capitalised as part of the fixed asset costs.

Foreign currency capital is translated into RMB at the exchange stipulated rate prevailing on the capital contribution date.

(e) Cash

Cash refers to all cash on hand and deposits that can be readily drawn on demand.

(f) Short-term investments

Short-term investments represent wealth management products at bank that the Company does not have the intention to hold for more than one year and are readily convertible into known amounts of cash upon maturity. Short-term investments are measured at actual investment cost on acquisition. Differences between the carrying amounts of investments in wealth management products and the proceeds actually received upon maturity are recognised in profit or loss for the current period.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

**3 PRINCIPAL ACCOUNTING POLICIES (CONT'D)**

(f) Short-term investments (Cont'd)

As at the balance sheet date, short-term investments are accounted for at the lower of cost and recoverable amount. When there is an indication that the principal of short-term investments is higher than the recoverable amount, provisions for impairment loss on short-term investment are made at the difference. The provision for impairment loss is reversed to the extent of the impairment loss previously recognised if the value of provisions for impairment loss on short-term investments is recovered.

(g) Receivables and provision for bad debts

Receivables comprise accounts receivable and other receivables. The provision method is used to account for potential bad debts identified by management. Receivables are presented at actual amounts net of provision for bad debts.

(1) Accounts receivable

Accounts receivable comprises related-party receivables and receivables from non-related parties ("third-party receivables"). Specific provisions are made for accounts receivable on an individual basis.

(2) Other receivables

Specific provisions are made for other receivables on an individual basis.

(3) Recognition criteria of bad debts loss

Where evidence exists that balances cannot be recovered, bad debts are recognised and the corresponding provision for bad debts is written off.

(h) Inventories

Inventories include raw materials, work in progress and finished goods, and are measured at the lower of cost and net realisable value.

Inventories are recorded at their cost on acquisition. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate allocation of all production overhead expenditures incurred based on normal operating capacity.

Provisions for declines in the value of inventories are determined on an item-by-item basis when the carrying value of the inventories is higher than their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sales.

(i) Fixed assets and depreciation

Fixed assets are tangible assets that are used in production or held for operation purposes, which have useful lives of more than one year and have relatively high unit price. When buildings are constructed on the Company's own land and buildings are for the Company's own use, the carrying value of the land use rights is reclassified as part of the building costs within fixed assets.

FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
(English translation for reference only)

**3 PRINCIPAL ACCOUNTING POLICIES (CONT'D)**

(i) Fixed assets and depreciation (Cont'd)

Fixed assets purchased or constructed by the Company are recorded at cost.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. If land use rights used for buildings has a longer approved land use period than the estimated useful lives of buildings, the cost related to the excess approved use period is reflected as part of the residual value of buildings. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings - cost	40 years	0%	2.5%
- Land use rights	40 years	20%	2%
Machinery and equipment	10-13 years	0%	7.7%-10%
Office furniture and equipment	5 years	0%	20%
Motor vehicles	5 years	0%	20%

When fixed assets are sold, transferred, disposed of or damaged, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, adjusted by related taxes and expenses, and are included in non-operating income or expenses.

Repair and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalised when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalised expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalised expenditures arising from the renovation of fixed assets are depreciated on the straight-line basis over the expected beneficial periods.

(j) Construction in progress

Construction in progress represents fixed assets under construction or installation, which is recorded at actual cost. Cost comprises the original cost of equipment, installation costs/construction costs, other direct costs, and borrowing costs on specific borrowings for financing the construction or acquisition of fixed assets are capitalised as part of the cost of the fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

(k) Intangible assets

Intangible assets represent computer software.

The computer software is initially recorded at cost and is amortised on the straight-line basis over the period of 5 years.

FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in RMB Yuan unless otherwise stated)  
(English translation for reference only)

3 PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(l) Impairment of assets

In addition to recognition of provisions for impairment loss on short-term investments, receivables and inventories which have been described in their respective accounting policies, individual assets for which there are indications that their carrying values are higher than the recoverable amounts, arising from occurrence of events or changes in circumstances, are reviewed for impairment. If the carrying value of such assets is higher than the recoverable amount, the excess is recognised as impairment loss.

The recoverable amount of an individual asset is the higher of its net selling price and its value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting any incremental direct disposal costs. Value in use is the present value of estimated future cash flows expected to be derived from continuing use of the asset and from its disposal at the end of its useful life.

When there is an indication that the need for an impairment provision recorded in a prior period no longer exists or has decreased, the provision for impairment loss is reversed. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

(m) Borrowing costs

Borrowing costs, including interests, amortised premiums/discounts and exchange differences, incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalised as costs of the fixed assets when capital expenditures and borrowing costs are incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalisation of borrowing costs ceases when the fixed asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period.

The capitalised interests for each accounting period are determined by using the weighted average amount of accumulated expenditure incurred in that period for the acquisition or construction of fixed assets and the related specific capitalisation rate of the borrowings. The capitalised amount during a period shall not exceed the amount of interest incurred during that period.

Interests incurred in connection with other borrowings are expensed as incurred.

(n) Revenue recognition

Revenue from the sale of goods is recognised 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 benefit associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

Interest income is recognised on a time proportion basis taking into account deposit balances and the effective yield.

(o) Leases

Leases of fixed assets where all the risks and rewards incident to ownership of the assets are in substance transferred to the lessees are classified as finance leases. An operating lease is a lease other than a finance lease.

FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

**3 PRINCIPAL ACCOUNTING POLICIES (CONT'D)**

(o) Leases (Cont'd)

Payments made under operating leases are expensed on a straight-line basis over the period of the leases

(p) Accounting for income tax

The Company accounts for enterprise income taxes using the tax payable method. Tax expense is recognised based on current taxable income and tax rates.

**4 TAXATION**

(a) Corporate income tax

The corporate income tax rate applicable to the Company is 25% (2015: 25%).

(b) Value-added tax ("VAT")

The Company's sales of self-manufactured products are subject to Value added tax (VAT). The applicable tax rate for domestic sales is 17%. The Company has been approved to use the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 15% or 17%.

Input VAT on purchases of raw materials, fuel, transportation costs, and fix assets can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

**5 CASH AT BANK AND ON HAND**

	31 December 2016	31 December 2015
Cash	2,673	2,990
Cash at bank	<u>987,242</u>	<u>6,193,023</u>
	<u>989,915</u>	<u>6,196,013</u>

**6 SHORT-TERM INVESTMENTS**

	31 December 2016	31 December 2015
Wealth management products at bank	<u>3,500,000</u>	<u>4,000,000</u>

The short-term investments of the Company are not subject to any restriction on conversion into cash or remittance of investment income.

Short-term investments have fast turnover with large amounts, and short duration of stay in the Company. Net cash inflows and outflows can more appropriately reflect the cash flows of the Company.



FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)  
[English translation for reference only]

**7 ACCOUNTS RECEIVABLE AND PROVISION FOR BAD DEBTS**

The ageing analysis of accounts receivable is as follows:

Ageing	31 December 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 3 months	10,033,793	31%	-	14,398,381	44%	-
3 to 6 months	8,893,693	28%	-	7,239,866	22%	-
6 to 12 months	13,130,712	41%	-	11,313,718	34%	-
	<u>32,058,198</u>	<u>100%</u>	<u>-</u>	<u>32,951,965</u>	<u>100%</u>	<u>-</u>

As at 31 December 2016, the ageing of accounts receivable is within one year. The management of the Company believes that there is no risk in recoverability, so no provision for bad debts is made (31 December 2015: Nil).

**8 OTHER RECEIVABLES**

	31 December 2016	31 December 2015
Related parties (Note 21(e)(3)(ii))	43,790	121,723
Third parties	8,336	31,471
	<u>52,126</u>	<u>153,194</u>

As at 31 December 2016, the ageing of other receivables is within one year. The management of the Company believes that there is no risk in recoverability, so no provision for bad debts is made (31 December 2015: Nil).

**9 INVENTORIES**

	31 December 2016	31 December 2015
Raw materials	15,868,269	26,799,804
Work in progress	5,069,412	7,557,195
Finished goods	3,413,364	14,675,259
	<u>24,351,045</u>	<u>49,032,258</u>
Less: Provision for decline in the value of inventories	(17,978,537)	(17,367,954)
	<u>6,372,508</u>	<u>31,664,304</u>

FRIGOGLASS (GUANGZHOU) ICE-COLD EQUIPMENT CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts in RMB Yuan unless otherwise stated)  
(English translation for reference only)

9 INVENTORIES (CONT'D)

Movements of provision for decline in the value of inventories in 2016 are as follows.

	Raw materials	Finished goods	Total
31 December 2015	(4,090,910)	(13,277,044)	(17,367,954)
Increase in the current year	-	(4,502,999)	(4,502,999)
Write-off in the current year	3,892,416	-	3,892,416
31 December 2016	<u>(198,494)</u>	<u>(17,780,043)</u>	<u>(17,978,537)</u>

The cost of inventories recognised as cost and expenses by the Company amounted to RMB 132,443,833 in 2016 (2015: RMB 173,648,415).

10 FIXED ASSETS

	Buildings (including land use rights)	Machinery and equipment	Office furniture and equipment	Motor vehicles	Total
Cost					
31 December 2015	52,135,278	142,646,261	9,880,640	1,083,587	205,745,766
Increase in the current year	-	531,731	5,386	-	537,117
Transfers from construction in progress	-	60,633	-	-	60,633
Decrease in the current year	-	(18,108,366)	(1,536,068)	(402,607)	(20,047,041)
31 December 2016	<u>52,135,278</u>	<u>125,130,259</u>	<u>8,349,958</u>	<u>680,980</u>	<u>186,296,475</u>
Accumulated depreciation					
31 December 2015	(10,654,624)	(81,896,095)	(9,555,615)	(1,083,587)	(103,189,921)
Increase in the current year	(1,288,634)	(7,257,332)	(96,811)	-	(8,642,777)
Decrease in the current year	-	9,574,818	1,522,518	402,607	11,499,943
31 December 2016	<u>(11,943,258)</u>	<u>(79,578,609)</u>	<u>(8,129,908)</u>	<u>(680,980)</u>	<u>(100,332,755)</u>
Provision for impairment loss					
31 December 2015	-	-	-	-	-
Increase in the current year	-	(44,051,651)	(220,050)	-	(44,271,701)
31 December 2016	-	<u>(44,051,651)</u>	<u>(220,050)</u>	-	<u>(44,271,701)</u>
Net book value					
31 December 2016	<u>40,192,020</u>	<u>1,499,999</u>	<u>-</u>	<u>-</u>	<u>41,692,019</u>
31 December 2015	<u>41,480,654</u>	<u>60,750,166</u>	<u>325,025</u>	<u>-</u>	<u>102,555,845</u>

On 15 July 2016, the Board of Directors declared to cease the production business. As at 31 December 2016, the machinery and equipment, office furniture and equipment that had an indication of impairment were tested for impairment. The Company estimated that the recoverable amount amounted to RMB 1,499,999, and made provisions for impairment of RMB 44,271,701 (Note (20)). (2015: Nil).

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**11 CONSTRUCTION IN PROGRESS**

	Machinery and equipment
31 December 2015	889
Increase in the current year	59,744
Transfer to fixed assets	(60,633)
31 December 2016	<u>          </u>

**12 INTANGIBLE ASSETS**

	Computer software
Cost	
31 December 2015 and 31 December 2016	<u>4,922,044</u>
Accumulated amortisation	
31 December 2015	(4,773,837)
Increase in the current year	(20,857)
31 December 2016	<u>(4,794,694)</u>
Provision for impairment loss	
31 December 2015	-
Increase in the current year	(127,350)
31 December 2016	<u>(127,350)</u>
Net book value	
31 December 2016	<u>          </u>
31 December 2015	<u>148,207</u>

**13 TAXES PAYABLE**

	31 December 2016	31 December 2015
Withholding income tax	7,322,437	5,318,619
Withholding business tax	2,015,756	1,489,971
Individual income tax payable	98,971	170,413
VAT input to be offset	18,612	(3,008,662)
Others	82,444	103,985
	<u>9,538,220</u>	<u>4,074,326</u>

**14 LONG-TERM BORROWINGS**

	31 December 2016	31 December 2015
Unsecured loans (Note 21(e)(3)(v))	<u>176,055,558</u>	<u>134,637,779</u>

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**15 CAPITAL SURPLUS**

	31 December 2016	31 December 2015
Other capital surplus	<u>6,758,430</u>	<u>6,215,183</u>

Upon approval from the Board of Directors, capital surplus, other than those relating to receipts of donated non-cash assets and equity investments held, can be used to increase capital. Capital surplus arising from receipts of donated non-cash assets and equity investments can only be used to increase capital after the donated assets or investments have been disposed of. The capital surplus increased in 2016 is caused by waived debt.

**16 ACCUMULATED LOSSES**

	2016	2015
Accumulated losses at the beginning of the year	341,132,425	294,424,515
Add: Net loss in the current year	<u>98,499,767</u>	<u>46,707,910</u>
Accumulated losses at the end of the year	<u>439,632,192</u>	<u>341,132,425</u>

**17 REVENUE FROM MAIN OPERATIONS**

	2016	2015
Sales of refrigeration equipment and spare parts	<u>154,468,274</u>	<u>195,830,727</u>

**18 FINANCIAL EXPENSES - NET**

	2016	2015
Interest expenses	9,103,165	8,853,373
Less: Interest income	(60,741)	(319,712)
Exchange losses - net	10,054,258	730,777
Others	<u>336</u>	<u>98,574</u>
	<u>19,097,018</u>	<u>9,363,012</u>

**19 NON-OPERATING INCOME**

	2016	2015
Gains on disposal of fixed assets	789,206	-
Others	<u>465,473</u>	<u>455,697</u>
	<u>1,254,679</u>	<u>455,697</u>

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**20 NON-OPERATING EXPENSES**

	2016	2015
Impairment of fixed assets (Note (10))	44,271,701	-
Losses on disposed materials	5,879,703	-
Losses on disposal of fixed assets	1,478,431	-
Impairment of intangible assets (Note (12))	127,350	-
Others	259,415	310,012
	<u>52,016,600</u>	<u>310,012</u>

**21 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

(a) Related parties that control/are controlled by the Company:

Name of entity	Place of registration	Main operations	Relationship with the Company	Nature or type of enterprise
Frigoinvest Holdings B.V.	Netherlands	Production and sales of self-manufactured refrigeration equipment	The parent company	Limited liability company

Frigoglass S.A.I.C., registered in Greece, is the ultimate holding company of the Company.

(b) Registered capital and changes in registered capital of related parties that control/are controlled by the Company

Name of entity	31 December 2016 and 31 December 2015 Amount
Frigoinvest Holdings B.V.	<u>EUR 58,045,300</u>

(c) Equity shares and changes in equity shares held by parties that control/are controlled by the Company

Name of entity	31 December 2016 and 31 December 2015 Amount	%
Frigoinvest Holdings B.V.	<u>USD 40,345,600</u>	<u>100%</u>

(d) Nature of related parties that do not control/are not controlled by the Company

Name of related parties	Relationship with the Company
3P Frigoglass S.R.L.	Controlled by the same ultimate holding company
Frigoglass Eurasia LLC	Controlled by the same ultimate holding company
Frigoglass India Pvt. Ltd.	Controlled by the same ultimate holding company
Frigoglass North America Co., Ltd.	Controlled by the same ultimate holding company
Frigoglass South Africa (Pty) Ltd.	Controlled by the same ultimate holding company

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**21 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)**

(d) Nature of related parties that do not control/are not controlled by the Company (Cont'd)

Frigoglass Turkey Sogutma Sanayi ic	Controlled by the same ultimate holding company
Frigoglass Cyprus Limited	Controlled by the same ultimate holding company
Frigoglass East Africa Ltd.	Controlled by the same ultimate holding company
Frigoglass Indonesia P.T.	Controlled by the same ultimate holding company
Frigoglass MENA FZE.	Controlled by the same ultimate holding company
Frigoglass Romania S.R.L.	Controlled by the same ultimate holding company
Frigoglass West Africa Limited	Controlled by the same ultimate holding company

(e) Related party transactions

(1) Pricing policies

The Company's pricing on products sold to related parties and raw materials purchased from related parties is determined through negotiation between both parties by making reference to the market price. Trademark royalty and service fee collected by related parties are determined based on the Company's revenue, and are calculated by the contractually determined percentage.

(2) Significant related party transactions

(i) Purchase of goods

	2016	2015
Frigoglass India Pvt. Ltd.	201,173	208,189
Frigoglass Indonesia P.T.	88,866	478,135
Frigoglass Romania S.R.L.	45,624	215,673
3P Frigoglass S.R.L.	24,964	806,400
Frigoglass Eurasia LLC	6,648	35,065
Frigoglass S.A.I.C.	-	82,513
Frigoglass North America Co., Ltd.	-	20,445
	<u>367,275</u>	<u>1,846,420</u>

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21 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(e) Related party transactions (Cont'd)

(2) Significant related party transactions (Cont'd)

(ii) Sales of goods

	2016	2015
Frigoglass West Africa Limited	9,564,864	37,663,490
Frigoglass Indonesia P.T.	8,531,561	2,214,339
Frigoglass North America Co., Ltd.	8,405,029	24,583,593
Frigoglass India Pvt. Ltd.	6,282,866	225,092
Frigoglass South Africa (Pty) Ltd.	5,146,946	2,589,229
Frigoglass East Africa Ltd.	5,055,032	7,509,335
Frigoglass Romania S.R.L.	520,365	452,393
Frigoglass Eurasia LLC	504,960	2,385
Frigoglass S.A.I.C.	257,136	675,606
Frigoglass MENA FZE	-	5,468,113
	<u>44,268,759</u>	<u>81,383,575</u>

(iii) Borrowings

	2016	2015
Frigoinvest Holdings B.V.	<u>26,221,860</u>	<u>-</u>

(iv) Interest expenses

	2016	2015
Frigoglass Cyprus Limited	7,702,095	7,473,327
Frigoinvest Holdings B.V.	1,147,825	-
	<u>8,849,920</u>	<u>7,473,327</u>

(v) Trademark royalty and service fee

	2016	2015
Frigoglass S.A.I.C.	<u>6,295,738</u>	<u>9,202,899</u>

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21 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

- (e) Related party transactions (Cont'd)  
(2) Significant related party transactions (Cont'd)  
(vi) Other expenses

	2016	2015
Frigoglass West Africa Limited	346,583	1,534,442
Frigoglass Indonesia P.T.	256,902	55,017
Frigoglass East Africa Ltd.	195,334	153,760
Frigoglass North America Co., Ltd.	189,553	96,915
Frigoglass Turkey Sogutma Sanayi ic	172,206	239,182
Frigoglass S.A.I.C.	150,357	587,182
Frigoglass India Pvt. Ltd.	120,229	-
Frigoglass South Africa (Pty) Ltd.	-	23,578
	<u>1,431,164</u>	<u>2,690,076</u>

- (3) Receivables from and payables to related parties

- (i) Accounts receivable

	31 December 2016	31 December 2015
Frigoglass West Africa Limited	13,214,463	22,330,580
Frigoglass India Pvt. Ltd.	6,282,866	618,106
Frigoglass South Africa (Pty) Ltd.	5,120,942	-
Frigoglass Indonesia P.T.	3,820,193	696,925
Frigoglass Eurasia LLC	488,416	14,703
Frigoglass S.A.I.C.	180,151	1,318,868
Frigoglass North America Co., Ltd.	147,194	33,047
Frigoglass Romania S.R.L.	4,940	43,671
Frigoglass East Africa Ltd.	-	2,172,563
	<u>29,259,165</u>	<u>27,228,463</u>

- (ii) Other receivables

	31 December 2016	31 December 2015
Frigoglass India Pvt. Ltd.	43,790	43,790
Frigoglass S.A.I.C.	-	77,933
	<u>43,790</u>	<u>121,723</u>



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21 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

(e) Related party transactions (Cont'd)

(3) Receivables from and payables to related parties (Cont'd)

(iii) Accounts payable

	31 December 2016	31 December 2015
Frigoglass S.A.I.C.	26,601,636	19,469,825
Frigoglass West Africa Limited	2,835,222	2,416,515
Frigoglass Indonesia P.T.	2,469,372	2,000,412
Frigoglass India Pvt. Ltd.	1,193,997	824,133
3P Frigoglass S.R.L.	573,037	532,201
Frigoglass Romania S.R.L.	505,524	446,581
Frigoglass Eurasia LLC	294,295	278,007
Frigoglass East Africa Ltd.	280,070	79,320
Frigoglass North America Co., Ltd.	229,756	37,633
Frigoglass Turkey Sogutma Sanayi ic	69,944	6,232
Frigoglass South Africa (Pty) Ltd.	-	1,426,434
	<u>35,052,853</u>	<u>27,517,293</u>

(iv) Advances from customers

	31 December 2016	31 December 2015
Frigoglass North America Co., Ltd.	-	7,116,027

(v) Long-term borrowings

	31 December 2016	31 December 2015
Frigoglass Cyprus Limited	148,818,378	134,637,779
Frigoinvest Holdings B.V.	27,237,180	-
	<u>176,055,558</u>	<u>134,637,779</u>

As at 31 December 2016, long-term borrowings include borrowings of EUR 5,000,000 and USD 12,000,010 (31 December 2015: EUR 5,000,000 and USD 12,000,010), equivalent to RMB 119,778,069 (31 December 2015: equivalent to RMB 113,399,265), from overseas related party - Frigoglass Cyprus Limited at the rate of 6.5% per annum, and unsecured borrowings of USD 3,780,000 (31 December 2015: Nil), equivalent to RMB 26,221,860 (31 December 2015: Nil), from overseas related party - Frigoinvest Holdings B.V. at the rate of 5% per annum. The above principal and interest shall be repaid together upon maturity.