

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report:

Commission file number: 001-35715

**KBS FASHION GROUP LIMITED**

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable

(Translation of Registrant's Name Into English)

Republic of the Marshall Islands

(Jurisdiction of Incorporation or Organization)

**Xin Fengge Building  
Yupu Industrial Park  
Shishi City, Fujian Province 362700  
People's Republic of China**

(Address of Principal Executive Offices)

**Mr. Keyan Yan, Chief Executive Officer  
Xin Fengge Building  
Yupu Industrial Park  
Shishi City, Fujian Province 362700  
People's Republic of China  
Tel: + (86) 595 8889 6198  
Fax: (86) 595 8850 5328**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$0.0001 par value	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Units, Common Stock Purchase Warrants

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report (December 31, 2017): 1,986,299

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit

and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Annual Report on Form 20-F  
Year Ended December 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
<b>PART I</b>	
<b>ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u></b>	<b>1</b>
A. <u>Directors and Senior Management</u>	1
B. <u>Advisors</u>	1
C. <u>Auditors</u>	1
<b>ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>	<b>1</b>
A. <u>Offer Statistics</u>	1
B. <u>Method and Expected Timetable</u>	1
<b>ITEM 3. <u>KEY INFORMATION</u></b>	<b>1</b>
A. <u>Selected Financial Data</u>	1
B. <u>Capitalization and Indebtedness</u>	3
C. <u>Reasons for the Offer and Use of Proceeds</u>	3
D. <u>Risk Factors</u>	3
<b>ITEM 4. <u>INFORMATION ON THE COMPANY</u></b>	<b>23</b>
A. <u>History and Development of the Company</u>	23
B. <u>Business Overview</u>	24
C. <u>Organizational Structure</u>	37
D. <u>Property, Plants and Equipment</u>	37
<b>ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u></b>	<b>38</b>
<b>ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>	<b>39</b>
A. <u>Principal Factors Affecting Financial Performance</u>	40
B. <u>Liquidity and Capital Resources</u>	44
C. <u>Research and Development, Patents and Licenses, Etc.</u>	46
D. <u>Trend Information</u>	46
E. <u>Off Balance Sheet Arrangements</u>	46
F. <u>Tabular Disclosure of Contractual Obligations</u>	46
G. <u>Safe Harbor</u>	49
<b>ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>	<b>49</b>
A. <u>Directors and Senior Management</u>	49
B. <u>Compensation</u>	50
C. <u>Board Practices</u>	51
D. <u>Employees</u>	52
E. <u>Share Ownership</u>	52
<b>ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u></b>	<b>53</b>
A. <u>Major Shareholders</u>	53
B. <u>Related Party Transactions</u>	53
C. <u>Interests of Experts and Counsel</u>	53

<b>ITEM 8. <u>FINANCIAL INFORMATION</u></b>	<b>53</b>
A. <u>Consolidated Statements and Other Financial Information</u>	53
B. <u>Significant Changes</u>	53
<b>ITEM 9. <u>THE OFFER AND LISTING</u></b>	<b>53</b>
A. <u>Plan of Distribution</u>	54
B. <u>Markets</u>	55
C. <u>Selling Shareholders</u>	55
D. <u>Dilution</u>	55
E. <u>Expenses of the Issue</u>	55
<b>ITEM 10. <u>ADDITIONAL INFORMATION</u></b>	<b>55</b>
A. <u>Share Capital</u>	55
B. <u>Memorandum and Articles of Association</u>	55
C. <u>Material Contracts</u>	58
D. <u>Exchange Controls</u>	58
E. <u>Taxation</u>	59

	F.	<a href="#">Dividends and Paying Agents</a>	64
	G.	<a href="#">Statement by Experts</a>	65
	H.	<a href="#">Documents on Display</a>	65
	I.	<a href="#">Subsidiary Information</a>	65
ITEM 11.		<a href="#">QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	65
ITEM 12.		<a href="#">DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</a>	66
	A.	<a href="#">Debt Securities</a>	66
	B.	<a href="#">Warrants and Rights</a>	66
	C.	<a href="#">Other Securities</a>	66
	D.	<a href="#">American Depositary Shares</a>	66
<b>PART II</b>			
ITEM 13.		<a href="#">DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</a>	67
ITEM 14.		<a href="#">MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</a>	67
ITEM 15.		<a href="#">CONTROLS AND PROCEDURES</a>	67
	A.	<a href="#">Disclosure Controls and Procedures</a>	67
	B.	<a href="#">Management’s Annual Report on Internal Control Over Financial Reporting</a>	67
	C.	<a href="#">Attestation Report of the Registered Public Accounting Firm</a>	67
	D.	<a href="#">Changes in Internal Controls over Financial Reporting</a>	68
ITEM 16A.		<a href="#">AUDIT COMMITTEE FINANCIAL EXPERT</a>	68
ITEM 16B.		<a href="#">CODE OF ETHICS</a>	68
ITEM 16C.		<a href="#">PRINCIPAL ACCOUNTANT FEES AND SERVICES</a>	68
ITEM 16D.		<a href="#">EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</a>	68
ITEM 16E.		<a href="#">PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</a>	69
ITEM 16F.		<a href="#">CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT</a>	69
ITEM 16G.		<a href="#">CORPORATE GOVERNANCE</a>	69
ITEM 16H.		<a href="#">MINE SAFETY DISCLOSURE</a>	69
<b>PART III</b>			
ITEM 17.		<a href="#">FINANCIAL STATEMENTS</a>	70

## INTRODUCTORY NOTES

### Use of Certain Defined Terms

Except as otherwise indicated by the context and for the purposes of this report only, references in this report to:

- “KBS,” “we,” “us,” “our” and the “Company” are to KBS Fashion Group Ltd., a company organized in the Republic of the Marshall Islands;
- “KBS International,” refers to KBS International Holding Inc., a Nevada corporation, which was dissolved in August 2014;
- “Hongri PRC,” refers to Hongri (Fujian) Sports Goods Co., Ltd., which is our wholly owned subsidiary organized in the PRC;
- “Hongri International” are to Hongri International Holdings Limited, which is our wholly owned subsidiary and a company organized in the BVI;
- “BVI” are to the British Virgin Islands;
- “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China;
- “PRC” and “China” are to the People’s Republic of China;
- “SEC” are to the Securities and Exchange Commission;
- “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- “Securities Act” are to the Securities Act of 1933, as amended;
- “Renminbi” and “RMB” are to the legal currency of China; and
- “U.S. dollars,” “dollars” and “\$” are to the legal currency of the United States.

### Forward-Looking Information

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We use words such as “believe,” “expect,” “anticipate,” “project,” “target,” “plan,” “optimistic,” “intend,” “aim,” “will” or similar expressions which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry segment growth and demand and acceptance of new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; and any statements regarding future economic conditions or performance, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties include, among other things, the possibility that we may not be able to maintain or increase our net revenues and profits due to our failure to anticipate consumer preferences and develop new menswear products, our failure to execute our business expansion plan, changes in domestic and foreign laws, regulations and taxes, changes in economic conditions, uncertainties related to China’s legal system and economic, political and social events in China, a general economic downturn, a downturn in the securities markets, and other risks and uncertainties which are generally set forth under Item 3 “Key information—D. Risk Factors” and elsewhere in this report.

Readers are urged to carefully review and consider the various disclosures made by us in this report and our other filings with the SEC. These reports attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this report speak only as of the date hereof and we disclaim any obligation, except as required by law, to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

On February 3, 2017, approved by the shareholders, our Board of Directors approved a one-for-fifteen (1-for-15) reverse stock split of the Company’s issued and outstanding common stock. In addition, in lieu of issuing any fractional share, the Board of Directors decided that shareholders are entitled to receive the number of shares of common stock rounded up to the next whole number. Our common stock began trading on the NASDAQ Stock Market on a split-adjusted basis when the market opened on February 9, 2017. All references in this report to share and per share data have been adjusted, including historical data which have been retroactively adjusted, to give effect to the reverse stock split unless specified otherwise.

## PART I

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS****A. Directors and Senior Management**

Not applicable.

**B. Advisors**

Not applicable.

**C. Auditors**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE****A. Offer Statistics**

Not applicable.

**B. Method and Expected Timetable**

Not applicable.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data**

The following table presents selected financial data regarding our business. It should be read in conjunction with our consolidated financial statements and related notes contained elsewhere in this annual report and the information under Item 5 “Operating and Financial Review and Prospects.” The selected consolidated statements of comprehensive income data for the fiscal years ended December 31, 2017, 2016 and 2015, and the selected consolidated statements of financial position data as of December 31, 2017 and 2016 have been derived from our audited consolidated financial statements that are included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income data for the fiscal years ended December 31, 2014 and 2013, and the selected consolidated statements of financial position data as of December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements that are not included in this annual report.

Our consolidated financial statements were prepared and presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The selected financial data information is only a summary and should be read in conjunction with the historical consolidated financial statements and related notes contained elsewhere herein. The financial statements contained elsewhere fully represent our financial condition and operations; however, they are not indicative of our future performance.

1

	Years ended December 31,				
	2017	2016	2015	2014	2013
<b>Statement of Income Data</b>					
Total revenue	\$ 23,762,536	\$ 41,200,205	\$ 61,343,681	\$ 58,832,481	\$ 99,559,814
Total cost of sales	(35,274,352)	(39,041,932)	(46,511,274)	(39,416,973)	(57,363,839)
Gross profit	(11,511,816)	2,158,272	14,832,407	19,415,508	42,195,975
Distribution and selling expenses	(3,265,380)	(3,606,010)	(6,621,256)	(7,191,606)	(6,238,995)
Administrative expenses	(4,879,397)	(3,543,993)	2,798,082	(4,649,229)	(2,211,431)
Profit for the year	(14,815,596)	(11,902,688)	1,243,670	6,876,982	25,419,366
Total comprehensive income for the year	(10,004,880)	(18,028,121)	(4,801,102)	6,526,172	28,016,625
Outstanding shares	1,860,831	1,750,142	1,694,489	1,694,489	1,694,489
Earning per share, basic diluted	-7.96	-6.80	0.73	4.06	15.00
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 26,050,456	\$ 24,576,341	\$ 21,214,080	\$ 20,604,583	43,700,087
Non-current assets	40,966,319	34,754,942	47,221,529	52,929,386	37,306,845
Current assets	40,343,386	56,343,823	62,098,951	62,093,570	76,045,907
Working capital	33,060,877	48,647,185	53,598,854	52,704,076	59,857,688
Total assets	81,309,705	91,098,765	109,310,480	115,022,956	113,352,752
Current liabilities	7,282,509	7,696,638	8,500,097	9,389,493	16,188,219
Total liabilities	7,282,509	7,696,638	8,503,506	9,404,880	19,620,659
Equity	74,027,196	83,402,127	100,816,974	105,618,076	93,732,093

**Exchange Rate Information**

Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. This annual report contains translations of RMB amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.5063 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System on December 30, 2017. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On April 20, 2018, the certified exchange rate was RMB6.2945 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of any other periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Statistical Release.

Period	Exchange rate			
	Period End	Average(1)	Low	High
	(RMB Per US\$1.00)			

2013	6.0537	6.1478	6.0537	6.2438
2014	6.2046	6.1620	6.0402	6.2591
2015	6.4778	6.2827	6.1870	6.4896
2016	6.9430	6.6549	6.4480	6.9580
2017	6.5063	6.7350	6.4773	6.9575
September	6.6533	6.5690	6.4773	6.6591
October	6.6328	6.6254	6.5712	6.6533
November	6.6090	6.6200	6.5967	6.6385
December	6.5063	6.5932	6.5063	6.6210
2018				
January	6.2841	6.4233	6.2841	6.5263
February	6.3280	6.3183	6.2649	6.3471
March	6.2726	6.3174	6.2685	6.3565
April (thought April 20, 2018)	6.2945	6.2859	6.2655	6.3045

Source: Federal Reserve Statistical Release

- (1) Annual averages were calculated by using the average of the exchange rates on the last day of each month during the relevant year. Monthly averages are calculated by using the average of the daily rates during the relevant month.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

*An investment in our capital stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this annual report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.*

### RISKS RELATED TO OUR BUSINESS

***General economic conditions, including a prolonged weakness in the economy, may affect consumer discretionary spending, which could adversely affect our business and financial performance.***

The apparel industry has historically been subject to substantial cyclical variations. Our business and financial performance are dependent on a number of factors impacting consumer discretionary spending, including general economic and business conditions; consumer confidence; wages and employment levels; the housing market; consumer debt levels; availability of consumer credit; credit and interest rates; fuel and energy costs; energy shortages; taxes; general political conditions, both domestic and abroad. Consumer product purchases, including purchases of our products, may decline during recessionary periods. Our ability to access the capital markets may be restricted at a time when we would like, or need, to raise capital, which could impair on our ability to open additional stores or build additional manufacturing lines. In addition, as domestic and international economic conditions change, trends in consumer spending on discretionary items, including our merchandise, become unpredictable and subject to reductions due to economic uncertainties. A prolonged economic recovery or an uncertain outlook in the economy could result in additional declines in consumer discretionary spending, which could materially affect our financial performance.

***A contraction in apparel sales and production could impair our results of operations and liquidity and jeopardize our supply base.***

Apparel sales and production are cyclical and depend, among other things, on general economic conditions and consumer spending and preferences. As the volume of apparel production fluctuates, the demand for our products also fluctuates. A contraction in apparel sales could harm our results of operations and liquidity. In addition, our suppliers would also be subject to many of the same consequences which could pressure their results of operations and liquidity. Depending on an individual supplier's financial condition and access to capital, its viability could be challenged which could impact its ability to perform as we expect and consequently our ability to meet our own commitments.

***If we are unable to anticipate consumer preferences and develop new menswear products, we may not be able to maintain or increase our net revenues and profits.***

Our success depends on our ability to identify, originate and define apparel trends as well as to anticipate, gauge and react to changing consumer demands for menswear in a timely manner. Our target market of consumers comprises urban males between the ages of 20 and 40 with moderate-to-high levels of disposable income. Our business is particularly sensitive to their fashion preferences, which cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly, and our future success depends in part on our ability to anticipate and respond to these changes. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings, developing new products, designs, styles and categories, we could experience lower sales, excess inventories and lower profit margins. In a distressed economic and retail environment, many of our competitors may engage in aggressive activities, such as markdowns or other promotional sales to dispose of excess, slow-moving inventory, further increasing the need to react appropriately to changing consumer preferences and fashion trends. Failure to do so could adversely affect the level of acceptance of our products, our brand image and our relationship with our distributors, and therefore have a material adverse effect on our financial condition or results of operations.

***The apparel industry is highly competitive, and if we fail to compete effectively, we could lose our market position.***

The menswear industry is highly competitive in China and worldwide. We compete with various domestic brands with similar business models and target markets. We also compete with a growing number of international brands trying to expand their market share in China to take advantage of rising consumer spending on casual menswear. Our primary international and domestic competitors include Exceed, Xiniya, Cabbeen, GXG and NQ. Some of our competitors are significantly larger and have greater financial resources than we do. In order to compete effectively, we must: (1) maintain the image of our brands and our reputation for innovation and high quality; (2) be flexible and innovative in responding to rapidly changing market demands on the basis of brand image, style, performance and quality; and (3) offer consumers a wide variety of high quality products at competitive prices.

The purchasing decisions of consumers are highly subjective and can be influenced by many factors, such as brand image, marketing programs and product features. Some of our competitors enjoy competitive advantages, including greater brand recognition and greater financial resources for competitive activities, such

as sales, marketing and strategic acquisitions. The number of our direct competitors and the intensity of competition may increase as we expand into other product lines or as other companies expand into our product lines. Our competitors may enter into business combinations or alliances that strengthen their competitive positions or prevent us from taking advantage of such combinations or alliances. Our competitors also may be able to respond more quickly and effectively than we can to new or changing opportunities, standards or consumer preferences. Our results of operations and market position may be adversely impacted by our competitors and the competitive pressures in the menswear industries.

***Failure to effectively promote or develop our brand could materially and adversely affect our sales and profits.***

We sell all our products under the KBS brand, from which we derive most of our revenues. Brand image is an important factor that affects a customer's purchasing decision for menswear products. Our success therefore depends on, among other things, market recognition and acceptance of the KBS brand and the culture, lifestyle, and images associated with the brand, some of which may not be within our control. We have limited control over our distributors that we rely upon to sell our products, which may limit our ability to ensure a consistent brand image. See "Risks Factors Relating to Our Business –We have limited control over the ultimate retail sales by our distributors and our image and business may be adversely affected if our distributors fail to adhere to, or fail to cause the third party retail outlet operators to adhere to, our retail policies and standards." We began designing, promoting, and selling KBS branded products in China in 2006. To effectively promote KBS brand, we need build and maintain the brand image by focusing on a variety of promotional and marketing activities to promote brand awareness, as well as to increase its presence in the markets in which we compete. There is no assurance that we will be able to effectively promote or develop KBS brand, and if we fail to do so, the goodwill of KBS brand may be undermined and our business as well as our financial results may be adversely affected. In addition, negative publicity or disputes regarding KBS brand, products, company, or management could materially and adversely affect public perception of KBS brand. Any impact on our ability to continue to sell KBS brand or any significant damage to KBS brand's image could materially and adversely affect our sales and profits.

***Our business depends substantially on the continuing efforts of our senior executives and other key personnel, and our business may be severely disrupted if we lose their services.***

Our future success heavily depends on the continued service of our senior executives and other key employees. In particular, we rely on the expertise, experience, and business contacts, of Mr. Keyan Yan, our Chairman and Chief Executive Officer, Ms. Lixia Tu, our Director and Chief Financial Officer and Mr. Themis Kalapotharakos, our director. If one or more of our senior executives are unable or unwilling to continue to work for us in their present positions, we may have to spend a considerable amount of time and resources searching, recruiting, and integrating the replacements into our operations, which would substantially divert management's attention from and severely disrupt the Company business. This may also adversely affect our ability to execute our business strategy. Moreover, if any of our senior executives joins a competitor or forms a competing company, we may lose customers, suppliers and key employees.

---

4

***Failure to execute our business expansion plan could adversely affect our financial condition and results of operations.***

A large part of our initial growth resulted from an increase in the number of our retail sales outlets, including corporate and franchised stores, and the increased sales volume and profitability provided by these sales outlets. The number of our sales outlets increased from 8 in 2006 to 40 in year 2017. In the future, we intend to invest more resources to improve brand recognition, starting from 2015 we had new channel of sales wholesaling to some online shops or multi brand shops, the profitability of these part sales are lower than franchised stores or corporate stores. For the future's new channel of sales, we cannot guarantee an increase in new sales or improved profitability of it.

We have our factory located in Taihu City in Anhui Province, China, consisting of an aggregate of 110,457 square meters of land. Currently the facility there has a production capacity of 2 million pieces of clothes per year and can accommodate 5,000 workers. This production facility mainly produces original equipment manufacturer (OEM) products for famous sportswear producers and some overseas orders. The construction commenced in 2011 and is to take place in four phases: Phase 1 consists of a 5-story dormitory; Phase 2 is to add facilities with annual production capacity of five million pieces of clothes. We have completed the construction of property by the end of 2014. Phase 3 construction of the adjacent facility on the third parcel of land has been delayed because the local government needs additional time to conclude negotiations with local residents over appropriate resettlement terms. Because the time for the government to resolve this matter is uncertain, we wrote off the land use right of the third parcel of land from account balance, according to the international framework reporting standard. Phase 4 includes building production facilities with annual production capacity of 10 million pieces, an office building, staff quarters and living facilities on the third parcel of land. As a result, our commitments to this facility may reduce our liquidity for an indefinite period and until it is completed. We could also indefinitely lose opportunities to expand our sales due to any further delay of our construction.

The decision to increase our production capacity was based in part on our projections of market demand for our products and OEM orders from other brand name owners. If actual customer demand does not meet our projections, we will likely suffer overcapacity problems and may have to leave capacity idle or need to contract out our facilities at an unfavorable price, which may reduce our overall profitability and adversely affect our financial condition and results of operations. Our future success depends on our ability to expand the Company's business to address growth in demand for our current and future products.

Our ability to expand the Company's business is subject to significant risks and uncertainties, including:

- the unavailability of additional funding to invest more in brand recognition such as advertisement, expand our production capacity, purchase additional fixed assets and purchase raw materials on favorable terms or at all;
- our inability to manage an online shop, hire qualified personnel and establish distribution methods;
- conditions in the commercial real estate market existing at the time we seek to expand;
- delays and cost overruns as a result of a number of factors, many of which may be beyond our control, such as problems with equipment vendors and contract manufacturers;
- failure to maintain high quality control standards;
- shortage of raw materials;
- our inability to obtain, or delays in obtaining, required approvals by relevant government authorities;
- diversion of significant management attention and other resources; and
- failure to execute our expansion plan effectively.

The expansion of our business may place significant strain on our personnel, management, financial systems and operational infrastructure and may impede our ability to meet any increased demand for our products. To accommodate the Company's growth, we will need to implement a variety of new and upgraded operational and financial systems, procedures, and controls, including improvements to our accounting and other internal management systems, by dedicating additional resources to our reporting and accounting function and improvements to our record keeping and contract tracking system. We will also need to recruit more personnel and train and manage our growing employee base. Furthermore, we will need to maintain and expand relationships with our current and future customers, suppliers, distributors and other third parties, and there is no guarantee that we will succeed.

---

5

If we encounter any of the risks described above or if we are otherwise unable to establish or successfully operate online shops or additional production capacity, we may be unable to grow our business and revenues, reduce our operating costs, maintain our competitiveness or improve our profitability and, consequently, our business, financial condition, results of operations and prospects will be adversely affected.

***If we are unable to fund capital expenditures or obtain additional sources of liquidity when we need it, our business may be adversely affected. In addition, if we obtain equity financing, the issuance of our equity securities could cause dilution for our stockholders. To the extent we obtain the financing through the issuance of debt securities, our debt service obligations could increase and we may become subject to restrictive operating and financial covenants.***

We anticipate that we will make substantial capital investments to expand our business within the next 3 years. For the fiscal years ended December 31, 2017 and 2016, we paid approximately \$946,882 and \$40,037, respectively, for capital expenditures, which include expenses related to our second and third phase construction of production facility, purchasing and upgrading production equipment, install fire-fighting equipment, upgrading of our point-of-sale and enterprise resource.

There was approximately \$3.8 million of cash released from the trust account to us immediately following the closing of our share exchange transaction with KBS International on August 1, 2014. However, there is no assurance that we will have sufficient cash to fund our anticipated capital expenditures. If we need but are unable to obtain adequate financing or financing on terms favorable to us, we may be unable to successfully maintain our operations and accomplish our growth strategy. In addition, we may be unable to generate sufficient cash internally or obtain alternative sources of capital to fund our proposed capital expenditures, take advantage of business opportunities or respond to competitive pressures. As a result, we may seek to sell additional equity securities, debt securities, or borrow from lending institutions. Any issuance of equity securities could cause dilution for our stockholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. Our ability to obtain external financing in the future is also subject to a number of uncertainties, including:

- Our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by companies in our industry;
- economic, political and other conditions in China and elsewhere; and
- uncertain economic prospect and tightened credit markets resulting from the recent global economic slowdown and financial market crisis.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, or at all, our growth prospects and future profitability may be materially adversely affected. Adverse changes in the capital markets could make it difficult to obtain capital or obtain it at attractive rates.

***Our past results may not be indicative of our future performance and evaluating our business and prospects may be difficult.***

Our business has gone through various stages of the business life cycle in recent years as demonstrated by our growth in net sales, which reached \$99.6 million for the year ended December 31, 2013, while in 2014 our net sales decreased by 40% to \$58.8 million and in year 2015 net sales went up slightly by 4.3% to \$61.3 million, our net sales decreased by 32.8% to \$41.2 million in 2016 and net sales further decreased 42% to \$23.8 million in 2017. The decrease in sales in 2015, 2016 and 2017 as compared with 2013 was mainly due to the slowdown of the Chinese economic growth and a challenging retail environment. As a result, we cannot assure that we will be able to achieve similar growth in future periods as recent years before 2014, and our historical operating results may not provide a meaningful basis for evaluating our business, financial performance and prospects. Moreover, our ability to achieve satisfactory production results at higher volumes is unproven. Therefore, you should not rely on our past results or our historical rate of growth as an indication of our future performance.

***We experience fluctuations in operating results.***

Our annual and quarterly operating results have fluctuated, and are expected to continue to fluctuate. Among the factors that may cause our operating results to fluctuate are customers' response to merchandise offerings, the timing of the rollout of new sales outlets, seasonal variations in sales, the timing of merchandise receipts, the level of merchandise returns, changes in merchandise mix and presentation, our cost of merchandise, unanticipated operating costs, and other factors beyond our control, such as general economic conditions and actions of competitors.

We have historically experienced seasonal fluctuations in our sales. A substantial portion of our revenues are typically earned during the second and fourth quarters and we generally experience lowest revenues during the first and third quarters. If sales during the second and fourth quarters are lower than expected, our operating results would be adversely affected, and it would have a disproportionately large impact on our annual operating results. The sales of our products are also affected by local spending behavior, which are typically affected by seasonal shopping patterns during major Chinese holidays. Extreme changes in weather patterns could also affect customers' purchasing behavior, which may lead to fluctuations in our net sales. For example, extended periods of unusually warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with such unusual weather conditions. These extreme or unusual weather conditions could have a material adverse effect on our results of operations.

As a result of these factors, we believe that period-to-period comparisons of historical and future results will not necessarily be meaningful and should not be relied on as an indication of future performance.

***Our failure to collect the trade receivables or untimely collection could affect our liquidity.***

Our distributors place advance purchase orders twice a year. From 2015 to 2017, we typically expect and receive payment within 30-180 days of product delivery. In addition, we had about 66.8% of accounts receivables are within a 180 days credit term. Starting in September 2015, we extended credit to some of our customers to 150-180 days without requiring collaterals. We perform ongoing credit evaluations of the financial condition of our customers and we generally require no collateral from our distributors and authorized retailers to secure their payment obligations. However, our sales going forward may rely more heavily on credit, and if we encounter future problems collecting amounts due from our clients or if we experience delays in the collection of amounts due from our clients, our liquidity could be negatively affected.

The Chinese economy experienced a softening of economic growth, and the apparel industry is also facing a downturn. The impact of the current and possible future economic downturn on our distributors cannot be predicted and may be severe, causing a significant impact on their business. As a result, our financial condition and result of operations could be negatively affected. In addition, if they cannot continue their orders of our products due to the failure of paying us for its previous purchases, our brand image and reputation may be materially negatively affected as well.

***We rely on distributors for a substantial portion of our sales and the loss of any of our large distributors would harm our business.***

A substantial portion of our sales are made to distributors that resell our products. For the years ended December 31, 2016 and 2017, distributors accounted for approximately 67% and 66.5% of our total sales, respectively, and our top five distributors accounted for approximately 24.5% and 23.8% of our total sales, respectively. The marketing efforts of our distributors are critical for our success. If we fail to attract additional distributors, and our existing distributors do not promote our products at the same or at a greater level than the products of our competitors, our business, financial condition and results of operations could be adversely affected.

Furthermore, there is no assurance that any of our distributors will satisfy the sales targets set forth in their distribution agreements and we or they may not wish to

renew the distribution agreements in future years. Moreover, our distributors are not obliged to place orders to replace any such lost sales on terms satisfactory to us or before or at all and there is no assurance that we would be able to obtain orders from other distributors to replace any such lost sales on terms satisfactory to us or all. If any of our largest distributors substantially reduces its purchases from us, or otherwise fails to renew its distribution agreement with us, we may suffer a significant loss of sales and our business, results of operations, and financial condition may be materially and adversely affected.

***We have limited control over the ultimate retail sales by our distributors and our image and business may be adversely affected if our distributors fail to adhere to, or fail to cause the third party retail outlet operators to adhere to, our retail policies and standards.***

We rely on the contractual obligations set forth in the distribution agreements that we enter into with our distributors, as well as policies and standards we formulate from time to time, to impose our retail policies on these distributors in respect of the franchisee retail outlets. In addition, as we do not enter into any agreements with the third party retail outlet operators, we rely on our distributors to ensure that these franchisee retail outlets operate in accordance with our retail policies. As such, our control over the ultimate retail sales by our distributors and the franchisee retail outlet operators is limited. There is no assurance that our distributors or the third party franchisee retail outlet operators will comply with, or that the distributors will enforce, our retail policies. As a result, we may not be able to effectively manage our sales network or maintain a uniform brand image, and cannot assure you that franchisee retail outlets would continue to offer quality services to consumers.

In addition, if any of the distributors or third party franchisee retail outlet operators experiences difficulties in selling our products in the retail market, they may attempt to disregard our pricing policies and liquidate their excessive inventory buildup through aggressive discounts, which may damage the image and the value of our brand. There is no assurance that we will be able to, in a timely manner, impose penalties on or replace any distributors who consistently fail to comply with, or fail to cause the third party franchisee retail outlet operators appointed by them to comply with, our retail policies in their operation of franchisee retail outlets. In such event, our business, results of operations and financial condition may be materially and adversely affected.

***We may not be able to accurately track the inventory levels at our distributors, retailers or department store concessions.***

Our ability to track the sales by our distributors to third-party retailers and the ultimate retail sales by the retailers, and consequently their respective inventory levels, is limited. We implement a policy to require our distributors to provide us with their sales reports on a weekly basis and we carry out random on-site inspections of our distributors to track their inventories. The purpose of tracking the inventory level is mainly to gather information regarding the market acceptance of our products so that we can reflect consumers' preferences in the design and development of our products for the next season. The tracking of inventory level also helps us to understand the market recognition of our products in a particular region, and thus allows us to adjust our marketing strategy if necessary. The implementation of the policy, however, requires the distributors to accurately report the relevant data to us in a timely manner, which is largely dependent on the cooperation of the Company's distributors. We may not always obtain the required data in time and the data provided to us by our distributors may be inaccurate or incomplete.

We plan to implement an enterprise resource planning system, or ERP system in next stage, which will allow us to track sales at the authorized retail outlets on a timely basis. Such system is expected to facilitate the processing of basic replenishment orders from our distributors, the movement of products through our authorized retail network, and the collection of information for planning and forecasting purposes. If we are unable to roll out the ERP system as planned, we would not be able to accurately track our inventory levels on a timely basis. Inaccurate, mistaken, incomplete or delayed data regarding inventory levels may mislead the Company to make wrong business judgments for its production, marketing efforts and sales strategies. If that happens, our operations and financial results may be materially adversely affected. In addition, if we cannot manage inventory levels properly, future orders of our products may be reduced, which would materially adversely affect our future business, financial condition, results of operation and prospects.

***Our operations could be materially adversely affected if we fail to effectively manage our relationships with, or lose the services of, our OEM contract manufacturers.***

The production of our brand name products are 100% outsourced to PRC-based third party OEM contract manufacturers. In the years ended December 31, 2017 and 2016 we had 5 and 6 contract manufacturers, respectively. Purchases from our top five OEM contract manufacturers accounted for approximately 88.6% and 98% of our total purchases for the years ended December 31, 2017 and 2016, respectively. As we do not enter into long-term contracts with our OEM contract manufacturers, they may decide not to accept our future OEM orders on the same or similar terms, or at all. If an OEM contract manufacturer decides to substantially reduce its volume of supply to us or to terminate its business relationship with us, we may not be able to find a proper replacement in a timely manner and may be forced to default on the agreements with our distributors that sell our products. This may negatively impact our revenues and adversely affect our reputation and relationships with our distributors that sell our products, causing a material adverse effect on our financial condition, results of operations and prospects.

Further, if any of our OEM contract manufacturers fails to provide the required number of products meeting our quality standards, we may have to delay delivery of products to our distributors, become unable to supply products at all, or even recall products previously dispatched. This could cause the Company to lose revenues or market share and damage our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, some OEM contract manufacturers may not fully comply with certain laws, such as labor and environmental laws. If any of our OEM contract manufacturers is found to have violated laws and regulations in the PRC, media reports on such violations may negatively affect our reputation and image, resulting in material adverse impact on our business, financial condition and results of operations.

While we provide the designs of our products to the OEM contract manufacturers, as well as guidance for manufacturing the products ordered by us, we do not have direct control over the OEM contract manufacturers. If any of them is involved in unauthorized production and sale of goods using the KBS brand, our reputation, financial condition and results of operations may be materially adversely affected.

As the Company grows, our reliance on OEM contract manufacturers may also grow as our added production capacity may not be sufficient to keep pace with the increased production requirements driven by our growth. We may not be able to find sufficient additional OEM contract manufacturers to produce our products on the same or similar terms as our existing OEM contract manufacturers, and we may not be able to achieve our growth and development goals.

***Any interruption in our operations could impair our financial performance and negatively affect our brand.***

Our operations are complicated and integrated, involving the coordination of third party OEM contract manufacturers and external distribution processes. While these operations are modified on a regular basis in an effort to improve outsourcing and distribution efficiency and flexibility, we may experience difficulties in coordinating the various aspects of our operations processes, thereby causing downtime and delays. In addition, we may encounter interruption in our operations processes due to a catastrophic loss or events beyond our control, such as fires, explosions, labor disturbances or violent weather conditions. Any interruptions in our operations or capabilities at our facilities could result in our inability to procure our products, which would reduce our net sales and earnings for the affected period. If there is a delays in delivery times to our customers, our business and reputation could be severely affected. Any significant delays in deliveries to our customers could lead to increased returns or cancellations and cause the Company to lose future sales. The Company currently does not have business interruption insurance to offset these potential losses, delays and risks so a material interruption of our business operations could severely damage our business.

***We rely heavily on our management information system for inventory management, distribution and other functions. If our system fail to perform these functions adequately or if we experience an interruption in our operation, our business and results of operations could be materially adversely affected.***



We cannot assure you that our management information system will operate properly or without interruption. Any malfunction to any part or all of our management information system for a prolonged period may cause delays in operations or impairment of our overall business efficiency. We also cannot ensure that the level of security currently maintained will be sufficient to protect the system from third party intrusions, viruses, lost or stolen data, or similar situations. Additionally, as part of our growth and development strategy over the next few years, we plan to upgrade and improve our management information system. We cannot assure you that there will be no interruptions to our management information system during the upgrades or that the new management information system will be able to integrate fully with the existing information system.

The failure of our management information system to perform as we anticipate could disrupt our business and could result in decreased revenue, increased overhead costs and excess or out-of-stock inventory levels, causing our business and results of operations to suffer materially.

***Failure to protect the integrity, security and use of our customers' information and media could expose us to litigation and materially damage our standing with our customers.***

Increasing costs associated with information security — such as increased investment in technology, the costs of compliance with consumer protection laws and costs resulting from consumer fraud — could cause our business and results of operations to suffer materially. While we have taken significant steps to protect customer and confidential information, including entering into confidentiality agreements with relevant employees and incorporate confidentiality clauses in our policies, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other developments will prevent the compromise of our customer transaction processing capabilities and personal data. If any such compromise of our security were to occur, it could have a material adverse effect on our reputation, operating results and financial condition. Any such compromise may materially increase the costs we incur to protect against such information security breaches and could subject us to additional legal risk. Procurement specialists and managers are required to sign a confidentiality agreement.

***We have limited insurance coverage in China and may not be able to recover insurance proceeds if we experience uninsured losses.***

Operation of our facilities involves many risks, including equipment failures, natural disasters, industrial accidents, power outages, labor disturbances and other business interruptions. We do not carry any business interruption insurance, product recall or third-party liability insurance for our production facilities or with respect to our products to cover claims pertaining to personal injury or property or environmental damage arising from defects in our products, product recalls, accidents on our property or damage relating to our operations. While business interruption insurance and other types of insurance are available to a limited extent in China, we have determined that the risks of interruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Therefore, our existing insurance coverage may not be sufficient to cover all risks associated with our business. As a result, we may be required to pay for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond our control, out of our own funds, which could have a material adverse effect on our business, financial condition and results of operations.

***Our inability to protect our trademarks and other intellectual property rights may prevent us from successfully marketing our products and competing effectively.***

We believe our trademarks and other intellectual property rights are important to our success and competitive position and recognize the importance of registering the trademarks related to our KBS brand for protection against infringement. We currently hold two registered trademarks. Failure to protect our intellectual property could harm our brand and our reputation, and adversely affect our ability to compete effectively. Further, enforcing or defending our intellectual property rights, including our trademarks, patents, copyrights and trade secrets, could result in the expenditure of significant financial and managerial resources. We produce, market and sell our products under registered trademarks. We regard our intellectual property, particularly our trademarks and trade secrets to be of considerable value and importance to our business and our success. We rely on a combination of trademark, patent, and trade secrecy laws, and contractual provisions to protect our intellectual property rights. There can be no assurance that the steps taken by us to protect these proprietary rights will be adequate or that third parties will not infringe or misappropriate our trademarks, trade secrets or similar proprietary rights. In addition, there can be no assurance that other parties will not assert infringement claims against us, and we may have to pursue litigation against other parties to assert our rights. Any such claim or litigation could be costly and we may lack the resources required to defend against such claims. In addition, any event that would jeopardize our proprietary rights or any claims of infringement by third parties could have a material adverse effect on our ability to market or sell our brands, and profitably exploit our products.

***Environmental regulations impose substantial costs and limitations on our operations.***

We use chemicals and produces significant emissions in our manufacturing operations. As such, we are subject to various national and local environmental laws and regulations in China concerning issues such as air emissions, wastewater discharges, and solid waste management and disposal. These laws and regulations can restrict or limit our operations and expose us to liability and penalties for non-compliance. While we believe that our facilities are in material compliance with all applicable environmental laws and regulations, the risks of substantial unanticipated costs and liabilities related to compliance with these laws and regulations are an inherent part of our business. It is possible that future conditions may develop, arise or be discovered that create new environmental compliance or remediation liabilities and costs. While we believe that we can comply with existing environmental legislation and regulatory requirements and that the costs of compliance have been included within budgeted cost estimates, compliance may prove to be more limiting and costly than anticipated.

***We may be unable to establish and maintain an effective system of internal control over financial reporting, and, as a result, we may be unable to accurately report our financial results or prevent fraud.***

We are subject to reporting obligations under the U.S. securities law. The SEC as required by Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX 404”), adopted rules requiring every public company to include a management report on such company’s internal control over financial reporting in its annual report, which must also contain management’s assessment of the effectiveness of the company’s internal control over financial reporting. In addition, the independent registered public accounting firm auditing the financial statements of a company that is not a non-accelerated filer under Rule 12b-2 of the Exchange Act must also attest to the operating effectiveness of the company’s internal controls.

Failure to achieve and maintain an effective internal control environment could result in our inability to accurately report our financial results, prevent or detect fraud or provide timely and reliable financial and other information pursuant to the reporting obligations we have as a public company, which could have a material adverse effect on our business, financial condition and results of operations. Further, it could cause our investors to lose confidence in the information we report, which could adversely affect our stock price.

## **RISKS RELATED TO DOING BUSINESS IN CHINA**

***Our business operation may be affected if we are forced to relocate our manufacturing facilities and stores.***

We leased the premises for our office located in Shishi and one corporate store. However, none of our lease agreements have been registered with the relevant governmental agencies. According to our PRC legal counsel, Grandall Law Firm (Beijing), without registration, our rights to use and occupy the premises may not be secured if any third parties such as other tenants who have registered their lease agreements challenge us under PRC law. Moreover, while we have taken various

measures to verify the ownership of property such as checking utility bills and search government records, most of our landlords have declined to confirm whether they possess the property ownership certificates and land use rights certificates for our properties. As a result, we have been unable to verify whether third parties may assert their ownership rights under PRC law against most of our landlords or challenge most of our leases in the future. If our rights to use the premises are challenged, we may be forced to relocate to other premises. We may not be able to relocate to a suitable premise promptly or lease alternative premises on terms at least as favorable as our existing ones. In addition, relocation costs and interruption of production may have a material adverse effect on our business operation and financial performance.

***Changes in the economic and political policies of the PRC government could have a material and adverse effect on our business and operations.***

We conduct substantially all our business operations in China. Accordingly, our results of operations, financial condition and prospects are significantly dependent on economic and political developments in China. China's economy differs from the economies of developed countries in many aspects, including the level of development, growth rate and degree of government control over foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past 30 years, the growth has been uneven across different regions and periods and among various economic sectors in China. We cannot assure you that China's economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on its business and results of operations.

The PRC government exercises significant control over China's economic growth through the allocation of resources, control over payment of foreign currency-denominated obligations, implementation of monetary policy, and preferential treatment of particular industries or companies. Certain measures adopted by the PRC government may restrict loans to certain industries, such as changes in the statutory deposit reserve ratio and lending guidelines for commercial banks by the People's Bank of China, or PBOC. These current and future government actions could materially affect our liquidity, access to capital, and ability to operate our business.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. Since 2012, growth of the Chinese economy has slowed. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall PRC economy but may also have a negative effect on us. Our financial condition and results of operation could be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, any stimulus measures designed to boost the Chinese economy, may contribute to higher inflation, which could adversely affect our results of operations and financial condition. See "Risks Related to Doing Business in China -Future inflation in China may inhibit our ability to conduct business in China."

***Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.***

We conduct substantially all of our business through our operating subsidiaries in the PRC. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations, and rules are not always uniform, and enforcement of these laws, regulations, and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, most of our executive officers and directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

***You may have difficulty enforcing judgments against us.***

Most of our assets are located outside of the United States and most of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts judgments on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. Our counsel as to PRC law, Grandall Law Firm (Beijing), has advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. Courts in China may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security, or the public interest. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

***The PRC government exerts substantial influence over the manner in which we must conduct our business activities.***

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property, and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures

***Restrictions on currency exchange may limit our ability to receive and use our sales effectively.***

The majority of our sales will be settled in RMB and U.S. dollars, and any future restrictions on currency exchanges may limit our ability to use revenue generated in RMB to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the RMB for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies after providing valid commercial documents, at those banks in China authorized to conduct foreign exchange business. In addition, conversion of RMB for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the RMB in the future.

***Fluctuations in exchange rates could adversely affect our business and the value of our securities.***

the value of our securities will be indirectly affected by the foreign exchange rate between the U.S. dollar and RMB and other currencies in which our sales may be denominated. Appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars, as well as earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB has no longer been pegged to the U.S. dollar. However, the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over the following three years. From July 2008 to June 2010, the RMB traded within a narrow range against the U.S. dollar. Since June 2010 the RMB has further appreciated against the U.S. dollar, from approximately RMB6.83 per U.S. dollar as of June 1, 2010 to approximately RMB 6.53 per U.S. dollar as of December 31, 2017. It is difficult to predict how RMB exchange rates may change going forward.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

***Restrictions under PRC law on our PRC subsidiaries' ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our business.***

Substantially all of our sales are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent companies. PRC legal restrictions permit payments of dividends by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required under PRC laws and regulations to allocate at least 10% of their annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of their registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances, or cash dividends. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

***Failure to comply with PRC regulations relating to the investment in offshore special purpose companies by PRC residents may subject our PRC resident stockholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us.***

On July 14, 2014, the SAFE issued the Circular Relating to Foreign Exchange Administration of Offshore Investment, Financing and Roundtrip Investment by Domestic Residents Through Special Purpose Vehicles, or Circular 37. Circular 37 repeals and replaces the Notice Concerning Foreign Exchange Controls on Domestic Residents' Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles, or Circular 75. Under Circular 37, PRC residents are required to register with the SAFE or its local branches prior to establishing, or acquiring control of, an offshore company for the purpose of investment or financing that offshore company with equity interests in, or assets of, a PRC enterprise or with offshore equity interest or assets legally held by such PRC resident. In addition, PRC residents are required to amend their registrations with the SAFE and its local branches to reflect any material changes with respect to such PRC resident's investment in such offshore company, including changes to basic information of such PRC resident, increase or decrease in capital, share transfer or share swap, merger or division. In the event that a PRC shareholder fails to make the required registration or update the previously filed registration, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company, and the offshore parent company may also be prohibited from contributing additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various foreign exchange registration requirements described above could result in liability under the PRC laws for evasion of applicable foreign exchange restrictions.

We do not have control over our beneficial owners and cannot assure you that all of our PRC resident beneficial owners will comply with SAFE regulations. The failure of our beneficial owners who are PRC residents to comply with these SAFE registrations may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Furthermore, since Circular 37 was recently promulgated and it is unclear how this regulation, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant PRC government authorities, we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

***Our business and financial performance may be materially adversely affected if the PRC regulatory authorities determine that our acquisition of Hongri PRC constitutes a Round-trip Investment without MOFCOM approval.***

On August 8, 2006, six PRC regulatory agencies promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors (the "Foreign M&A Rule"), which became effective on September 8, 2006 and was amended on June 22, 2009.

According to the Foreign M&A Rule, a "Round-trip Investment" is defined as having taken place when a PRC business that is owned by PRC individual(s) is sold to a non-PRC entity that is established or controlled, directly or indirectly, by those same PRC individual(s). Under the Foreign M&A Rule, any Round-trip Investment must be approved by MOFCOM, and any indirect arrangement or series of arrangements which achieves the same end result without the approval of MOFCOM is a violation of PRC law.

Our Hong Kong subsidiary Vast Billion Investment Limited ("Vast Billion") acquired Hongri PRC in 2011 from Bizhen Chen and Keyan Yan. At the time of the acquisition, Hongri International, the parent company of Vast Billion, was owned and controlled by Mr. Sun Keung Chan and Ms. So Wa Cheung, both of whom are citizens of the Hong Kong Special Administrative Region. Mr. Yan entered into the Amended and Restated Option Agreement with Mr. Chan and Ms. Cheung, dated March 9, 2011, pursuant to which Mr. Yan was granted an option to acquire all of the shares of common stock that Mr. Chan and Ms. Cheung will acquire in Target in connection with the reverse acquisition, for an aggregate exercise price of RMB 131,409 (approximately \$20,000). Mr. Yan may exercise this option during the period commencing on the date which is six (6) months after the date on which the first registration statement is filed by the Company under the Securities Act, and ending on the fifth anniversary thereof.

Because no Chinese nationals have direct stock ownership of either Hongri International or Vast Billion, we believe that the above transactions do not constitute a "Round-trip Investment" and therefore it has decided not to seek the approval from MOFCOM or China Securities Regulatory Commission ("CSRC"), pursuant to the Foreign M&A Rule. However, the PRC regulatory authorities may take the view that these transactions and the reverse acquisition of Hongri PRC are part of an overall series of arrangements which constitute a Round-trip Investment, because at the end of the transactions, the stockholders of Hongri PRC became majority owners and effective controlling parties of a foreign entity that acquired ownership of Hongri PRC.

If we are found to be in violation of the Foreign M&A Rule, the PRC regulatory authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income, revoking our PRC subsidiaries' business or operating licenses, requiring us to restructure or unwind the relevant ownership structure or operations. Any of these actions could cause significant disruption to our business operations and may materially and adversely affect our business,

financial condition and results of operations. We believe that we may be able to find a way to re-establish control of Hongri PRC's business operations through a series of contractual arrangements rather than an outright purchase of the equity of Hongri PRC. But we cannot assure you that such contractual arrangements will be protected by PRC law or that we can receive as complete or effective economic benefit and overall control of Hongri PRC's business than if we had direct ownership of Hongri PRC.

***Under the Enterprise Income Tax Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.***

On March 16, 2007, the National People's Congress of China passed a new Enterprise Income Tax Law, or the EIT Law, and on November 28, 2007, the State Council of China passed its implementing rules, which took effect on January 1, 2008. Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

On April 22, 2009, the State Administration of Taxation issued the Notice Concerning Relevant Issues Regarding Cognizance of Chinese Investment Controlled Enterprises Incorporated Offshore as Resident Enterprises pursuant to Criteria of de facto Management Bodies, or the Notice, further interpreting the application of the EIT Law and its implementation non-Chinese enterprise or group controlled offshore entities. Pursuant to the Notice, an enterprise incorporated in an offshore jurisdiction and controlled by a Chinese enterprise or group will be classified as a "non-domestically incorporated resident enterprise" if (i) its senior management in charge of daily operations reside or perform their duties mainly in China; (ii) its financial or personnel decisions are made or approved by bodies or persons in China; (iii) its substantial assets and properties, accounting books, corporate chops, board and shareholder minutes are kept in China; and (iv) at least half of its directors with voting rights or senior management often resident in China. A resident enterprise would be subject to an enterprise income tax rate of 25% on its worldwide income and must pay a withholding tax at a rate of 10% when paying dividends to its non-PRC shareholders. However, it remains unclear as to whether the Notice is applicable to an offshore enterprise incorporated by a Chinese natural person. Nor are detailed measures on imposition of tax from non-domestically incorporated resident enterprises are available. Therefore, it is unclear how tax authorities will determine tax residency based on the facts of each case.

We may be deemed to be a resident enterprise by Chinese tax authorities. If the PRC tax authorities determine that we are a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on financing proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as "tax-exempt income," we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new "resident enterprise" classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC stockholders from transferring our shares.

***Heightened scrutiny of acquisition transactions by PRC tax authorities may have a negative impact on Chinese company's business operations and its acquisition strategy.***

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or SAT Circular 698, effective on January 1, 2008, and the Announcement on Several Issues Related to Enterprise Income Tax for Indirect Asset Transfer by Non-PRC Resident Enterprises, or SAT Announcement 7, effective on February 3, 2015, issued by the SAT, if a non-resident enterprise transfers the equity interests of or similar rights or interests in overseas companies which directly or indirectly own PRC taxable assets through an arrangement without a reasonable commercial purpose, but rather to avoid PRC corporate income tax, the transaction will be re-characterized and treated as a direct transfer of PRC taxable assets subject to PRC corporate income tax. SAT Announcement 7 specifies certain factors that should be considered in determining whether an indirect transfer has a reasonable commercial purpose. However, as SAT Announcement 7 is newly issued, there is uncertainty as to the application of SAT Announcement 7 and the interpretation of the term "reasonable commercial purpose."

Under SAT Announcement 7, the entity which has the obligation to pay the consideration for the transfer to the transferring shareholders has the obligation to withhold any PRC corporate income tax that is due. If the transferring shareholders do not pay corporate income tax that is due for a transfer and the entity which has the obligation to pay the consideration does not withhold the tax due, the PRC tax authorities may impose a penalty on the entity that so fails to withhold, which may be relieved or exempted from the withholding obligation and any resulting penalty under certain circumstances if it reports such transfer to the PRC tax authorities.

Although SAT Announcement 7 is generally effective as of February 3, 2015, it also applies to cases where the PRC tax treatment of a transaction that took place prior to its effectiveness has not yet been finally settled. As a result, SAT Announcement 7 could be determined by PRC tax authorities to be applicable to the historical reorganization, and it is possible that these transactions could be determined by PRC tax authorities to lack a reasonable commercial purpose. As a result, the transfer of shares by certain shareholders to other parties could be subject to corporate income tax of up to 10% on capital gains generated from such transfers, and PRC tax authorities could impose tax obligations on the transferring shareholders or subject us to penalty if the transferring shareholders do not pay such obligations and withhold such tax.

SAT Announcement 7 and its interpretation by relevant PRC authorities clarify that an exemption provided by SAT Circular 698 for transfers of shares in a publicly-traded entity that is listed overseas is available if the purchase of the shares and the sale of the shares both take place in open-market transactions. However, if a shareholder of an entity that is listed overseas purchases shares in the open market and sells them in a private transaction, or vice-versa, PRC tax authorities might deem such a transfer to be subject to SAT Circular 698 and SAT Announcement 7, which could subject such shareholder to additional reporting obligations or tax burdens. Accordingly, if a holder of the Company's common stock purchases such common stock in the open market and sells them in a private transaction, or vice-versa, and fails to comply with SAT Circular 698 or SAT Announcement 7, the PRC tax authorities may take actions, including requesting to provide assistance for their investigation or impose a penalty on it, which could have a negative impact on the company's business operations.

***Our failure to fully comply with PRC laws relating to social insurance and housing accumulation fund may expose it to potential administrative penalties.***

The PRC laws and regulations require all employers in China to fully contribute their own portion to the social insurance and housing accumulation funds for their employees within a certain period of time. Failure to do so may expose the employers to make rectification for the unpaid contributions by the relevant labor authority.

As of the date of this report, Hongri PRC has not paid housing accumulation funds for its employees. In addition, Hongri PRC failed to make contributions to the social insurance in full amount for its employees before 2014. PRC governmental authorities may impose penalties on Hongri PRC for failure to comply. In addition, in the event that any current or former employee files a complaint with the PRC government, Hongri PRC may be subject to making up the contributions to the social insurance and housing accumulation funds as well as paying administrative fines. The total cost of these contributions and any related fines or penalties could be significant and could have a material adverse effect on our working capital.

***We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption laws, and any determination that we violated these laws***

We are subject to the Foreign Corrupt Practice Act (“FCPA”), and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. We have operations, have agreements with third parties, and make most of our sales in China. The PRC also strictly prohibits bribery of government officials. Our activities in China create the risk of unauthorized payments or offers of payments by the employees, consultants, sales agents, or distributors of our subsidiaries, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents, or distributors of our subsidiaries may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold our subsidiaries liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

***If we become directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation, and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.***

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered on financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to stockholder lawsuits, SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our subsidiaries, our business and our stock price after the Acquisition. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our subsidiaries. This situation may be costly and time consuming and distract our management from growing our company. If such allegations are not proven to be groundless, our subsidiaries and business operations may be severely and adversely affected and your investment in our stock could be rendered worthless.

***The disclosures in our reports and other filings with the SEC and our other public pronouncements will not be subject to the scrutiny of any regulatory bodies in the PRC. Accordingly, our public disclosure should be reviewed in light of the fact that no governmental agency that is located in China where all of our operations and business are located have conducted any due diligence on our operations or reviewed or cleared any of our disclosure.***

Unlike public reporting companies whose operations are located primarily in the United States, however, all of our operations will be located in China. Since all of our operations and business takes place in China, it may be more difficult for the Staff of the SEC to overcome the geographic and cultural obstacles that are present when reviewing our disclosure. These same obstacles are not present for similar companies whose operations or business take place entirely or primarily in the United States. Furthermore, our SEC reports and other disclosure and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review of the CSRC, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings and our other public pronouncements with the understanding that no local regulator has done any due diligence on our company and with the understanding that none of our SEC reports, other filings or any of our other public pronouncements has been reviewed or otherwise been scrutinized by any local regulator.

---

***Proceedings instituted by the SEC against five PRC-based accounting firms could result in financial statements being determined to be not in compliance with the requirements of the Securities Exchange Act of 1934.***

In December 2012, the SEC instituted proceedings under Rule 102(e)(1)(iii) of the SEC’s Rules of Practice against five PRC-based accounting firms alleging that these firms had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. Rule 102(e)(1)(iii) grants to the SEC the authority to deny to any person, temporarily or permanently, the ability to practice before the SEC who is found by the SEC, after notice and opportunity for a hearing, to have willfully violated, or willfully aided and abetted the violation of, any such laws or rules and regulations. On January 22, 2014, an initial administrative law decision was issued, sanctioning four of these accounting firms and suspending them from practicing before the SEC for a period of six months. The sanction will not take effect until there is an order of effectiveness issued by the SEC. In February 2014, four of these PRC-based accounting firms filed a petition for review of the initial decision. In February 2015, each of these four accounting firms agreed to a censure and to pay fine to the SEC to settle the dispute with the SEC. The settlement stays the current proceeding for four years, during which time the firms are required to follow detailed procedures to seek to provide the SEC with access to Chinese firms’ audit documents via the CSRC. If a firm does not follow the procedures, the SEC would impose penalties such as suspensions, or commence a new, expedited administrative proceeding against the non-compliant firm or it could restart the administrative proceeding against all four firms.

If our independent registered public accounting firm were denied, temporarily or permanently, the ability to practice before the SEC, and we are unable to find in a timely manner another registered public accounting firm which can audit and issue a report on our financial statements, our financial statements could be determined to not be in compliance with the requirements for financial statements of public companies with a class of securities registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such a determination could ultimately lead to the SEC’s revocation of the registration of our common stock under the Exchange Act, which would cause the immediate delisting of our common stock from the NASDAQ Capital Market, and the effective termination of the trading market for our common stock in the United States, which would likely have a significant adverse effect on the value of our common stock.

#### **RISKS RELATED TO THIS OFFERING AND THE MARKET FOR OUR SECURITIES GENERALLY**

***If we fail to comply with the continued listing requirements of NASDAQ, we would face possible delisting, which would result in a limited public market for our shares and make obtaining future debt or equity financing more difficult for us.***

Our common stock is traded and listed on the Nasdaq Capital Market under the symbol “KBSF.” The common stock may be delisted if we fail to maintain certain Nasdaq listing requirements. For instance, companies listed on NASDAQ are subject to delisting for, among other things, failure to maintain a minimum closing bid price per share of \$1.00 for 30 consecutive business days. On March 3, 2016, we received a letter from NASDAQ indicating that for the 30 consecutive business days between January 20, 2016 and March 2, 2016, the bid price of our common stock closed below the minimum \$1.00 per share requirement pursuant to NASDAQ Listing Rule 5550(a)(2) for continued inclusion on The NASDAQ Capital Market. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we had an initial grace period of 180 calendar days, or until August 30, 2016, to regain compliance with the minimum bid price requirement. After the Company effectuated a one-for-fifteen reverse stock split of the outstanding common stock, the Company received a letter from Nasdaq on February 27, 2017 stating that because the Company maintained the closing bid price of its common stock at \$1.00 per share or greater from February 9 to February 24, 2017, they determined that the Company has regained compliance with the minimum closing bid price requirement.

We cannot ensure you that we will continue to comply with the requirements for continued listing on The NASDAQ Capital Market in the future. If our common stock is no longer listed on The NASDAQ Capital Market, our shares would likely trade on the over-the-counter market. If our shares were to trade on the over-the-counter market, selling our shares could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts’ coverage of us may be reduced. In addition, in the event our shares are delisted, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in our shares, further limiting the liquidity of our shares. These factors could result in lower prices and larger spreads in the bid and ask prices for our shares. Such delisting from The NASDAQ Capital Market and continued or further declines in our share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing, and could significantly increase the ownership

---

***If we were delisted from NASDAQ, we may become subject to the trading complications experienced by “Penny Stocks” in the over-the-counter market.***

Delisting from NASDAQ may cause our shares of common stock to become the SEC’s “penny stock” rules. The SEC generally defines a penny stock as an equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to specific exemptions. One such exemption is to be listed on NASDAQ. The market price of our common stock is currently higher than \$1.00 per share. However, because the daily trading volume in our common stock is very low, significant price movement can be caused by the trading in a relatively small number of shares. Therefore, were we to be delisted from NASDAQ, our common stock may become subject to the SEC’s “penny stock” rules. These rules require, among other things, that any broker engaging in a purchase or sale of our securities provide its customers with: (i) a risk disclosure document, (ii) disclosure of market quotations, if any, (iii) disclosure of the compensation of the broker and its salespersons in the transaction and (iv) monthly account statements showing the market values of our securities held in the customer’s accounts. A broker would be required to provide the bid and offer quotations and compensation information before effecting the transaction. This information must be contained on the customer’s confirmation. Generally, brokers are less willing to effect transactions in penny stocks due to these additional delivery requirements. These requirements may make it more difficult for shareholders to purchase or sell our shares. Because the broker, not us, prepares this information, we would not be able to assure that such information is accurate, complete or current.

***Trading in our shares over the last three months has been very limited, so our stock price is highly volatile, leading to the possibility that you may not be able to sell as much stock as you want at prevailing prices.***

Because approximately 70% of our then issued and outstanding shares of common stock was tendered in the tender offering closed on July 29, 2014, we currently have a limited amount of shares eligible for public trading. The average daily trading volume in our common stock over the last three months is very limited. If limited trading in our common stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices. Moreover, the market price for shares of our common stock may be made more volatile because of the relatively low volume of trading in our common stock. When trading volume is low, significant price movement of our common stock can be caused by the trading in a relatively small number of shares. Volatility in our common stock could cause stockholders to incur substantial losses.

***Numerous factors, many of which are beyond our control, may cause the market price of our Common Stock to fluctuate significantly.***

There are numerous additional factors, many of which are beyond our control, may cause the market price of our Common Stock to fluctuate significantly. These factors include:

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our shares;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the our industries;
- customer demand for our products;
- investor perceptions of the our industry in general and our company in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;

- 
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
  - changes in accounting standards, policies, guidance, interpretation or principles;
  - loss of external funding sources;
  - sales of our shares, including sales by our directors, officers or significant shareholders; and
  - additions or departures of key personnel.

Securities class action litigation is often instituted against companies following periods of volatility in their share price. This type of litigation could result in substantial costs to us and divert our management’s attention and resources. Moreover, securities markets may from time to time experience significant price and volume fluctuations for reasons unrelated to operating performance of particular companies. For example, in July 2008, the securities markets in the United States, China and other jurisdictions experienced the largest decline in share prices since September 2001. These market fluctuations may adversely affect the price of our shares and other interests in our company at a time when you want to sell your interest in us.

***We do not intend to pay dividends for the foreseeable future.***

For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and do not anticipate paying any cash dividends on our shares. Accordingly, investors must be prepared to rely on sales of their shares after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our shares. Any determination to pay dividends in the future will be made at the discretion of our Board of Directors, and will depend on our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable laws, and other factors our board deems relevant.

***Certain of our shareholders hold a significant percentage of our outstanding voting securities.***

Mr. Keyan Yan, our Chairman and Chief Executive Officer, is the beneficial owner of approximately 48.05% of our outstanding voting securities. As a result, he possesses significant influence and can elect a majority of our board of directors and authorize or prevent proposed significant corporate transactions. His ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business

*We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act which allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies.*

We are an emerging growth company as defined in the JOBS Act, and will continue to be an emerging growth company until: (i) the last day of our fiscal year following the fifth anniversary of our initial public offering in 2012 (“IPO”), (ii) the date on which we become a large accelerated filer, or (iii) the date on which we have issued an aggregate of \$1 billion in non-convertible debt during the preceding 3 years. As an emerging growth company, we have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

***Our outstanding warrants may adversely affect the market price of our shares of common stock. [to be updated]***

There are currently 393,836 warrants outstanding. Each warrant entitles the holder to purchase one share of common stock at a price of \$172.5. The sale or possibility of sale of the shares underlying the warrants could have an adverse effect on the market price for our shares of common stock or our ability to obtain future financing. If and to the extent these warrants are exercised, you may experience dilution to your holdings.

***You will not be able to exercise your redeemable warrants if we do not have an effective registration statement and a prospectus in place when you desire to do so.***

No redeemable warrants will be exercisable, and we will not be obligated to issue shares of common stock upon exercise of redeemable warrants by a holder unless, at the time of such exercise, we have a registration statement or post-effective amendment under the Securities Act covering the shares of common stock issuable upon the exercise of the redeemable warrants and a current prospectus relating to shares of common stock. Under the terms of a redeemable warrant agreement between American Stock Transfer & Trust Company as warrant agent, and us, we have agreed to use our best efforts to have a registration statement in effect covering shares of common stock issuable upon exercise of the redeemable warrants from the date the redeemable warrants become exercisable and to maintain a current prospectus relating to shares of common stock until the redeemable warrants expire or are redeemed, and to take such action as is necessary to qualify the shares of common stock issuable upon exercise of the redeemable warrants for sale in those states in which the IPO was initially qualified. However, we cannot assure you that we will be able to do so. We may be unable to have a registration statement in effect covering shares of common stock issuable upon exercise of the redeemable warrants or to maintain a current prospectus relating to such shares of common stock if, for example, we lack the current financial statements necessary to be included in such registration statement or prospectus. We have no obligation to settle the redeemable warrants for cash, in any event, and the redeemable warrants may not be exercised and we will not deliver securities therefor in the absence of an effective registration statement and a prospectus available for use. The redeemable warrants may be deprived of any value, the market for the redeemable warrants may be limited if there is no registration statement in effect covering the shares of common stock issuable upon the exercise of the redeemable warrants or the prospectus relating to the shares of common stock issuable upon the exercise of the redeemable warrants is not current and the redeemable warrants may expire worthless. If you are unable to exercise or sell your redeemable warrants, you will have paid the full unit price for only the shares of common stock underlying the units.

***Holders of warrants included in the placement units may exercise these warrants even if an effective registration statement and a prospectus is not in place, which means they may be able to exercise such warrants while public warrants might not be exercisable and may expire worthless.***

Unlike the warrants underlying the units issued in connection with our IPO, the warrants included in the placement units will not be restricted from being exercised in the absence of a registration statement under the Securities Act in effect covering the shares of common stock issuable upon the exercise of the such warrants and a current prospectus relating to shares of common stock. Therefore, the holders thereof will be able to exercise such warrants regardless of whether the issuance of the underlying shares of common stock is registered under the Securities Act, while public warrants might not be exercisable and may expire worthless.

***We are a “foreign private issuer” and have disclosure obligations that are different than those of U.S. domestic reporting companies, so you should not expect to receive the same information about us as a U.S. domestic reporting company may provide. Furthermore, if we or lose our status as a foreign private issuer, we would be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers and would incur significant operational, administrative, legal and accounting costs that we would not incur as a foreign private issuer.***

We are a foreign private issuer as defined in Rule 405 under the Securities Act and, as a result, we are not subject to certain of the requirements imposed upon U.S. domestic issuers by the SEC. For example, we are not required by the SEC or the federal securities laws to issue quarterly reports or file proxy statements with the SEC. We are also allowed to file our annual report with the SEC within four months of our fiscal year end. We are also not required to disclose certain detailed information regarding executive compensation that is required from U.S. domestic issuers. Further, our directors and executive officers are not required to report equity holdings under Section 16 of the Securities Act. As a foreign private issuer, we are also exempt from the requirements of Regulation FD (Fair Disclosure) which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. We are, however, still subject to the anti-fraud and anti-manipulation rules of the SEC, such as Rule 10b-5. Since many of the disclosure obligations required of us as a foreign private issuer are different than those required by U.S. domestic reporting companies, our shareholders should not expect to receive all of the same types of information about us and at the same time as information is received from, or provided by, U.S. domestic reporting companies. We are liable for violations of the rules and regulations of the SEC which do apply to us as a foreign private issuer. Violations of these rules could affect our business, results of operations and financial condition.

If we lose our status as a foreign private issuer at some future time, we will be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers and would incur significant operational, administrative, legal and accounting costs that it would not incur as a foreign private issuer.

***As a foreign private issuer, we are permitted to rely on exemptions from certain Nasdaq corporate governance standards applicable to domestic U.S. issuers. This may afford less protection to holders of our securities.***

We are exempted from certain corporate governance requirements of the Nasdaq Stock Market by virtue of being a foreign private issuer. As a foreign private issuer, we are permitted to follow the governance practices of our home country, the Republic of the Marshall Islands in lieu of certain corporate governance requirements of Nasdaq. As result, the standards applicable to us are considerably different than the standards applied to domestic U.S. issuers. For instance, we are not required to:

- have a compensation committee and a nominating committee to be comprised solely of “independent directors; and
- hold an annual meeting of shareholders no later than one year after the end of the Company’s fiscal year-end.

As a result, you may not have the same protections afforded to shareholders of companies that are subject to all of the Nasdaq corporate governance requirements.

As of the date of this report, we have 2,271,299 shares of common stock outstanding. Many of these shares will become eligible for sale in the public market, subject to limitations imposed by Rule 144 under the Securities Act. If the holders of these shares were to attempt to sell a substantial amount of their holdings at once, the market price of our common stock could decline. Moreover, the perceived risk of this potential dilution could cause shareholders to attempt to sell their shares and investors to short the common stock, a practice in which an investor sells shares that he or she does not own at prevailing market prices, hoping to purchase shares later at a lower price to cover the sale. As each of these events would cause the number of shares of our common stock being offered for sale to increase, our common stock market price would likely further decline. All of these events could combine to make it very difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

***Holders of our securities may face difficulties in protecting their interests because we are incorporated under the Republic of the Marshall Islands law.***

We are a company incorporated under the laws of the Marshall Islands, and almost all of our assets are located outside the United States. In addition, majority of our directors and officers, and their assets, are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in U.S. courts against us or these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws. You may also have difficulty bringing an original action in the appropriate court of the Marshall Islands to enforce liabilities against us or any person based upon the U.S. federal securities laws.

***Provisions of our articles of incorporation may impede a takeover or make it more difficult for shareholders to change the direction or management of the Company, which could reduce shareholders' opportunity to influence management of the Company.***

Our articles of incorporation permit our board of directors to issue up to five million shares of preferred stock with a par value of \$0.0001 from time to time, with such rights and preferences as they consider appropriate. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights and redemption rights provisions. The issuance of any preferred stock could reduce the value of our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the board of directors to issue preferred stock could make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change-in-control, which in turn could prevent shareholders from recognizing a gain in the event that a favorable offer is extended and could materially and negatively affect the market price of our common stock.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

We are a Republic of the Marshall Islands Company incorporated under the Marshall Islands Business Corporations Act (“BDA”) on January 26, 2012. We were originally organized under the name “Aquisition Corp.” for the purpose of acquiring through a merger, capital stock exchange, asset acquisition, stock purchase, or similar acquisition transaction, one or more operating businesses or assets. The address of the Company’s principal executive office is Xingfengge Building, Baogaiyupu Industrial Park, Shishi City, Fujian Province of china..

On March 24, 2014, we entered into a share exchange agreement and plan of liquidation (the “Exchange Agreement”), with KBS International, Hongri International, a then wholly owned subsidiary of KBS International and Cheung So Wa and Chan Sun Keung, each an individual and shareholder of KBS International (each, a “Principal Stockholder”). The Exchange Agreement was subsequently amended on June 21, 2014. The transactions contemplated in the Exchange Agreement (the “Share Exchange”) were closed on August 1, 2014. At the closing, we acquired 100% of the issued and outstanding equity interest in Hongri International from KBS International. In exchange, we issued an aggregate of 1,530,497 shares of common stock of the Company to KBS International. In addition, on July 29, 2014, we completed a tender offer related to the Share Exchange and redeemed the 332,116 shares of common stock validly tendered and not withdrawn. Pursuant to the Exchange Agreement, KBS International was liquidated and dissolved in August 2014 and the 1,530,497 shares of common stock of the Company were distributed to each shareholder of KBS International according to their respective ownership of KBS International. As a result, following the consummation of the Share Exchange, we had a total of 1,694,489 shares of common stock outstanding. On March 29, 2016, we granted an aggregate of 73,334 restricted shares of common stock to certain executive officers and directors of the Company as compensations for their past services in 2015 and future services to be provided in 2016.

On October 31, 2014, we held a special shareholder meeting and amended our Articles of Incorporation to change our name to KBS Fashion Group Limited.

On February 3, 2017, a special shareholder meeting was held at the Company’s headquarters in China and at the meeting, our shareholders approved a proposal to grant discretionary authority to the Board of Directors of the Company to effect a reverse stock split of issued and outstanding shares of common stock at a ratio within the range from one-for-two up to one-for-twenty; and determine whether to pay in cash the fair value of fractions of a share of common stock as of the time when those entitled to receive such fractions are determined, or to entitle shareholders to receive, in lieu of any fractional share, the number of shares of common stock rounded up to the next whole number. On February 3, 2017, after the special shareholder meeting, our Board of Directors approved a one-for-fifteen reverse stock split of the Company’s issued and outstanding common stock. In addition, in lieu of issuing any fractional share, the Board of Directors decided that shareholders are entitled to receive the number of shares of common stock rounded up to the next whole number. Our common stock began trading on the NASDAQ Stock Market on a split-adjusted basis when the market opened on February 9, 2017.

On July 10, 2017, we granted an aggregate of 215,000 restricted shares of common stock to certain executive officers and directors of the Company as compensations for their services in 2017.

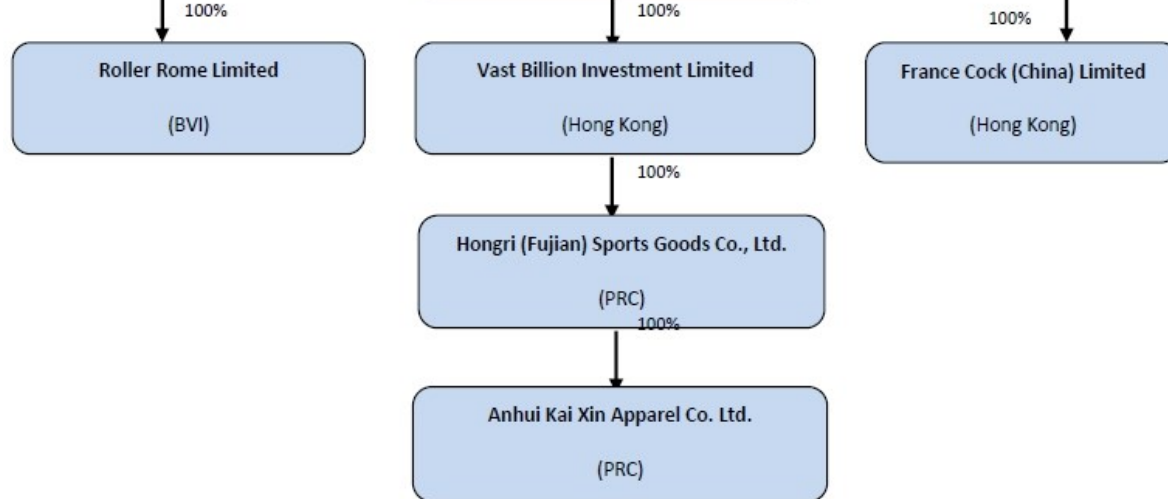
On February 10, 2018, we granted an aggregate of 285,000 restricted shares of common stock to certain executive officers and directors of the Company as compensations for their services in 2018.

##### **Corporate Structure**

All of our business operations are conducted through our PRC subsidiaries. The chart below presents our corporate structure as of the date of this report.







### Principal Capital Expenditures and Divestitures

For the years ended December 31, 2017 and 2016, our total capital expenditures and divestitures were \$946,882 and \$40,037, respectively. Such expenditures were primarily used construction of production facility and purchasing fire protection facility.

### B. Business Overview

We are a leading casual menswear company in China with a demonstrated track record of designing, marketing, and selling our own line of fashion menswear. Our products include men's apparel, footwear and accessories, primarily targeting urban males between the ages of 20 and 40 in the Tier II and Tier III cities in China. Tier II cities generally refer to major cities located in each province of China other than the capital city of such province. Tier III cities generally refer to county-level cities in China. Tier III cities that we focus on are the national top 100 county cities identified by the State Statistics Bureau of China each year. These cities are characterized by higher GDP, higher disposable income, better education and better infrastructure as compared with other county-level cities.

Our apparel products include outerwear, knitwear, denim, tops, bottoms, accessories and footwear. Since 2006, we have launched 3329 collections of new products, each year with a different theme to highlight the current trends in menswear for the season.

We have established a nationwide distribution network covering 12 of China's 32 provinces and centrally administered municipalities. As of December 31, 2017, this network was comprised of 1 corporate store owned and operated by the company and 40 franchised stores operated by 16 third party distributors or their sub-distributors. The number of stores has grown from 1 corporate store and 7 franchised stores as of December 31, 2006. In the years ended December 31, 2017, 2016 and 2015, sales through our corporate stores accounted for 29.4%, 13% and 29.5% of our total revenues respectively, and sales through distributors and whole sellers accounted for 66.5%, 78% and 66.5% of our revenues, respectively. Total revenue from corporate stores sales for fiscal year 2017 was \$7.0 million, compared to \$5.53 million for 2016 and \$18.09 million for 2015.

From 2009 through 2017, total net sales decreased from \$28.1 million to \$23.8 million while the net profit decreased from \$9.0 million to a net loss of \$14.8 million.

### Our Competitive Strengths

We believe that the following competitive strengths enable us to compete effectively in and capitalize on the growing casual menswear industry in China.

- **There is a sizable market for our products.** We believe that we have a sizeable potential market. Our target customers are male middle-class consumers in the 20-40 age range. According to the national census in 2010, the population in China between 15-59 years-old was 940 million. Our target group falls into this category and is estimated to be more than 200 million people. As a result of the growing affluence in the PRC and increased purchasing power of the PRC population, we believe that PRC consumers are becoming more willing and able to purchase casual menswear. In addition, we believe that the purchasing decision of PRC consumers is becoming more predicated upon brand image, product design and style, rather than just price considerations. With rising affluence and improvement in lifestyle, we also believe the overall Chinese population is generally growing more brand name conscious and style oriented and has shown a propensity for increased spending on casual menswear.
- **We have a strong focus on design and product development.** We believe that our in-house design and product development capabilities allow us to create unique products that appeal to our customers. We have established a strong in-house design and product development team of 22 employees as of April 10, 2018. Our team identifies new fashion trends by attending fashion shows and exhibitions as well as by drawing from creative ideas in magazines and other media. Each spring and fall, we carefully plan and create a new product line for our fall/winter and spring/summer collections of 793 SKU that encompasses our full range of product offerings, including outerwear, tops, bottoms and accessories. We introduce new design elements into our product lines each season. With our highly skilled and creative team of designers, we have extensive experience in creating unique designs to meet the preferences and needs of our target customer base.
- **Our trademarked brand has earned a following in China.** Our brand was developed in 2006. Our marketing concept is "French origin, Korean design and made for Chinese." Our customers are middle-class consumers in the 20-40 age range. We believe that their products' concept, marketing, design and packaging fully match with the pro-western attitude and life styles of their target customers. We believe the KBS brand is essential to our success to penetrate to the casual menswear market in China.
- **We have an extensive and well-managed nationwide distribution network.** We have an extensive distribution network throughout China. As of December 31, 2017, we had 1 KBS branded corporate stores and 40 franchised stores across 12 of China's 32 provinces and centrally administered municipalities. The KBS branded corporate stores are required to sell only our products. We have been building up our selected distributor network since 2007. As of December 31, 2017, we had 14 distributors operating 40 franchised stores. All of our distributors have been working with us from 1 to 10 years. We select our distributors based on a number of criteria, including experience in the menswear retail industry, sales channels, business resources, brand promotion capabilities and ability to help us implement our broader business strategies. Our distributors help us respond to changing consumer tastes in a timely manner by providing regular feedback on our products at our semi-annual sales fairs and frequent communications. The financial resources of our distributors allow us to expand our retail network with less working capital investment from us than would be required for establishing direct stores, as our distributors are responsible for the store rentals and cost of inventory in their stores. We sold a substantial amount of our products through our distributors, which have allowed us to distribute our products to a wide geographic area and penetrate markets by leveraging the local market knowledge of our distributors and their sub-distributors. We believe that our distribution network has enabled us to expand our business and increase our sales efficiently and with less operational risk. This model has also minimized our operational risk because we typically start production after we receive orders from our distributors. We believe that using a distribution network to sell a substantial amount of our KBS products has enabled us to devote our resources to our core competitive strengths of design, brand management and product development.

- **We have an experienced management team.** Our management team has extensive R&D, marketing and financial experience, led by our Chief Executive Officer, Mr. Keyan Yan. Mr. Yan has over 26 years of experience in the apparel industry and also has developed a differentiated product by international cooperation with a Korean designer. After working in the garment industry for more than 16 years, Mr. Yan acquired and developed the KBS brand. With his strong understanding of the apparel industry, Mr. Yan has successfully established this brand name in the market. We are committed to attract and retain top management level executives who we believe are and will continue to be the driving force behind our product development and growth.

### **Our Growth Strategy**

We intend to further strengthen our market position in the casual menswear market in China by implementing the following strategies:

- **We plan to expand our online business and purchase one or more online sales platforms or online stores.** Together with the change in consumer trends, online sales is now the most important sales channel in Chinese market and is becoming increasingly important globally. Sales from our stores and distributors have been steadily decreasing, and we are now in the process of identifying the best possible ways to establish and expand our online business. We already signed a cooperation agreement with Hangzhou Si Teng Internet Technology Co. Ltd (“Si Teng E-commerce”), under which we authorized Si Teng E-commerce to open, operate and maintain online stores through Amazon in the US and Alibaba Express in China to sell our products. Additionally we plan to research and purchase one or more online sales platforms and online stores. We believe that KBS will have better opportunities to expand by purchasing online sales platforms or online stores in year 2018, and the management of KBS will keep on exploring other areas and business models, such as the use of artificial intelligence for brand promotion, learning customer preferences, and identifying shopping trends. We consider that our policy to expand our outreach using new technologies will add significant shareholder value.
- **We plan to expand our OEM sales by attracting more reputable and long-term clients.** We just signed a new contract with Hangzhou Zhi Yin Apparel Clothes Co. Ltd. (“Zhi Yin”) a major producer of children’s apparel in China. Under the contract we will act as a long term supplier of down jackets to Zhi Yin. It is estimated that, pursuant to the agreement, we will generate an additional RMB 25 million (approximately US\$ 4 million) of revenue in fiscal year 2018. We are also expanding our OEM business and to get more clients, especially to focus on online providers, as they have expanded their market share over the past years quickly together with the change in Chinese consumer’s preferences and occupy a large market share. By the time when we start executing the orders, we expect that we can have continued and increasing business.
- **We plan to design our products through different channels.** Starting from year 2015, the design of our products has been conducted through three channels. In addition to our in-house design team, we also outsource the design of our products to reputable third-party designers. Thirdly our original design manufacturers (ODMs) also directly sell their products to us. Through these channels, we are able to choose the designs that best match the KBS style. In 2017, we had recruited 4 highly qualified design staff and will continue to hire more design personnel in the future.
- **We plan to continue to raise the profile of the KBS brand through enhanced advertising and promotional activities.** We believe that the strong association of KBS brand with our concept of “French origin, Korean design and made for Chinese” has helped drive our brand positioning and customers’ receptivity to our products. We intend to further build our brand and deliver a consistent brand image from product design to sales and marketing. We seek to promote and enhance our presence in China’s casual menswear market by continuing to adopt proactive marketing strategies and produce high quality, well- designed casual menswear for our target market. In particular, we aim to increase awareness of our brand through: (1) multi-channel advertising strategies through national television, fashion magazines, billboards and other media channels; (2) further assisting our distributors’ regional advertising efforts; (3) distinctive store and product launch campaigns, including special events for new product launches and large-scale grand opening events for new stores, particularly new corporate stores; (4) update of the decoration and layout of a number of existing stores which have been in operation for years to improve the shopping experience; (5) participation in fashion shows; and (6) sponsorships of selected high-impact events. We believe that these advertising and promotional activities will help to further strengthen brand awareness in our target market and enhance customer loyalty.

- **We plan to expand and build upon our design and product development capabilities.** We intend to further strengthen our design and product development capabilities by accelerating the commercialization of design concepts, expanding our product offerings and continuing to develop what we believe is unique casual menswear. We plan to further invest in design and product development and expand our design and product development team by attracting talented designers, either domestic or international, and training young graduates from leading fashion design institutes. We believe that combining western fashion design experience with our local designer’s understanding of the China market and aesthetic will enable us to create fashionable yet popular casual menswear for consumers in China. We also intend to cooperate with our suppliers to develop new materials and fabrics which we believe will give customers a unique fashion product and create new market opportunities. We believe that our focus on designing unique and quality casual menswear will allow us to maintain our competitiveness and help to enhance our sales and overall profitability.
- **We plan to expand our production capacity to expand and diversify our product offerings.** Our production facility is located in Taihu City, Anhui Province, China, consisting of total 110,557 square meters of land. Currently this facility has a production capacity of 2 million pieces of clothes per year and can accommodate 5,000 workers. This production facility mainly produces OEM products for famous sportswear producers and fulfill some overseas orders. The construction of our facility commenced in 2011 and takes place in four phases: Phase 1 consists of a 5-story dormitory; Phase 2 is to add facilities with annual production capacity of five million pieces of clothes. We have completed the construction of property by the end of 2014. Although we have the designed capacity of 5 million pieces yearly, the facility currently may only produce 2 million pieces per year. Phase 3 construction has been delayed because the local government needs additional time to conclude negotiations with local residents over appropriate resettlement terms. Once the government settles with the local residents, the phase 3 and 4 can be continued. Phase 4 will include production facilities with annual production capacity of 10 million pieces, an office building, staff quarters and living facilities. Upon completion, the new facility is expected to have a production capacity of 20 million pieces and accommodate 5,000 workers. Please see “—Production” below for a more complete explanation of our plans for the expansion of our production capacity. We anticipate that the new production facility will allow us to further refine our existing product lines by offering more styles within our existing apparel and accessories categories and to introduce additional, complementary apparel and accessories categories into our product line. We currently introduce 500 to 900 different styles of products each year and intend to increase the number of our product offerings in the future.
- **We plan to expand our international market and attract more orders from overseas.** Starting from year 2016, we have been awarded international OEM orders for producing clothes with overseas brands. Such orders are usually large and continuous. Due to the completion of phase 2 construction of our Anhui factory, we have enough production capacity to take on large orders. The current utilization rate of the Anhui factory is still quite low and we expect to invest more in attracting more large orders from overseas.

### **The KBS Brand**

We are engaged in a highly competitive industry in which brand image and recognition is critical to attracting customers to purchase our products. We have adopted KBS as a uniform brand name and image for all stores in our distribution network and on all products sold in those stores. The KBS brand was created by Ms. Qinghua Ye in 2006 and registered with the trademark administration authority in 2008. Subsequently, Ms. Ye assigned the KBS trademark to Hongri PRC in 2008. In 2009, Hongri PRC transferred this trademark to France Cock, which then licensed such trademark back to Hongri PRC. Based on our sharp rise in revenue since 2006, we believe that the KBS brand has gained a following in the casual menswear market in the cities where our products are sold.

To promote our brand, we have developed and implemented brand management policies in all of our corporate stores and franchised stores. Our brand management policies set out detailed requirements for store decorations and display of products. This enables us to project a consistent brand image. In addition, each season, our design and product development team develops display concepts, including the presentation of our collections in the stores and the color schemes for the

We may suspend the supply of our products or terminate distribution agreements in the event that any of our distributors or their sub-distributors consistently fails to comply with our brand management policies.

### ***Our Products***

Our apparel products include cotton and down jackets, sweaters, shirts, T-shirts, jeans and trousers. Accessories include shoes, bags, socks and caps. In 2017, the suggested retail prices of our products ranged from RMB 199 to RMB 1,499 (approximately \$29.9 to \$225) for our apparel products and RMB 15 to RMB 899 (approximately \$2 to \$135) for our accessory products. Since 2006, we have launched 3329 collections of new products, each year with a different theme to highlight the current trends in menswear for the season.

### ***Our Design***

We believe one of our key strengths is our internal design and product development team, which designs products that reinforce our brand image. Major parts of our products are designed by our internal design and product development team with the collaboration of Korean designers. As of December 31, 2017, our design and product development team consisted of 22 members, including one senior designer with over five years of working experience. Final design concepts are approved by Mr. Keyan Yan, who has more than 26 years of experience in the industry. All of the other designers are graduates of professional design schools in China. We believe that our design and product development team is innovative and passionate and that the individual experience of each of our designers helps bring new and exciting products to our customers. Our design and product development team conceptualizes each season's collections through an interactive process, taking into account our brand strategy, product image and market feedback, drawing inspirations from domestic and international fashion trends and collaborating with both our suppliers and distributors to fine-tune our designs. In particular, we collaborate with our suppliers to develop a variety of materials and fabrics for our products. We also involve distributors in our product selection process to take advantage of their market intelligence, which helps us to adapt to constantly changing customer preferences in local markets. Our designers also attend various domestic and international fashion shows to keep abreast of the latest fashion trends.

Starting from year 2015, design of our products comes from three channels. In addition to designing products by our in-house staff, we outsource to certain reputable designers. From time to time, our ODMs also will directly sell their designed products to us.

In a typical year, we design and make around 1,000 prototypes. After the initial product selection, internal cost analysis of approved prototypes and final selection by distributors at the sales fairs, we eventually select approximately 700 designs for mass production. Final design of all of our products will be approved by our Chairman, Mr. Yan.

### ***Our Distribution Network***

We have established a nationwide distribution network consisting of corporate stores and franchised stores covering 12 of China's 32 provinces and centrally administered municipalities.

#### Corporate Stores

As of December 31, 2017, we owned and operated 1 corporate store with the floor area of approximately 120 square meters. The number of corporate stores grew significantly from 1 as of December 31, 2006, with the aggregate floor area increasing from approximately 60 square meters as of December 31, 2006 to 18 stores with the aggregate floor area of approximately 1,974 square meters as of December 31, 2014. As part of our corporate strategy, we closed 17 corporate stores in the last two years because of the low profitability of certain corporate stores. In the years ended December 31, 2017, 2016 and 2015, sales through our corporate stores accounted for 29.4%, 13% and 29.5% of our total revenues, respectively.

We directly own and operate our corporate store. This direct control enables us to have closer relationship with our ultimate customers and better understanding of market trends and consumer preferences. Required capital for opening of each store depends on the location and area of the designated store. On average, the renovation cost per store is around \$67,000 and the first year of rent payment is around \$140,000 including premium paid to the previous owner. Rental period varies from two to five years. The total capital required to open a new store is generally around \$207,000 per store. Once negotiation of rent is concluded, it takes one to two months to open up a store. We usually open up stores right before a peak season, such as labor holiday in May, National holiday in October and Chinese New Year in January/February. On average, new stores break even after one to three months of operation.

We currently have one standard designs for our corporate stores located in Fujian Province. They were considered as flagship stores for our distributors' reference. Because in year 2016 and 2015 we closed some corporate stores, the inventories of these stores were cleared through promotion exhibitions we held in the third-tier cities at lower prices.

For corporate stores opened in second tier cities, we normally have a higher aesthetic standard compared with corporate stores in third and fourth tier cities. We generally locate our corporate stores at street level to access high pedestrian flow. Normally, we will sell in-season stock in our second-tier city corporate stores. Our second-tier city corporate stores are also designed to showcase our marketability to potential distributors so as to induce them to join our distributorship. For stores opened in the third and fourth tier cities, we normally sell some of our slow-moving or off-season stock at a discount due to our awareness of the generally lesser amount of disposable income available to residents of these cities. During certain times of the year, such as the New Year, Chinese New Year and Labor Day, we will organize promotional discounts together with our franchised stores to attract more customers and increase our stock turnover.

#### Franchised Stores

We sell a substantial amount of our products to our franchised distributors who in turn sell them to retail customers through KBS branded retail stores operated by our distributors or their sub-distributors. Since 2013, we have also been selling products to 3 provincial distributors without their own stores, or the no-store distributors, on a trial basis. We do not have any ownership in, or controlling relationship with, these franchised stores, but we have entered into distribution agreements with them in the Company's standard form, pursuant to which we require distributors and their sub-distributors to sell only KBS products in these stores. Distributors are responsible for selecting and ordering products from us and overseeing the sales in the stores operated by them and their sub-distributors. By selling directly to our distributors, we can recognize revenues upon delivery to our distributors and delegate the distribution responsibilities to our distributors. This allows us to distribute our merchandise to a wide geographic area and penetrate markets by leveraging the local market knowledge of our distributors and their sub-distributors. This also minimizes our inventory and sales risks while allowing us to allocate our resources to our core competitive strengths of design, brand management and product development. We believe that our cooperation with distributors has enabled us to expand our business and accelerate our sales growth at much lower costs and operational risk and achieve brand recognition throughout China.

We have been building up our selected franchised distributor network since 2007. As of December 31, 2017, we had 14 franchised distributors who operated 40 retail stores directly or through their sub-distributors, all of which were stand-alone stores, which were typically located in commercial centers, including department stores or shopping malls, in their cities. All these distributors have worked with us for about 1 to 8 years. We have not encountered any material dispute or financial difficulty with our key distributors. The average floor area of each retail store was approximately 75 square meters as of December 2017. The number of retail stores

has grown significantly in recent years from 7 as of December 31, 2006, with the aggregate floor area increasing from 560 square meters as of December 31, 2006 to 3,075 square meters as of December 31, 2017. In the years ended December 31, 2017, 2016 and 2015, sales through our distributors accounted for 63.3%, 78% and 66.5% of our revenues, respectively.

During the fiscal year ended December 31, 2015, we had one customer exceeding 10% of our net sales, which accounted for 10.8% of our revenues. During each of the fiscal years ended December 31, 2016 and 2017, we had no customer exceeding 10% of our net sales.

Sales generated by our five best-performing franchised distributors accounted for approximately 23.8%, 28.3% and 27.10% of our revenues in the years ended December 31, 2017, 2016 and 2015, respectively. Those top distributors have been with us since 2007 or 2008 and have grown organically with us. At the same time, we are exploring more distributors in other regions including relatively small distributors to grow with their businesses. Although we rely on distributors for the sales and marketing of our products, we believe our business is not substantially dependent on any individual distributor.

We are highly selective in appointing distributors. We select our distributors based on a number of criteria, including experience in the menswear retail industry, sales channels, business resources, brand promotion capabilities and ability to help us implement our broader business strategies. We maintain good relationships with many regional or local distributor candidates which we identify through our internal research and external referrals but only appoint a handful of them to become our distributors. We evaluate the relevant experience of the distributor candidates in operating retail stores, their financial condition and sources of funding required for the establishment of a regional distribution network and their ability to develop a network of retail stores in the designated distribution region of a given distributor before we make any appointment.

Once appointed, each distributor must enter into a distribution agreement with us. We do not own any interest in any of our distributors, their sub-distributors or the retail stores they operate. The distribution agreements we typically enter into with distributors do not allow us to be involved in the daily operating, financing or other activities of the distributors, except that distributors need to comply with our brand management policies and pricing and store management guidelines. Key terms of our standard distribution agreement include:

- *Product Exclusivity.* Our distributors are required to sell only our products at KBS branded retail outlets managed by them or authorized retailers.
- *Geographic Coverage.* Distributors are granted exclusive rights to distribute our products (directly and indirectly through their sub-distributors) in the retail stores within the specified geographic area with no overlapping of distributors within our distribution network. However, we retain the right to operate direct stores anywhere regardless of whether we have appointed distributors there.
- *Duration.* The distribution agreements generally have an initial term of one year and are renewable at our discretion after taking into account factors such as compliance with our brand management policies and sales performance.
- *Distributor Pricing.* Distributors agree to order our products at a discount from our suggested retail prices. The discounted wholesale prices to distributors are classified into the following three categories: provincial distributor at a discount of 35% of retail price, district distributor is 30% of retail price and the wholesale distributor is 25% of retail price.
- *Minimum Purchase Requirement.* Each of our distributors is customarily expected to purchase a minimum amount of our products for each trade fair held biannually according to their present and expected distribution network. The minimum is typically RMB800,000 (approximately \$118,653) for each store.
- *Payment and Delivery.* Normally, we expect distributors to pay us RMB0.5 million (approximately \$74,158) to RMB1 million (approximately \$148,317) as a deposit upon placing an order. Upon delivery of the orders, we will deduct amounts on deposit from the purchase price. For new and small district distributors, we normally require them to pay the balance before the delivery of its products. We may also accept payment on credit terms to the extent requested by distributors experiencing working capital difficulties or encouraging them to order more. The amount and duration of credit granted to each distributor will depend on its financial position and creditworthiness. We handle the arrangements for delivery of our products, but the distributors are normally expected to bear the related costs and expenses.
- *Return of Products.* We will only accept product returns from distributors for quality reasons and only if the distributors followed our standard procedures in processing the returned products. So far, we have not experienced any product returns due to expressed quality reasons.
- *Retail Pricing.* Other than at times when we launch promotional campaigns or adjust our strategies, distributors must adopt, and are required to procure their sub-distributors to adopt, our suggested retail prices for products. Distributors must obtain our consent before launching any distributor specific special offers.
- *Brand Management.* Distributors must comply with our brand management policies and store management guidelines. We may impose penalties, forfeiture of deposit, suspend supply of products and terminate the agreement in the event of any breach of such policies.

- *Termination.* We may generally terminate the distribution agreements and seek indemnification in the event of breach by distributors. In the event of some types of breach, we may not terminate the agreement but have other remedies. For example, if a distributor fails to order all products provided for under the distributorship agreement, we may instead impose forfeiture of deposit or withhold certain benefits.

When opening new retail stores, our distributors conduct research on the market potential of the proposed retail sites, after which they will provide us with an application for opening a new retail store. In reviewing applications, we consider factors including the store location, store layout, available area, market opportunities, competitors and estimated sales. We conduct selected on-site investigations to verify applications filed by our distributors. Our retail stores are generally located in convenient retail locations in their respective cities and thus benefit from high volumes of pedestrian traffic.

Effective monitoring of distributors and their retail stores is critical to our success. We have a team in our marketing, sales and distribution department to monitor our distributors' and their sub-distributors' performance, who conduct on-site inspections of selected retail stores each quarter without prior notice to ensure compliance with our store management guidelines. According to the results of our inspections, we, from time to time, make suggestions to our distributors with respect to the opening or closure of their retail stores. Distributors also need to submit to us their annual/ semi-annual plans to estimate their orders for the next season and their plan to improve the performance of existing retail stores or expand by opening new retail stores. This reporting system enables us to access up-to-date sales projections of our distributors and their sub-distributors, which reflects the overall level of retail sales of our products. It also provides us with the expansion plan of each distributor which helps us prepare our overall development plan in a more accurate manner.

We invite our distributors, as well as a select number of their sub-distributors and retail store managers, to attend our sales fairs, which are held twice a year. During the sales fairs, we discuss with our distributors and their sub-distributors the upcoming product line. Apart from participating in two sales fairs each year, our distributors visit us from time to time and contact us as necessary, which allows us to have access to updated market information. We also provides training for distributors and their sub-distributors in the areas of sales techniques, customer service and product knowledge, typically prior to the launch of our new collections each year. We believe that these investments help to improve the operations of the sales network and provide additional value-added services to retain our distributors and their sub-distributors.

The following table lists by region the number of retail stores operated by distributors and sub-distributors as of December 31, 2017:

Location	
Fujian	7
Guangdong	2
Guangxi	3
Jiangsu	4
Anhui	1
Zhejiang	2
Chongqing	4
Inner Mongolia	1
Tianjin	3
Hebei	4
Heilongjiang	4
Sichuan	5
<b>Total</b>	<b>40</b>

### **Pricing Policy**

We sell our products to our distributors at uniform discounts from our suggested retail prices. We have a suggested retail price policy that applies to all our stores to help maintain brand image, ensure consistent pricing levels from region to region and prevent price competition among our distributors. In determining our pricing strategies, we take into account market supply and demand, production cost and the prices of our competitors' similar products. Our sales representatives collect and record the retail prices of our products sold by our retailers. We analyze the information collected and engage in discussions with our distributors to ensure that they follow our pricing policy. See "—Franchised Stores" above.

### **Production**

Originally located in Shishi City in Fujian Province and started production in 2006, our production facility is currently located in Taihu City in Anhui Province, China. The facility currently has a production capacity of 2 million pieces of clothes per year. This production facility mainly produces OEM products for famous sportswear producers. Our production facility was operating at full capacity between 2009 and 2012. In 2014, we produced about 0.39 million units at the operating capacity of 19.5%; while in 2015, we produced about 0.48 million units at the operating capacity of 24%. In 2016, we produced about 0.54 million units at the operating capacity of 27%.

Since 2011, we have been negotiating with the local government to acquire land use rights for our current facility consisting of 110,557 square meters. We obtained a portion of such land use rights for two parcels of land of 7,405 square meters and 2,440 square meters in March 2012 and May 2012, respectively, and have finished the construction of 8,572 square meters of staff dormitories and 22,292 square meters as workshop buildings and offices. We started to use the dormitory and factory in year 2015 and moved into the offices at the beginning of 2016. Due to the local government's need for additional time to conclude negotiations with local residents over appropriate resettlement terms, the construction of the adjacent facility on the third parcel of land has been delayed. While we cannot guarantee when and whether the construction of the adjacent facility on the third parcel of land will be eventually completed, we believe we will be in a better position to schedule our construction plan once we acquire the land use right of the third parcel of land. Once completed, our total production capacity of the facility is expected to increase to 20 million pieces per year from the current capacity of 2 million pieces per year.

All of the products produced by our ODM and OEM contract manufacturers bear the brand name KBS. As of December 31, 2017, we had 3 ODM contract manufacturers and 3 OEM contract manufacturers. In the years ended December 31, 2016 and 2015, we had 6 and 8 OEM contract manufacturers, respectively. Our sourcing strategy is based upon the quality of fabrics and workmanship that our customers expect from the KBS brand. The costs of our outsourced production amounted to approximately \$10.94 million, \$26.1 million and \$27.9 million for years ended December 31, 2017, 2016 and 2015, respectively, accounting for approximately 31%, 66.8% and 92.0% of our total cost of sales in the respective periods.

As of December 31, 2017, our principal ODM and OEM contract suppliers included the following:

No.	
1	Shishi Hua Lai Shi Clothing Co. Ltd
2	Bai Tian Ni(Fujian) Clothing fabric Co. Ltd
3	Shishi Rongpeng Clothing Co.Ltd
4	Shishi Wuyi textile trading Co.Ltd
5	Shishi Zhongwen textile trading Co.Ltd

We are not materially reliant on any single ODM or OEM contract supplier.

### **Inventory Management**

We recognize that controlling the level of inventory is important to our overall operational efficiency and cost control. Based on the purchase orders our distributors and the department store chains place at our biannual sales fairs, we are able to anticipate the demand for our products in advance and plan ahead for our own manufacturing and the orders we will be required to place with our ODM and OEM contract manufacturers. We generally plan purchases of raw materials and place manufacturing orders with our ODM and OEM contract manufacturers immediately after each of our two seasonal sales fairs, usually in May for our autumn and winter products and in October for our spring and summer products, where we confirm sales orders with our distributors and department store chains. This enables us and our ODM and OEM contract manufacturers to have sufficient time, ranging from two to eight weeks, to produce the products and provide our products suitable for a specific season to our distributors and department store chains on a just-in-time basis so as to minimize our inventory levels. The alternative way to control cost is when if we have chance to buy materials which the price is much lower than market price, we will buy it in advance and give to OEM contract manufactures use our material to produce.

### **Quality Control**

Product quality control is a critical aspect of our business. Our dedicated quality control team performs various quality inspection and testing procedures, including random sample testing at different stages of our production process, to ensure that our products meet or exceed the expectations of our consumers. We also perform routine product inspections on every batch of our products and sample testing to ensure consistent quality of our products, including semi-finished and finished products.

We have implemented a centralized system for procurement and inspection of raw materials and ancillary components to help ensure a stable and high quality supply. Those materials and components that fail to meet our tests may be returned to the suppliers for replacement. Our quality control team also carries out quality control procedures on the products produced by our ODM and OEM contract manufacturers. We conduct on-site inspections of our ODM and OEM contract

manufacturers to monitor the entire production process. The initial product inspections are performed on-site by our staff before these products are shipped to our headquarters for further inspection and storage in our warehouse. We also provide technical training to ODM and OEM contract manufacturers to assist them with quality control of the production processes and inspect pre-production samples and finished products from ODM and OEM contract manufacturers. We have not encountered any material disruptions to our business as a result of the failure of any of our ODM and OEM contract manufacturers to meet our quality standards.

In order to further improve the quality of our products and shorten our delivery cycle, we intend to increase our control over the manufacturing process and production cycle of our ODM and OEM contract manufacturers, primarily by requiring our ODM and OEM contract manufacturers to implement stricter and more comprehensive quality control procedures, which cover each stage of the production process, from raw material selection and procurement to finished products packaging and delivery. We also intend to apply more stringent standards for inspecting products manufactured for us by our ODM and OEM contract manufacturers.

### **Marketing and Advertising**

We have conducted multi-channel marketing campaigns to advertise our products to our target customers through advertising in newspapers, magazines, the Internet, and billboards, and organizing regular and frequent in-store marketing activities and road shows.

We have implemented strict requirements on our distributors with respect to the display and promotion of our products to ensure consistent branding and enhance marketing results. Our distributors are required to ensure that our marketing strategies are implemented at the retail outlets managed or authorized by them, including displaying our products according to our specifications and using our billboard advertisements. We also assign sales representatives to monitor the in-store displays of our products at various retail outlets on a regular basis to help ensure that our retailers have followed our product display policies.

In the years ended December 31, 2017, 2016 and 2015 our total advertising and promotional expenses amounted to approximately \$1.59 million, \$1.55 million and \$1.70 million, respectively, which accounted for approximately 7.5%, 3.8% and 2.8% of our revenues in the respective periods.

### **Competition**

The menswear industry in China is a fragmented industry. Competition mainly comes from local market players such as Exceed, Xiniya, Zuoan and Cabbeen. We believe that we differentiate ourselves by providing more fashionable, younger-looking and leisure products, and competitive pricing without giving up the casual feel of our products.

We compete primarily on the basis of product design, brand recognition, operational efficiency and a low cost structure. Some of our domestic competitors have a stronger customer base, greater resources and more industry expertise than us. However, we believe that we can continue to successfully compete with our local competitors due to our unique product designs.

### **Intellectual Property**

We currently have the licenses to use two registered trademarks in the PRC.

The registered trademarks on which we have licenses are the following:

<b>Trademark</b>	<b>Registration No.</b>	<b>Valid Term</b>
KBS	4342760	January 1, 2014 - December 31, 2018
Ka bi sports	5462336	March 14, 2010 - March 12, 2020

We believe that these trademarks provide significant value as they are important for marketing and building brand recognition. We are not aware of any third party currently using trademarks similar to our trademarks in the PRC on the same products.

### **Insurance**

We do not have any business liability, interruption or litigation insurance coverage for our operations in China. Insurance companies in China offer limited business insurance products. While business interruption insurance is available to a limited extent in China, we have determined that the risks of interruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Therefore, we are subject to business and product liability exposure. See “Risk Factors—Risks Related to Our Business—We have limited insurance coverage in China and may not be able to recover insurance proceeds if we experience uninsured losses.”

### **Regulation**

Because our primary operating subsidiaries are located in China, we are subject to China’s national and local laws detailed below. We believe that we are in material compliance with all registrations and requirements for the issuance and maintenance of all licenses required by the governing bodies and that all license fees and filings are current.

#### **Foreign Invested Entity and Foreign Investment in Commerce Sectors**

The establishment, alteration, registered capital requirement, corporate governance, and similar matters, of Hongri PRC will be governed by the Wholly Foreign Owned Enterprise Law of the PRC, which was promulgated on April 12, 1986 and amended on October 31, 2000, and its Implementation Rules which were promulgated on December 1990 and amended on April 12, 2001 and February 19, 2014.

In addition, on April 16, 2004, MOFCOM issued the FICE Regulation to open up the commerce sector to foreign investment, and also to provide for various market entry restrictions against foreign investment in companies engaged in the wholesale, retail, commissioned sale and/or franchise business, or FICEs. FICEs are required to obtain special approvals from the national or provincial-level MOFCOM offices to conduct the foregoing commerce business.

#### **Product Quality**

The principal legal provisions governing product liability are set forth in the PRC Product Quality Law, which was promulgated in February 1993 by the SCNPC and amended in July 2000 and August 2009.

The PRC Product Quality Law stipulates the responsibilities and obligations of product sellers and producers. Violations of the PRC Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations, and its business license may be revoked. There may also be criminal liability in serious cases.

According to the PRC Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the manufacturer as well as the seller. After compensating the consumer, the seller may recover the corresponding amount from the manufacturer if the manufacturer is responsible for the product defects, and vice versa.

### Consumer Protection

The principal legal provisions for the protection of consumer interests are set forth in the Law of the PRC on Protection of Consumer Rights and Interests, or the Consumer Protection Law, which was promulgated in October 1993 amended in October 2013. The Consumer Protection Law sets forth standards of behavior that businesses must observe in their dealings with consumers.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the violating entity may be ordered to suspend its operations, and its business license may be revoked. There may also be criminal liability in serious cases.

According to the Consumer Protection Law, if the legal rights and interests of a consumer are violated during the purchase or use of goods, the consumer may seek compensation from the seller. If the manufacturer or an upstream distributor is responsible, after compensating the consumer, the seller may recover the corresponding amount from the manufacturer or the upstream distributor. Consumers or other persons who suffer personal injury or property damages due to defects in products may seek compensation from the manufacturer as well as the seller. After compensating the consumer, the seller may recover the corresponding amount from the manufacturer if the manufacturer is responsible for the product defects, and vice versa.

### Trademarks

The PRC Trademark Law, adopted in 1982 and revised in 2001 and 2013, protects the proprietary rights to registered trademarks. The Trademark Office under the State Administration of Industry and Commerce handles trademark registration and grants a term of ten years to registered trademarks and another ten years to trademarks as requested upon expiry of the prior term. Trademark license agreements and transfer agreements must be filed with the Trademark Office for record.

### Dividend Distributions

Substantially all of our sales are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent company. PRC legal restrictions permit payments of dividends by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required under PRC laws and regulations to allocate at least 10% of their annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of our registered capital. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances, or cash dividends.

We are currently subject to PRC corporate income and other taxes at the level of our PRC operating subsidiaries, to a 5% dividend withholding tax on profits distributed from our PRC operating subsidiaries to their HK holding company, and, if the Company is subject to US taxation, to US taxes on amounts received in distribution from its subsidiary(ies). There is no income tax in Hong Kong, the BVI or the Marshall Islands on amounts distributed up through the entities from the PRC, or any dividend withholding tax in HK, the BVI or the Marshall Islands. The combined entities' obligation to pay dividends to the shareholders of the Company is calculated on an after-tax basis, and therefore is net of the taxes.

### Environmental Matters

Our facilities are subject to various governmental regulations related to environmental protection. We use a myriad of chemicals in our operations and produce emissions that could pose environmental risks. Our manufacturing facilities are subject to various pollution control regulations with respect to noise, water and air pollution and the disposal of waste and hazardous materials, including, China's Environmental Protection Law, Law of the People's Republic of China on Appraising of Environment Impacts, China's Law on the Prevention and Control of Water Pollution and its implementing rules, China's Law on the Prevention and Control of Air Pollution and its implementing rules, China's Law on the Prevention and Control of Solid Waste Pollution, and China's Law on the Prevention and Control of Noise Pollution. We are subject to periodic inspections by local environmental protection authorities.

We did not incur material costs in environmental compliance in fiscal years 2017, 2016 and 2015. We believe we are in material compliance with the relevant PRC environmental laws and regulations. We are not currently subject to any pending actions alleging any violations of applicable PRC environmental laws.

### Circular 37

On July 14, 2014, SAFE issued the Circular on Relevant Issues Relating to Domestic Residents' Investment and Financing and Roundtrip Investment through Special Purpose Vehicles ("Circular 37"), which replaced the Circular 75. Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle." Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

As we stated under "Risk factors—Risks Related to Doing Business in China— Failure to comply with PRC regulations relating to the investment in offshore special purpose companies by PRC residents may subject our PRC resident stockholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us," we have notified substantial beneficial owners of our company who we know are PRC residents to comply with the registration obligation. However, we may not be aware of the identities of all our beneficial owners who are PRC residents. In addition, we do not have control over our beneficial owners and cannot assure you that all of our PRC resident beneficial owners will comply with Circular 37. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to Circular 37 or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in Circular 37 may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or amend the registration may also limit our ability to contribute additional capital to our PRC subsidiaries or receive dividends or other distributions from our PRC subsidiaries or other proceeds from disposal of our PRC subsidiaries, or we may be penalized by SAFE.

### Employee Stock Option Plans or Incentive Plans

In December 2006, the People's Bank of China promulgated the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Regulations, setting forth the requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under the current account and the capital account. Pursuant to Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In addition, under the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly-Listed Companies, or the Share Option Rules, issued by SAFE on February 15, 2012, PRC residents who are granted shares or share options by companies listed on overseas stock exchanges under share incentive plans are required to (i) register with SAFE or its local branches, (ii) retain a qualified PRC agent, which may be a PRC subsidiary of the

overseas listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the share incentive plans on behalf of the participants, and (iii) retain an overseas institution to handle matters in connection with their exercise of share options, purchase and sale of shares or interests and funds transfers. We have not granted any incentive shares or share options to our PRC citizen employees; however, if we do so in the future, our PRC citizen employees who are granted restricted shares or share options will be subject to these rules.

#### M&A Rule

On August 8, 2006, six PRC regulatory agencies promulgated the Foreign M&A Rule, which was later amended in June 2009.

The Foreign M&A Rule, among other things, govern the approval process by which a PRC company may participate in an acquisition of assets or equity interests by foreign investors. The Foreign M&A Rule allow PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and other relevant government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The Foreign M&A Rule also prohibit a transaction at an acquisition price obviously lower than the appraised value of the PRC business or assets and in certain transaction structures, requires that consideration must be paid within defined periods, generally not in excess of a year. The Foreign M&A Rule also limit our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited.

In addition, the Foreign M&A Rule regulates “Round-trip Investments.” For further information, please see the discussion under “Risk Factors – Risks Related to Doing Business in China – our business and financial performance may be materially adversely affected if the PRC regulatory authorities determine that our acquisition of Hongri PRC constitutes a Round-trip Investment without MOFCOM approval.”

#### **C. Organizational Structure**

See “—A. History and Development of the Company—Corporate Structure” above for details of our current organizational structure.

#### **D. Property, Plants and Equipment**

Our company has established a nationwide distribution network covering 12 of China’s 32 provinces and centrally administered municipalities. As of December 31, 2017, this network was comprised of 1 corporate store owned and operated by us and 40 franchised stores operated by 14 third-party distributors or their sub-distributors.

Relocated from Shishi City, Fujian, China in March 2011, our company’s production facility is currently located in Taihu City in Anhui Province, China. The facility has a production capacity of 2 million pieces per year and we move in upon the completion of phase 2 in year 2015. By relocating from the coastal area to Anhui Province, our new facility takes advantage of lower labor costs and a more stable labor supply. We manufacture a variety of menswear products, including, jeans, shirts, suits and socks. Because of its variety and complexity in the production process, these products require special sewing machines and workmanship, which we currently do not possess. As a result, the Company is not yet able to produce KBS branded products and has outsourced its KBS branded product manufacturing to other established ODM and OEM manufacturers in the Fujian and Zhejiang regions. The Company has completed the second phase construction of its new factory at the end of 2014. The second phase has an annual production capacity of 5 million pieces subject to our purchasing additional equipment. Currently Anhui factory mainly produces OEM orders and some international orders.

Our production facility consists of total 110,557 square meters of land. We obtained a portion of such land use rights for two parcels of land of 7,405 square meters and 2,440 square meters in May 2012 and have finished the construction of 8,572 square meters of staff dormitories and 22,292 square meters as workshop buildings and offices. We started to use the dormitory and factory in year 2015 and moved into the offices at the beginning of 2016. Due to the local government’s need for additional time to conclude negotiations with local residents over appropriate resettlement terms, the construction of the adjacent facility on the third parcel of land has been delayed. We cannot guarantee when and whether the construction of the adjacent facility on the third parcel of land will be eventually completed. If the construction of the new production facilities is completed, our total production capacity of the facility is expected to increase to 20 million pieces per year from the current capacity of 2 million pieces per year.

In 2016, we closed 1 corporate store and as of December 31, 2017, we leased the premises for our sole remaining corporate store. We have undertaken various measures to verify the lessors’ rights to the property leased to us in respect of its stores. In China, all land is owned by the State or other governmental bodies, and “ownership” is generally evidenced by a land use rights certificate. Before we ever rent some stores are located in rural areas where land use rights are held collectively by villages, where records regarding the ownership of land use rights are frequently not kept. In these cases, the company has confirmed our ability to lease the stores through communications with village authorities, and has reviewed electricity and water bills to confirm utilities are being paid by the parties leasing the premises to us. Based on the results of these efforts, we believe the risk of third party claims against our leases of these stores is relatively small and the measures taken by our company are sufficient to verify the land use rights for all of its stores.

In addition, the property used as our head office and corporate store is leased from a related party, whose ownership of the property has been verified by our company. We paid a total of RMB3,010,667, RMB 720,000, and RMB 720,000, as rental fees for the existing corporate stores during the fiscal years 2015, 2016 and 2017, respectively. The total area of these 18 corporate stores is 1972 square meters. The sales of each store and its location are shown below:

Area	Sales in fiscal year 2015(USD)	Sales in fiscal year 2016(USD)	Sales in fiscal year 2017(USD)
Company Shishi factory	1,527,019	1,240,354.74	772,299
Jinjiang Hankou	751,067		
Shishizhixiang	759,464		
ShishiYongning	635,127		
ShishiJinshang	288,100		
JinjiangLonghu	513,974		
Nanan	165,351		
Wukeng	201,032		
Yinglin	253,078		
Gouxi	322,989		
Xiamen Wanda shop	714,777		
XingjiangDongshi	568,377		
Zhangzhou Wanda	451,091		
Fuzhou Shimao	139,948		
Putian Wanda Shop	479,082		
Quanzhou Dayang	558,718	470,280.90	
Quanzhou Wanda	244,218		
Ningde Wanda	262,319		



**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not required.

38

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

We are engaged in the design, development, marketing and sale of casual menswear in China, including apparel and accessories, which we market under the KBS brand. The KBS brand was developed in 2006. Before 2012, we were engaged in the design, development, marketing and sale of fashion sportswear in China. Since our products feature a unique and stylish design that is more fashionable than traditional sportswear, as well as quality fabrics and materials and the sportswear market was becoming more and more competitive, in late 2011 we turned our focus on casual menswear market which has higher profit margin. KBS's apparel products include cotton and down jackets, sweaters, shirts, T-shirts, Jeans and trousers. Accessories include shoes, bags, belts and caps. In 2016, the suggested retail prices of KBS's products ranged from RMB 199 to RMB 1,499 for its apparel products and RMB 15 to RMB 899 for its accessory products. KBS holds new products launch events twice every year, one in spring and the other in autumn. Since 2006, we have launched 2,536 collections of new products each year with a different theme to highlight the current trends for the season. KBS's marketing concept is "French origin, Korean design and made for Chinese." KBS's customers are male middle-class consumers in the 20-40 age range, primarily located in tier two and tier three cities in China. The company has adopted "KBS" as a uniform brand name, which stands for "Keep Best Style", and KBS are designed by us for a uniform look and feel that fits our brand image, with in-store displays that accentuate the quality and style of our products across all stores in our distribution network and on all products sold in those stores. We believe that the KBS brand has become a recognized brand name in the cities where their products are sold.

We have established a nationwide distribution network covering 12 of China's 32 provinces and centrally administered municipalities. As of December 31, 2017, this network was comprised of 1 corporate store owned and operated by us and 40 franchised stores operated by 14 third-party distributors or their sub-distributors. The number of stores grew significantly from 1 corporate store and 7 franchised stores as of December 31, 2006 to 31 corporate stores as of December 31, 2012 and 96 franchised stores as of December 31, 2013, and decreased to 84 stores as of December 31, 2014. Because of the recent softening of economic growing in China and fierce competition from our competitors, online store sales of franchised stores and corporate stores went down in 2015 as compared with the previous year. In 2016 and 2017, the distributors closed 14 and 15 franchised stores, respectively, and we closed 1 corporate store in year 2016. We intend to generate more revenues from OEM and online sales directly to customers in 2018.

KBS also acts as an original design manufacturer, or OEM, upon request. Income from such services accounted for 7.3%, 9% and 4.0% of revenue for the years ended December 31, 2017, 2016 and 2015, respectively.

Relocated from Shishi City, Fujian, China in March 2011, KBS's production facility is currently located in Taihu City in Anhui Province, China. The company believes that the shortage of labor and rising wage expectations in China, especially in the coastal area, could have a material impact on our operations as well as its suppliers' cost of manufacturing. By relocating from the coastal area to inland Anhui Province, our new facility takes advantage of lower labor costs and a more stable labor supply. Since the company's original production team was not ready to produce the new style KBS products, KBS has outsourced its product manufacturing to other established ODM manufacturers. As such, KBS's own production facility in Taihu mainly takes OEM orders from other sportswear companies, like Xtep. Our production facility in Taihu, Anhui Province includes three parcels of land with a total area of 110,557 square meters. We have obtained land use rights for two parcels of land with an area of 9,845 square meters in 2012 and have finished the construction of 8,572 square meters of staff dormitories and 22,292 square meters as workshop buildings and offices. We started to use the dormitory and factory in year 2015 and moved into the offices at the beginning of 2016. Due to the local government's need for additional time to conclude negotiations with local residents over appropriate resettlement terms, the construction of the adjacent facility on the third parcel of land has been delayed. While we cannot guarantee when and whether the construction of the adjacent facility on the third parcel of land will be eventually completed, we believe we will be in a better position to schedule our construction plan once we acquire the land use right of the third parcel of land. Once the government settles with the local residents, the phase 3 and 4 can be continued. Once completed, our total production capacity of the facility is expected to increase to 20 million pieces per year from the current capacity of 2 million pieces per year. We do not necessarily rely on our own production facility to satisfy the demand of our products as we may outsource some or all of the production work to various ODM and OEM manufacturers in China.

39

**A. Principal Factors Affecting Financial Performance**

KBS's operating results are primarily affected by the following factors:

- **Growth of China's menswear industry.** With approximately one-fifth of the world's population and a fast-growing gross domestic product, China represents a significant growth opportunity for a wide variety of retail goods, including apparel. The enhanced living standards and increased disposable income that has resulted from the vibrant economic growth has driven the rapid development of the mens apparel market in China in recent years. China is currently one of the world's largest mens apparel markets and it is larger than the U.S. market based on retail sales of mens apparel products in 2011. As a leading provider of casual menswear in China, KBS believes they are well positioned to capitalize on the favorable economic, demographic and industry trends in this sector.
- **Brand recognition.** KBS derives all of KBS's revenues from sales of the KBS branded products in China, and KBS's success depends on the market perception and acceptance of the KBS brand and the culture, lifestyle and images associated with this brand. Market acceptance of KBS's brand may affect the selling prices and market demand for KBS's products, the profit margin of KBS can achieve, and KBS's ability to grow.
- **Ratio of franchised stores to corporate stores in KBS's sales network.** The ratio of franchised stores to corporate stores in terms of floor area in KBS's sales network affects KBS's results of operations in a given period. The franchised stores operated by KBS's distributors have been and will continue to be the main contributor to KBS's revenue for the foreseeable future. Under the distribution business model, KBS sells directly to KBS's distributors and recognize revenues upon delivery of KBS's products to them. Such distribution network has enabled KBS to accelerate sales growth at a much lower cost than opening direct stores and has limited KBS's inventory and sales risks. Corporate stores operated by us, despite incurring more significant capital expenditures as compared with franchised stores, allow KBS more control over our brand and the consumers shopping experience, which are important factors for the overall success of KBS's business. In addition, KBS's corporate store sales generally have a higher gross profit margin than sales to distributors because KBS is able to sell the products at retail prices directly to the end-consumers and because KBS recognizes expenses relating to KBS's corporate stores as selling and distribution expenses. Therefore, the ratio of franchised stores to corporate stores in KBS's sales network will affect KBS's gross profit margin.
- **Product offering and pricing.** KBS's success depends on KBS's ability to identify, originate and define menswear trends as well as to anticipate, gauge and react to changing consumer demands for menswear in a timely manner. Most of KBS's products are subject to changing consumer preferences and fashion trends that cannot be predicted with certainty. KBS's new products may not receive consumer acceptance as consumer preferences could shift rapidly, and KBS's future success depends in part on KBS's ability to anticipate and respond to these changes.
- **Fluctuations in raw material supply and prices.** The per unit cost of producing KBS's products depends on the supply and price of raw materials, particularly fabrics such as cotton, wool and polyester, which have experienced volatility in past years. Increases in the price of raw materials would negatively impact KBS's gross margins if KBS is not able to offset such price increases through increases in KBS's selling price or changes in product offerings and mix.

KBS believes that the global economic crisis and macroeconomic conditions could continue to put significant pressure on consumer spending in most markets worldwide, so KBS's future performance remains subject to the inherent uncertainty presented by volatile macroeconomic conditions. These conditions could continue to affect Target's business in a number of direct and indirect ways, including lower revenues from decreased product demand, compressed margins and/or increased costs, lack of credit availability and business disruptions due to difficulties experienced by suppliers and customers. KBS strives to position ourselves, from both a financial and an operational perspective, as a company that can react quickly and adapt effectively to evolving macroeconomic conditions, fluctuations in product demand and changes in liquidity and capital demands.

### Financial Statement Presentation

**Revenue.** During the periods covered by this section, we generated revenue from sales of our menswear products.

**Cost of sales.** During the periods covered by this section, our cost of sales primarily consisted of the costs of our outsourcing cost, raw materials, labor and overhead. We did not have any inward or outward freight charges as these charges are borne by our distributors and suppliers.

40

**Gross profit and gross margin.** For the periods covered by this section, our gross profit is equal to the difference between our net sales and cost of sales. Our gross margin is equal to the gross profit divided by net sales. Our gross margin may not be comparable to those of other retail entities since some retail entities include all of their distribution network costs in cost of sales and others, like us, include these expenses in another statement of operations line item.

**Administrative expenses.** For the periods covered by this section, general and administrative expenses consisted primarily of compensation and benefits to our general management, finance and administrative staff, professional advisor fees, audit fees and other expenses incurred in connection with general operations.

**Selling expenses.** For the periods covered by this section, our selling and marketing expenses consisted primarily of compensation and benefits to our sales and marketing staff, store rent, business travel, coordination with distributor marketing and promotions, transportation costs and other sales related costs.

### Comparison of Fiscal Years Ended December 31, 2017, 2016 and 2015

The following table sets forth key components of our results of operations, for the years ended December 31, 2017, 2016 and 2015, both in U.S. dollars and as a percentage of or revenue.

	Year ended December 31, 2017		Year ended December 31, 2016		Year ended December 31, 2015	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Revenue	23,762,536		41,200,205		61,343,681	
Cost of sales	-35,274,352	-148%	-39,041,932	-95%	-46,511,274	-113%
Gross profit	-11,511,816	-48%	2,158,272	5%	14,832,407	36%
Operating expenses						
Distribution and selling expenses	-3,265,380	-14%	-3,606,010	-9%	-6,621,256	-16%
Administrative expenses	-4,879,397	-21%	-3,543,993	-9%	-2,661,584	-6%
Total operating expenses	-8,144,776	-34%	-7,150,003	-17%	-9,282,840	-23%
Other income	461,564	2%	555,051	1%	305,645	1%
Other gains and losses	-122,244	-1%	-11,123,767	-27%	-3,877,832	-9%
Profit from operations	-19,317,272	-81%	-15,560,447	-38%	1,977,380	5%
Finance costs	-96,385	0%	-71,783	0%	0	0%
Change in fair value of warrant liabilities	0	0%	3,409	0%	11,978	0%
Profit before tax	-19,413,657	-82%	-15,628,821	-38%	1,989,358	5%
Income tax	4,598,061	19%	3,726,133	9%	-605,688	-1%
Profit for the year	-14,815,596	-62%	-11,902,688	-29%	1,383,669	3%

A breakdown of revenue, percentage of revenue and percentage of gross margin by segment for the respective periods is as follows:

By business	Distribution network			Corporate stores			OEM			Corporate stores
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	
Sales to external customers	15,034,800	32,127,083	40,815,528	6,983,592	5,529,985	18,091,585	1,744,144	3,543,137	2,436,568	23,762,536
Segment	15,034,800	32,127,083	40,654,657	6,983,592	5,529,985	16,134,537	1,744,144	3,543,137	2,043,287	23,762,536
% of Sales	63%	78%	69%	29%	13%	26%	7%	9%	3%	100%
Segments gross margins	2,277,858	6,623,617	9,668,518	-14,291,680	-5,727,349	4,239,168	502,007	1,262,005	924,722	-11,511,816
Gross margin rate	15%	21%	30%	-205%	-104%	26%	29%	36%	35%	-48%

### Segment sales

For the year ended December 31, 2017, total revenue decreased by 32% from \$41.2 million in 2016 to \$23.8 million. Our total revenue of 2016 decreased by 33% from \$61.3 million to \$41.3 million for the year ended December 31, 2015. The Company reports financial and operating results in three segments: distributor network, corporate stores and OEM.

41

**Distributor Network**—there was a decrease of revenue from the Company's distributor network in year 2017 by 53% from \$32.1 million in year 2016 primarily due to a decrease in sales volume. Revenue from the Company's distributor network in year 2016 decreased by 21% from \$40.1 million in year 2015 primarily due to a decrease in sales volume and average unit selling price. The distributor segment accounted for 63% of the total revenue in 2017, compared to 78% and 67% during years 2016 and 2015, respectively.

In year 2017, gross profit margin for the company's distributor network decreased to 15% from 21% for year 2016, the gross profit for year 2017 decreased due to the company adjusted to same selling price to area and province, and the sales went down in year 2017 because we suspended sales of new products to some distributors which failed to pay off debts to us due to overstock during previous periods. We also terminated some cooperation with some distributors due to their failure to pay off debts owed to us.

In year 2016, gross profit margin for the Company's distributor network decreased to 21% for year 2015. The gross profit of year 2016 decreased due to the increasing cost on improving quality of clothes which sold to our distributors at same prices to help them improve their sales. Some distributors' sales went down in year 2016 because they overbought stock at the end of year 2014 and 2015. As they did not sell the stock well in 2016 and were unable to repay all debts to us, we suspended sales of new products to them until they repaid the outstanding debts owed to the company. Gross profit margin for the Company's distributor network decreased to 24% in 2015 from 30% of year 2014. The gross profit decreased due to the reduction of unit price in year 2015. We had some new wholesale customers to whom we sold our products at lower selling prices in order to help our distributors and wholesalers improve their sales. Revenue from old distributors decreased in year 2015 which was offset by the increase in sales from the new wholesale distributors.

The Company's distributor network currently consists of 14 distributors in 12 provinces. Most of these distributors, either directly or through their sub-distributors, operate KBS-branded stores. Some wholesale distributors sold the products to multi-branded stores and online stores. As of December 31, 2017, distributors operated a total of 40 KBS-branded stores, primarily in second and third tier cities. KBS products distributed to the fourth and fifth tier cities are primarily sold in multi-branded department stores.

*Corporate Stores* — Total revenue from corporate store sales for fiscal year 2017 was \$6.98 million, compared to \$5.53 million for year 2016. In 2017 sales from corporate stores increased as compared to 2016 due to an increase in sales volume, which in turn was mainly attributable to the increase in promotion sales on repurchased inventory from certain distributors which are unable to pay off the debts owed to us.

Total revenue from corporate stores sales for fiscal year 2016 was \$5.53 million, compared to \$18.09 million year 2015. In 2016 sales from corporate stores decreased as compared to 2015 due to a decrease in sales volume and average unit selling price. The decrease in the sales volume was mainly attributable to the decrease in the number of our corporate stores. Total revenue from corporate stores sales for fiscal year 2015 was \$18.09 million, compared to \$16.13 million year 2014. In 2015 sales from corporate stores increased as compared to 2014 because of the increased promotion sales to improve the brand recognition. As of December 31, 2017, the Company operated 1 corporate store which located in Fujian. Total revenue from corporate store sales of 2017 increased as compared to 2016 because of the promotion sales of repurchased inventory.

The corporate stores segment contributed 29% of total revenue in 2017, compared to 13% of 2016 and 29% in year 2015. Gross profit margin for the Company's corporate stores was -205% in 2017, compared to -104% in 2016 and 23% in 2015. The margin compression from 2015 to 2017 is primarily due to (1) in 2015 we closed 16 and 1 corporate stores in 2016 and sold their inventory at a lower price; (2) we reduced the sale price of our goods in corporate stores to stimulate sales; (3) the decrease was attributable to loss from sales of repurchased inventory from certain distributors which sold at big discounted price in year 2017.

*OEM* — The OEM segment is comprised of products that are designed by the customers but manufactured by our Company. Revenue from the OEM segment decreased by \$1.79 million to \$1.74 million for year ended December 31 2017, compared to \$3.53 million for year ended December 31, 2016. Gross profit margin decreased to 29% from 36% of year 2016. Revenue from the OEM segment increased by \$1.1 million to \$3.5 million for year ended December 31 2016, compared to \$2.44 million for year ended December 31, 2015. Gross profit margin decreased to 36% from 38% of year 2015. Our revenues from sales of OEM represented 9%, 9% and 4%, respectively of our total revenues for years ended December 31, 2017, 2016 and 2015.

#### Cost of sales and gross profit rate

Cost of sales comprises of purchasing materials, labor costs for personnel employed in production, depreciation of non-current assets used for production purpose, outsourced manufacturing cost, taxes and surcharges and water and electricity.

Our cost of sales decreased from \$39 million in year 2016 to \$35 million in year 2017. The decrease was consistent with the decrease in our revenue, which resulted in a decrease in purchases by \$7 million. The decrease in purchases was mainly due to a challenging retail environment and close of some stores.

Our cost of sales decreased from \$46 million in year 2015 to \$39 million in year 2016. The decrease was consistent with the decrease in our revenue, which resulted in a decrease in purchases by \$7 million. The decrease in purchases was mainly due to the slowdown of China's economic growth and a challenging retail environment.

The gross profit rate decreased from 5% in year 2016 to -48% in year 2017 due to 1) a decrease in the number of our franchised stores from 55 as of December 31, 2016 to 40 as of December 31, 2017; 2) in order to make more fair and friendly business environment for our all distributors, we adjusted our price policy to have same price to our district distributors and province distributors in 2017, the price sell to the district distributor is lower than before. 3) a slowdown in demand in menswear resulted from competition from online sales and other international brand, which led to an oversupply in recent years and our distributors faced difficulties in selling their products and paying back the balance owed to the company. We reacquired excess inventory of RMB 141.42 million from certain distributors and sold at its net realizable value, which caused a loss at RMB 98.52 million. Although we are not contractually obligated to buy back the excessive inventory from any our distributors, in order to keep long-term relationships with our distributors and support their continued operation, we decided to do same in 2017 to buy back some excessive inventory from certain distributors and we may implement similar plans in the following years.

Our cost of sales decreased from \$46 million in year 2015 to \$39 million in year 2016. The decrease was consistent with the decrease in our revenue, which resulted in a decrease in purchases by \$7 million. The decrease in purchases was mainly due to the slowdown of China's economic growth and a challenging retail environment.

The gross profit rate decreased from 24% in year 2015 to 5% in year 2016 due to 1) a decrease in the number of our franchised stores from 69 as of December 31, 2015 to 55 as of December 31, 2016; 2) the slowdown of China's economic growth; 3) a slowdown in demand in menswear resulted from competition from online sales and other international brand, which led to an oversupply in recent years and our distributors faced difficulties in selling their products and paying back the balance owed to the company. We reacquired excess inventory of RMB 68.36 million from certain distributors and sold at its net realizable value, which caused a loss at RMB 43.05 million. Although we are not contractually obligated to buy back the excessive inventory from any our distributors, in order to keep long-term relationships with our distributors and support their continued operation, we decided to buy back some excessive inventory from certain distributors and we may implement similar plans in the following years.

#### Administrative expenses

Administrative expenses increased by \$1.34 million or 37% to \$4.88 million for year 2017 from \$3.54 million for 2016. The increase was mainly due to the increase in design staff expenses and the increase attributable to the company's share-based compensation paid to the directors of the company.

Administrative expenses increased by \$0.88 million or 33% to \$3.54 million for year 2016 from \$2.67 million for 2015. The increase was mainly due to the new depreciation expense of Anhui office building which started operations in 2016. In addition, the increase was attributable to our share-based compensation paid to the directors and officers of the company, increased non-recurring legal and professional fees and allowance on bad debts based on an estimated amount.

#### Distribution and selling expenses

The selling and distribution expenses decreased by \$0.34 million or 9.45% to \$3.2 million for the year ended December 31, 2017 from \$ 3.6 million in 2016, primarily due to the decrease of promotion related expenses including shopping mall rental expenses and staff bonus.

The selling and distribution expenses decreased by \$3 million or 46% to \$3.6 million for the year ended December 31, 2016 from \$6.6 million in 2015, primarily due to the reduction of staff salary, rental payments and renovation costs as a result of the close of corporate stores. The decrease also attributed to the reduction of promotion related expenses including shopping mall rental expenses and staff bonus.

The advertisement expenses of 2017, 2016 and 2015 are relatively even and selling expenses accounted for 7.5%, 9% and 11% for 2017, 2016 and 2015, respectively.

#### Other gains and losses

Other gains and losses decreased by \$11 million, or 98.9%, to \$0.12 million for the year ended December 31, 2017 from -\$11.1 million for year 2016. The decrease was mainly due to the fact that there was no additional provision on bad debts from three clients as in 2016.

Other gains and losses decreased by \$7.2 million, or 187%, to -\$11.1 million for the year ended December 31, 2016 from -\$3.9 million for year 2015. The decrease was mainly due to the impairment on prepayment of land purchase in Anhui, prepayment of construction on such land and additional provision on bad debts from three clients.

#### Change in fair value of warrant liabilities

We currently have 393,836 warrants outstanding. The fair value of outstanding warrants decreased to zero as of December 31, 2017 from zero as of December 31, 2016 and \$3,409 as of December 31, 2015. Change in fair value of warrant liability decreased to zero for the year ended December 31, 2017, from \$3,409 and \$11,920 for years ended December 31, 2016 and 2015, respectively.

#### Profit for the year

We had a loss of \$14.81 million in 2017 as compared to a loss of \$11.9 million for 2016, representing a decrease of \$2.91 million or -25%. Net margin was -62% for the year ended December 31, 2017, compared to -29% for the year ended December 31, 2016.

Profit for the year was -\$ 11.9 million in 2016 as compared to \$1.38 million for 2015, representing a decrease of \$13.3 million or -960%. Net margin was -29% for the year ended December 31, 2016, compared to 2% for the year ended December 31, 2015.

Profit for the year decreased from 2016 to 2017 mainly due to the following reasons: (1) the administrative expenses increased to a large portion of total revenue; and (2) slowdown in demand in menswear resulted from competition from online sales and other international brand, which led to an oversupply in recent years and our distributors faced difficulties in selling their products and paying back the balance owed to the company. We reacquired an excess inventory of RMB 141.42 million from certain distributors and sold at its net realizable value, which caused a loss at RMB 98.52 million.

Profit for the year decreased from 2015 to 2016 mainly due to the following reasons: (1) the full impairment of prepayment on the land use right of the third parcel of land of our Taihu facility and prepayment to the construction on such land; (2) the administrative expenses increased to a large portion of total revenue; and (3) a slowdown in demand in menswear resulted from competition from online sales and other international brand, which led to an oversupply in recent years and our distributors faced difficulties in selling their products and paying back the balance owed to the company. We reacquired an excess inventory of RMB 68.36 million from certain distributors and sold at its net realizable value, which caused a loss at RMB 43.05 million.

## **B. Liquidity and Capital Resources**

As of December 31, 2017, we had cash and cash equivalents of approximately \$26.05 million. Our cash and cash equivalents consist of cash on hand and cash in the banks. We believe that our current levels of cash and cash equivalent and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. To date, we have financed our operations primarily through net cash flow from operations. Our cash flows are driven by key performance indicators including the number of orders placed by distributors, number of outlets that each distributor operates the pricing of our products, sales of our corporate stores, and the collect portion of account receivable. Currently there is only minimal cash held by offshore subsidiaries and there is no need for these subsidiaries to transfer cash to Hongri PRC.

The following table provides detailed information about our net cash flow for all financial statement periods presented in this report:

#### **Cash Flow** (all amounts in U.S. dollars)

	<b>Fiscal Year Ended</b>		
	<b>31-Dec</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net cash provided (used in) by operating activities	\$ 1,922,252	\$ 3,194,287	\$ 2,234,623
Net cash provided by (used in) investing activities	-865,365	45,445	-927,876
Net cash provided by (used in) financing activities	-1,095,910	1,679,509	330,099
Net increase (decrease) in cash and cash equivalents	-39,024	4,919,241	1,636,856
Effects of exchange rate change in cash	1,513,138	-1,556,980	-1,027,358
Cash and cash equivalents at beginning of the period	24,576,341	21,214,080	20,604,582
Cash and cash equivalent at end of the period	<u>\$ 26,050,456</u>	<u>\$ 24,576,341</u>	<u>\$ 21,214,080</u>

#### **Operating Activities**

The net cash provided by operating activities consists of profit before tax, as adjusted by finance costs, change in fair value of warrant liabilities, interest income, shared based compensation, bad debt allowance, depreciation of property, plant and equipment, amortization of prepaid lease payment and trademark, amortization of subsidies prepaid to distributors, amortization of prepayment and premiums under operating leases, provision (Reversal) of inventory obsolescence, provision of impairment loss in prepayments, loss (gain) on disposal of property, plant and equipment, deferred income tax, which include trade and other receivables, prepayment and deferred expenses, inventory, trade and other payables.

Net cash provided by operating activities in fiscal year 2017 was \$1.9 million, compared with \$3.2 million in the year ended December 31, 2016. The change is mainly due to the decrease in the amount of collection of account receivable.

Net cash provided by operating activities in fiscal year 2016 was \$3.2 million, compared with \$2.2 million in the year ended December 31, 2015. The change is mainly due to the increase in the amount of collection of account receivable.

#### **Investing Activities**

Net cash provided by investing activities in fiscal year 2017 was -\$865,365, compared with \$45,445 net cash provided by investing activities in 2016. The net cash used in investing activities in 2017 was to purchase fire protection facilities.

Net cash provided by investing activities in fiscal year 2016 was \$45,445, compared with \$0.9 million net cash used in investing activities in 2015. The net cash provided by investing activities in 2016 was receipt of interest income.

### Financing Activities

Net cash used in financing activities in fiscal year 2017 was \$1.1 million, compared with \$1.68 million net cash provided by financing activities. It mainly consisted of repayment to related parties in 2017.

Net cash provided by financing activities in fiscal year 2016 was \$1.68 million, compared with \$0.3 million net cash provided by financing activities in 2015. It mainly consisted of new bank loans in an amount of \$1.58 million in 2016.

### Loans, Other Commitments, Contingencies

As of December 31, 2017, we had bank loans in an amount of \$1,606,930. We may, however, in the future, require additional cash resources due to changing business conditions, implementation of our strategy to expand our business or other investments or acquisitions we may decide to pursue. If our own financial resources are insufficient to satisfy the capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

### C. Research and Development, Patents and Licenses, Etc.

Our industry is characterized by rapid technological change, evolving industry standards and changing customer demands. These conditions require continuous expenditures on product research and development to enhance existing products create new products and avoid product obsolescence. For the years ended December 31, 2017, 2016 and 2015, our researched and development expenses amounted to \$1.38 million, \$0.67 million and \$0.69 million, respectively, accounting for approximately 5.8%, 1.6% and 1.1%, of our total revenue, respectively. These expenses consist primarily of outsourced design service fee and salary expenses of research and design department.

### D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2017 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### E. Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, sales or expenses, results of operations, liquidity or capital expenditures, or capital resources that are material to an investment in our securities.

### F. Tabular Disclosure of Contractual Obligations

The table below shows our material contractual obligations as of December 31, 2017.

	Payments Due by Period			
	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations</b>				
Construction Obligations	\$ 67,315,108			
Operating Lease Obligations	\$ 101,660	231,138	2,337,061	
Purchase of finished goods and material				
<b>Total</b>	<b>\$ 67,416,768</b>	<b>231,138</b>	<b>2,337,061</b>	

### Anhui Factory Construction Contract

On November 20, 2010, Hongri PRC entered into an agreement with a third party for the construction of a new plant with a total size of 110,557 square meters, at Taihu City, Anhui at a consideration of RMB 690 million (equivalent to approximately \$104 million). This is the frame contract for the construction of Anhui factory and round estimation. By December 31, 2016 we had already paid about \$37.75million in total on the phase 1, 2, 3 of construction based on detailed phase contract and the balance of construction cost of the Anui factory need to be determined based on the on time budget on every phase. The majority of funds for construction expenses will come from the cash balance on the account as at December 31, 2017 and the new profit of following year.

### Anhui Land Use Right Acquisition Contract

On September 2, 2010, Hongri PRC entered into an agreement with a third party to acquire a land use right in relation to the development of factories in Taihu City, Anhui Province, at a total consideration of RMB 43 million (approximately \$6.3 million). Full consideration was paid in September 2010. There are three parts of the land. The Company has obtained land use rights certificates for the first parcel of land with 7,405 square meters on March 19, 2012, and the second parcel of land with 2,440 square meters on May 26, 2012. The Company is currently in the process of obtaining the land use right certificate for the third parcel of the land with 100,712 square meters.

Except as set forth above, we have no other material long-term debt, capital or operating lease or fixed purchase obligations.

### Inflation

Inflation and changing prices have not had a material effect on our business, and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future. However, our management will closely monitor price changes in the Chinese economy and the apparel industry and continually maintain effective cost controls in operations.

### Seasonality

Our business, like that of many retailers, is seasonal. Historically, we have realized more of our revenue and earnings in the fourth quarter, which includes the majority of the holiday shopping season, than in any other fiscal quarter.

### Critical Accounting Policies

The preparation of financial statements is in conformity with IFRS as issued by the IASB. It requires the Company's management to make assumptions, estimates

and judgments that affect the amounts reported, including the amounts thereto, and related disclosures of commitments and contingencies, if any. The Company has identified certain accounting policies that are significant to the preparation of Company's financial statements. These accounting policies are important for an understanding of the Company's financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. The Company believes the following critical accounting policies involve the most significant estimates and judgments used in the preparation of the Company's financial statements.

#### *Revenue Recognition*

We recognize our revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to us and when specific criteria have been met for each of our activities as described below.

Sales of goods-wholesale. Revenues are recognized upon delivery of products to distributors, and when there is no unfulfilled obligation that could affect acceptance of products by distributors. Delivery costs do not occur until the products have been delivered to the specific location and the risk of loss has been transferred to distributors. Delivery costs incurred by us are recorded in selling and distribution expenses.

Revenues are recorded based on the price specified in the sales contracts, net of value-added tax, and sales rebates and returns estimated at the time of sale. Provisions for estimated sales return were estimated at nil 2015, 2016 and 2017. Sales rebates are estimated based on anticipated annual purchases and the annual rebates are settled by offsetting the accounts receivables from each of these distributors at the end of the year. We accept product returns from distributors for quality reasons and only if the distributors follow our procedures in processing the returned products. Accumulated experience is used to estimate and provide for returns. No element of financing is deemed present as sales are made with a credit term of 240 days for our distributors, which is consistent with market practice. Credit terms were 120 to 150 days in 2017.

Although none of the distributor agreements contained or contains any right of return provisions or other similar rights, we implemented an initiative in 2016 and 2017 to buyback certain excessive inventory from certain distributors so that the relationship with authorized retailers and distributors can be developed in a healthier long-term manner.

Sales of goods-retail. We had 2 corporate shops during the year 2016 and had 1 corporate stores as of December 31, 2017. Revenues generated from these corporate shops are recognized at the time of register receipt. Retail sales returns within three days will be accepted only for quality reasons. Accumulated experience is used to estimate and provide for such returns at the time of sale. We do not operate any retail customer loyalty programs. Loyalty programs may be offered by distributors and authorized retailers, who bear all related program costs.

Interest income Interest income is recognized using the effective interest method.

#### *Impairment of Trade and Other Receivables*

We assess the collectability of trade and other receivables. Such assessment is based on the credit history of our distributors and current market conditions. We reassess the impairment losses at each statement of financial position date and make provisions, if necessary.

#### *Net Realizable Value of Inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical expense of selling products of a similar nature. Changes in selling price could be significant as a result of changed competitive conditions.

#### *Provision for Estimated Sales Return*

We reassess the provision for estimated sales return at each statement of financial position date based on current market conditions and adjust provision, if necessary.

#### *Provision for Liability*

We reassess the provision for constructive liability at each statement of financial position date based on current market conditions and adjust provision, if necessary.

#### *Capital and Reserves*

Share capital represents the nominal value of shares that have been issued by the Group. Share capital is determined using the nominal value of shares that have been issued.

Retained profits include all current and prior period results as determined in the combined statement of comprehensive income.

Foreign currency translation reserve arising on the translation are included in the currency translation reserve.

In accordance with the relevant laws and regulations of PRC, the subsidiaries of the Group established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary's share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiary subject to the approval of the relevant authorities. However, except for offsetting prior years' losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

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

#### *Allowance for Bad and Doubtful debts*

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates, where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been charged.

#### *Impairment Losses*

Impairment losses are based on an assessment of the investment or long lived assets' ability to generate future cash flows when there is evidence that these assets may be impaired. The calculation of the amount of impairment loss are based on estimates made by management when applying broad accounting principles governing the accounting for these assets. The determination of these estimates requires judgment by management. The final outcome may differ from the original estimates made by management, which may impact the carrying value of the assets which management has determined to be impaired and charged to the Company's profit loss during the period.

#### Income Tax

We are required to pay income taxes in the PRC. In order to determine the provision for income taxes, we have to exercise critical judgment. During the ordinary course of our business, there may be ultimate determinations on income taxes that contain uncertainty. We recognize liabilities for expected taxes based on our estimates of whether additional taxes may be due. When the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

#### G. Safe Harbor

See "Introductory Notes—Forward-Looking Information."

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. Directors and Senior Management

Our current directors and executive officers, their ages and positions are as follows:

NAME	AGE	POSITION
Keyan Yan	46	Chairman, Director, President and Chief Executive Officer
Themis Kalapotharakos	43	Director
Lixia Tu	36	Chief Financial Officer, Secretary and Director
John Sano	48	Independent Director
Matthew C. Los	53	Independent Director
Zhongmin Zhang	75	Independent Director
Yuet Mei Chan	37	Independent Director

**Mr. Keyan Yan.** Mr. Yan has been the Chairman of our board of directors since the closing of the Share Exchange on August 1, 2014. Mr. Yan has over 16 years of senior management experience. He served as Chairman and Chief Executive Officer of KBS International between March 2011 and August 2014. From 1994 to present, Mr. Yan has served as general manager of Hongri PRC. Prior to joining us, Mr. Yan served as workshop manager, production manager and marketing manager of Zhenshi Knitting Factory in Shishi, China from 1989-1994. Mr. Yan obtained a certificate of corporate management from Xiamen University in 1992.

**Ms. Lixia Tu.** Ms. Tu became the Company's Chief Financial Officer on June 25, 2015. Ms. Tu has more than eight years of accounting and audit experience, familiar with IFRS, US GAAP, Sarbanes-Oxley and the compliance requirements of SEC. After she worked as a project manager at BDO China Fu Jian SHU LUN PAN Certified Public Accountants for four years, she worked as a CFO or a financial consultant for some other companies. Ms. Tu holds a Master's degree in professional accounting from the University of Deakin in Australia. Ms. Tu is also a member of the Chartered Association of Certified Accountants.

**Mr. Themis Kalapotharakos.** Mr. Kalapotharakos became our director on June 15, 2015. Mr. Kalapotharakos has acquired a range of expertise of a wide spectrum of business activities. He has extensive high-level experience at the Shipping, Trading and Finance industries where he has founded, developed and operated various businesses starting from the ground up. His roles involved regular communication and coordination with investors, financial institutions, capital market authorities, custodian and administrative banks, auditors and legal counsel. He holds a Bachelor's degree from Cardiff University and an MSc Degree from Cass Business School in the UK.

**John Sano.** Mr. Sano has been an independent director of the Company since the closing of the Share Exchange on August 1, 2014. Mr. Sano has over 20 years of experience in apparel & home furnishings concept, design, sourcing, production, and e-commerce. He has extensive experience in all aspects of the retail clothing supply chain, from conceptualization to final production and distribution. Mr. Sano has also advised and worked closely with numerous top brands in the US. He has been General Director of Sano Design Services since 2002. Mr. Sano has an associate's degree in interior design from Traphagen School of Design.

**Mr. Matthew C. Los.** Mr. Los became our director on October 8, 2015. Mr. Los has acquired a range of expertise of a wide spectrum of business activities. He has over 20 years' experience at high level management, and has founded, developed and operated various businesses in the shipping, energy, telecommunications real estate industries starting from the ground up. He also has experience in the capital markets and was the CEO of Aquasition Corp., the predecessor of the Company, prior to the Share Exchange. Mr. Los has a BSc in Mechanical Engineering and Computer Aided Design from University of Westminster in the UK.

**Mr. Zhongmin Zhang.** Mr. Zhang became our director on July 10, 2017. He has over 45 years of extensive experience in many facets of textile business, including in production, marketing, and management. Currently, Mr. Zhang is the president of Zhengzhou Guangda Textile Printing & Dyeing Co., Ltd. which has an annual production of 216 million meters of various textile products, with a value of RMB 800 million. Holding a title of Senior Engineer, Mr. Zhang graduated from Harbin Institute of Technology in 1965. He also has certificates in finance management and civil law.

**Ms. Yuet Mei Chan.** Ms. Chan became our director on July 10, 2017. She has over 15 years of experience in the banking industry. She held several senior positions in a prestigious bank in Hong Kong from 2001-2016. She is currently a financial consultant at AIA and specializes in analyzing financial situations and market trends. Ms. Chan holds a diploma in Computing and Business Studies from Hong Kong St. Perth College.

No family relationship exists between any of the persons named above.

#### B. Compensation

In 2017, we paid an aggregate of approximately \$318,728 in cash as compensation to our directors and senior management as a group, and some of our directors and executive officers also received compensation in the form of annual salaries and bonuses. We do not set aside or accrue any amounts for pension, retirement or other benefits for our directors and senior management. However, we reimburse our directors for out-of-pocket expenses incurred in connection with their services in such capacity.

On July 10, 2017, we granted an aggregate of 215,000 restricted shares of common stock to certain executive officers and directors of the Company as compensations for their services in 2017. All the shares vested immediately upon granting. On February 10, 2018, we granted an additional 285,000 restricted shares of common

## Employment Agreements

Please refer to Item 10 “Additional Information—C. Material Contracts.”

### C. Board Practices

Our board of directors currently consists of seven members, Keyan Yan, Lixia Tu, John Sano, Themis Kalapotharakos, Matthew C. Los, Yuet Mei Chan and Zhongmin Zhang.

The Board has established the Audit Committee, which is comprised entirely of independent directors. From time to time, the Board may establish other committees.

#### Audit Committee

Our Audit Committee is currently composed of three members: Yuet Mei Chan, John Sano and Matthew C. Los. Our Board of Directors determined that each member of the Audit Committee meets the independence criteria prescribed by applicable regulation and the rules of the SEC for audit committee membership. Each Audit Committee member also meets NASDAQ’s financial literacy requirements. Matthew C. Los serves as Chair of the Audit Committee.

Our Board of Directors has determined that Matthew C. Los is the “audit committee financial expert” as such term is defined in Item 407(d) of Regulation S-K promulgated by the SEC and also meets NASDAQ’s financial sophistication requirements.

The Audit Committee oversees our accounting and financial reporting processes and the audits of the financial statements of our Company. The Audit Committee is responsible for, among other things:

- the appointment, compensation, retention and oversight of the work of the independent auditor;
- reviewing and pre-approving all auditing services and permissible non-audit services (including the fees and terms thereof) to be performed by the independent auditor;
- reviewing and approving all proposed related-party transactions;
- discussing the interim and annual financial statements with management and our independent auditors;
- reviewing and discussing with management and the independent auditor (a) the adequacy and effectiveness of the Company’s internal controls, (b) the Company’s internal audit procedures, and (c) the adequacy and effectiveness of the Company’s disclosure controls and procedures, and management reports thereon;
- reviewing reported violations of the Company’s code of conduct and business ethics; and
- reviewing and discussing with management and the independent auditor various topics and events that may have significant financial impact on the Company or that are the subject of discussions between management and the independent auditors.

### D. Employees

As of December 31, 2017, we employed 192 full-time employees, of which 127 employees at our production facility in Anhui Province, China, are contracted with through a labor agency. The following table sets forth the number of our full-time employees by function.

Function	Number of Employees of 2017
Management and Administration	27
Marketing, Sales and Distribution	17
Design and Product Development	22
Production	98
Procurement, Warehousing and Logistics	19
Quality and Assurance	9
<b>TOTAL</b>	<b>192</b>

We believe that we have maintained a satisfactory working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for company’s operations. None of company’s employees is represented by a labor union.

Our employees in China participate in a state pension plan organized by Chinese municipal and provincial governments. The company is required to make monthly contributions to the plan for each employee at the rate of 23% of his or her average assessable salary. In addition, the company is required by Chinese law to cover employees in China with various types of social insurance. The company believes that it is in material compliance with the relevant PRC laws.

### E. Share Ownership

The following table sets forth information regarding beneficial ownership of each class of our voting securities as of April 27, 2018 (i) by each person who is known by us to beneficially own more than 5% of our voting securities; (ii) by each of our officers and directors; and (iii) by all of our officers and directors as a group.

Name	Office, If Any	Title of Class	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Class <sup>(2)</sup>
<b>Officers and Directors</b>				
Keyan Yan <sup>(3)</sup>	Chairman, CEO and President	Common Stock	1,094,320	48.16%
Lixia Tu	Chief Financial Officer and Director	Common Stock	100,000	4.40%
Themis Kalapotharakos	Director	Common Stock	35,000	1.54%
John Sano	Director	Common Stock	5,000	*



Matthew C. Los	Director	Common Stock	35,000	1.54%
Zhongmin Zhang	Director	Common Stock	5,000	*
Yuet Mei Chan	Director	Common Stock	5,000	*

All officers and directors as a group (7 persons named above)			1,279,321	56.32%
--	--	--	-----------	--------

**5% Security Holders**

Keyan Yan <sup>(3)</sup>	Common Stock		1,094,320	48.16%
--------------------------	--------------	--	-----------	--------

\* Less than 1%

- (1) Beneficial Ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to our common stock.
- (2) As of April 27, 2018, a total of 2,271,299 shares of commons stock are considered to be outstanding pursuant to SEC Rule 13d-3(d)(1). For each Beneficial Owner above, any securities that are exercisable or convertible within 60 days have been included in the denominator.
- (3) Including 844,320 shares owned by Mr. Chan Sun Keung. On March 9, 2011, Keyan Yan entered into an option agreement with Mr. Chan Sun Keung, which was amended on August 1, 2014. Pursuant to the option agreement, as amended, upon his request, Mr. Yan has the option to acquire all of the shares of common stock of the Company that Chan Sun Keung acquired at any time.

None of our existing shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in our change in control.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major Shareholders**

Please refer to Item 6 “Directors, Senior Management and Employees—E. Share Ownership.”

**B. Related Party Transactions**

From time to time, KBS and its all subsidiaries borrowed money from our Chairman and Chief Executive Officer, Mr. Keyan Yan, to pay for Company expenses. These amounts are interest-free, unsecured and repayable on demand. In years 2017 and 2016, Mr. Yan paid all the Company expenses in connection with the Company’s Nasdaq continued listing and SEC reporting out of his pocket. As of December 31, 2017 and 2016, the balance of these amounts we borrowed from Mr. Yan was \$154,137 and \$1,125,912, the balance of amounts we borrowed from Chen Bizhen, Mr. Yan’s wife, was \$0 and \$24,416, respectively.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated Statements and Other Financial Information**

**Financial Statements**

We have appended consolidated financial statements filed as part of this report. See Item 18 “Financial Statements.”

**Legal Proceedings**

We may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time. We are currently not party to any legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings and those involving any third party, which may have, or have had in the recent past, significant effects on our financial position or profitability.

**Dividend Policy**

To date, we have not paid any cash dividends on our shares. As a Marshall Islands company, we may only declare and pay dividends except when the corporation is insolvent or would thereby be made insolvent or when the declaration or payment would be contrary to any restrictions contained in our Articles of Incorporation. Dividends may be declared and paid out of surplus only; but in case there is no surplus, dividends may be declared or paid out of the net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. We currently anticipate that we will retain any available funds to finance the growth and operation of our business and we do not anticipate paying any cash dividends in the foreseeable future. Additionally, our cash held in foreign countries may be subject to certain control limitations or repatriation requirements, limiting our ability to use this cash to pay dividends.

**B. Significant Changes**

No significant change has occurred since the date of our consolidated financial statements filed as part of this annual report.

**ITEM 9. THE OFFER AND LISTING**

Our common stock is listed on the NASDAQ Capital Market and trade under the symbol “KBSF.” Between January 23, 2013 and November 3, 2014, our common stock was traded on the NASDAQ Capital Market under the symbol “AQU.” Our Warrants and Units are quoted on the OTC Markets under the symbols “KBSFW” and “KBSFU”, respectively. Prior to November 3, 2014, our Warrants and Units were quoted on the OTC Markets under the symbols “AQUUF” and “AQUUU”, respectively. Before their quotation on the OTC Markets, our Units commenced to trade on the Nasdaq Stock Market on October 26, 2012 and our Warrants commenced to trade separately from its Units on January 23, 2013.

On February 3, 2017, a special shareholder meeting was held at the Company’s headquarters in China and at the meeting, our shareholders approved a proposal to grant discretionary authority to the Board of Directors of the Company to effect a reverse stock split of issued and outstanding shares of common stock at a ratio within the range from one-for-two up to one-for-twenty; and determine whether to pay in cash the fair value of fractions of a share of common stock as of the time when those entitled to receive such fractions are determined, or to entitle shareholders to receive, in lieu of any fractional share, the number of shares of common stock rounded up to the next whole number. On February 3, 2017, after the special shareholder meeting, our Board of Directors approved a one-for-fifteen reverse stock split of the Company’s issued and outstanding common stock. In addition, in lieu of issuing any fractional share, the Board of Directors decided that shareholders are entitled to receive the number of shares of common stock rounded up to the next whole number. Our common stock began trading on the NASDAQ Stock Market on a split-adjusted basis when the market opened on February 9, 2017.

The following table provides the high and low reported market prices of our securities as reported by Nasdaq Stock Market for the periods indicated. Prices of common stock have been adjusted to reflect the one-for-fifteen reverse stock split effected in February 2017.

	Units		Common Stocks		Warrants	
	High	Low	High	Low	High	Low
<b>Annual Highs and Lows</b>						
2013	\$ 10.38	\$ 10.00	\$ 164.70	\$ 135.00	\$ 7.50	\$ 0.20
2014	10.74	5.50	156.00	63.75	5.25	0.11
2015	4.25	2.11	206.40	31.80	2.85	0.02
2016	4.20	4.20	35.10	2.40	0.03	0.00
2017	N/A	N/A	18.00	1.41	N/A	N/A
<b>Fiscal Quarterly Highs and Lows 2015</b>						
First Quarter	\$ 5.50	\$ 5.50	\$ 83.10	\$ 42.45	\$ 2.70	\$ 0.14
Second Quarter	4.25	3.00	206.40	47.25	0.17	0.25
Third Quarter	4.25	2.11	97.50	45.30	0.07	0.02
Fourth Quarter	4.20	2.11	89.40	31.80	0.19	0.03
<b>Fiscal Quarterly Highs and Lows 2016</b>						
First Quarter	\$ 4.20	\$ 4.20	\$ 35.10	\$ 4.05	\$ 0.03	\$ 0.00
Second Quarter	N/A	N/A	9.75	2.40	N/A	N/A
Third Quarter	N/A	N/A	9.30	4.20	N/A	N/A
Fourth Quarter	N/A	N/A	6.75	4.20	N/A	N/A
<b>Fiscal Quarterly Highs and Lows 2017</b>						
First Quarter	\$ N/A	\$ N/A	\$ 18.00	\$ 2.70	\$ N/A	\$ N/A
Second Quarter	N/A	N/A	6.49	2.28	N/A	N/A
Third Quarter	N/A	N/A	3.45	1.41	N/A	N/A
Fourth Quarter	N/A	N/A	15.00	2.10	N/A	N/A
<b>Fiscal Quarterly Highs and Lows 2018</b>						
First Quarter	\$ N/A	\$ N/A	\$ 11.70	\$ 3.53	\$ N/A	\$ N/A
<b>Monthly Highs and Lows</b>						
Oct-17	N/A	N/A	3.03	2.10	N/A	N/A
Nov-17	N/A	N/A	15.00	2.03	N/A	N/A
Dec-17	N/A	N/A	9.00	7.07	N/A	N/A
Jan-18	N/A	N/A	6.24	3.06	N/A	N/A
Feb-18	N/A	N/A	6.33	4.59	N/A	N/A
Mar-18	N/A	N/A	11.70	4.76	N/A	N/A
April 2018 (through April 27, 2018)	N/A	N/A	8.44	4.60	N/A	N/A

#### Approximate Number of Holders of Our Securities

On April 27, 2018, there was 1 holder of record of our Units, 401 shareholders of record of our common stock and 1 holders of record of our Warrants. Certain of our securities are held in nominee or street name so the actual number of beneficial owners of our securities is greater than the number of record holders set forth above.

#### A. Plan of Distribution

Not applicable.

#### B. Markets

See our disclosures above under "A. Offer and Listing Details."

#### C. Selling Shareholders

Not applicable.

#### D. Dilution

Not applicable.

#### E. Expenses of the Issue

Not applicable.

### ITEM 10. ADDITIONAL INFORMATION

#### A. Share Capital

Our Amended and Restated Articles of Incorporation authorize the Company to issue up to 155,000,000 shares with a par value of \$0.0001, consisting of 150,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of date of this report, there are 2,271,299 shares of common stock issued and outstanding. We have never issued any preferred stock.

- As of date of this report, we have 717 IPO Units outstanding.
- As of date of this report, we have 393,836 warrants outstanding (including 369,302 IPO Warrants and 24,534 Placement Warrants) and each warrant entitles the holder to purchase one share of common stock at a purchase price of \$172.5.

## **B. Memorandum and Articles of Association**

*The following represents a summary of certain key provisions of our articles of incorporation and bylaws. The summary does not purport to be a summary of all of the provisions of our articles of incorporation and bylaws. For more complete information you should read our amended and restated articles of incorporation and bylaws, each listed as an exhibit to this report.*

We were incorporated in the Marshall Islands on January 26, 2012 under the Marshall Islands Business Corporations Act (“BCA”). The purpose of the Company is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the BCA. Our amended and restated articles of incorporation and bylaws do not impose any limitations on the ownership rights of our stockholders.

### **Description of Common Stock**

Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Upon our dissolution, liquidation or winding up of the affairs of the Company, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of our common stock will be entitled to receive pro rata our remaining assets available for distribution. Holders of common stock do not have conversion, redemption or preemptive rights to subscribe to any of our securities.

### **Blank Check Preferred Stock.**

Our Board of Directors is authorized, without any further vote or action by our stockholders, to issue up to 5,000,000 shares of preferred stock in different classes and series and, with respect to each class or series, to determine the designations, powers, preferences, privileges and other rights, including dividend rights, conversion rights, terms of redemption and liquidation preferences, any or all of which may be greater than the powers and rights associated with the common stock, at such times and on such other terms as they think proper. Our Board of Directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

---

55

---

### **Warrants**

As of date of this report, we have 393,836 warrants outstanding, among which 369,302 warrants were issued to the public in our IPO (the “IPO Warrants”). Each of the IPO Warrants entitles the holder to purchase one share of common stock at a price of \$172.5 expiring on July 31, 2019, provided that there is an effective registration statement covering the shares of common stock underlying the IPO Warrants.

The Company may redeem the IPO Warrants at a price of \$0.01 per warrant upon 30 days’ notice, after they become exercisable and prior to their expiration, only in the event that the last sale price of the shares of common stock is at least \$17.50 per share for any 20 trading days within a 30-trading day period (“30-Day Trading Period”) ending three business days prior to the date on which notice of redemption is given, provided there is a current registration statement in effect with respect to the shares of common stock underlying such IPO Warrants throughout the 30-day redemption period. The Company is only required to use its best efforts to maintain the effectiveness of the registration statement covering the underlying common stock of the IPO Warrants. There are no contractual penalties for failure to deliver securities if a registration statement is not effective at the time of exercise. Additionally, in the event that a registration statement is not effective at the time of exercise, the holder of such warrant shall not be entitled to exercise such warrant for cash and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle the warrant exercise.

In addition, Aqua Investments Corp., an entity controlled by certain founding shareholders of the Company, acquired 24,534 warrants, each entitles the holder to purchase one share of common stock at a price of \$172.50, expiring on July 31, 2019 (the “Placement Warrants”). The Placement Warrants are identical to the IPO Warrants except that the Placement Warrants (i) may be exercised for cash or on a cashless basis; (ii) will not be redeemable by the Company and (iii) may be exercised even if there is not an effective registration statement relating to the shares underlying the warrants, so long as they are held by the initial purchaser or any of its permitted transferees.

As of date of this report, we also have 717 IPO Units outstanding and publicly trading, each including one IPO Warrant and one share of our common stock.

### **Directors**

The business and affairs of the Company are managed by or under the direction of our Board of Directors.

Our directors are elected by the holders of the shares representing a majority of the total voting power of the then-outstanding capital stock of the Company entitled to vote generally in the election of directors (“Voting Stock”). Our amended and restated articles of incorporation provide that cumulative voting shall not be used to elect directors. Each director will be elected to serve until the next annual meeting of shareholders and until his/her successor shall have been duly elected and qualified, except in the event of his/her death, resignation, removal or the earlier termination of his/her term of office.

Any director or the entire Board of Directors may be removed at any time, with or without cause, by the affirmative vote of the holders of at least a majority of the total voting power of the Voting Stock entitled to vote thereon or with cause by directors constituting at least two-thirds of the entire Board.

Vacancies in the Board of Directors occurring by death, resignation, the creation of new directorships, the failure of the shareholders to elect the whole board at any annual election of directors, or, except as herein provided, for any other reason, including removal of directors for cause, may be filled either by the affirmative vote of a majority of the remaining directors then in office, although less than a quorum, at any special meeting called for that purpose or at any regular meeting of the Board. Vacancies occurring by removal of directors without cause may be filled only by vote of the shareholders.

### **Shareholder Meetings**

Annual stockholder meetings will be held at a time and place selected by our board of directors. The meetings may be held in or outside of the Marshall Islands.

---

56

---

Under our amended and restated articles of incorporation, special meetings may be called by the board of directors, or by the secretary of the Company requested by stockholders representing certain amount of voting power. Our board of directors shall give not less than 15 days and not more than 60 days prior written notice of a shareholders’ meeting to each shareholder of record entitled to vote thereat and to each shareholder of record who, by reason of any action proposed at such meeting would be entitled to have his/her shares appraised if such action were taken, and the notice shall include a statement of that purpose and to that effect.

Our bylaws provide that a meeting of shareholders is duly constituted if, at the commencement of the meeting, there are shareholders present in person or by proxy representing not less than a majority of the votes of the shares issued and outstanding and entitled to vote on resolutions of shareholders to be considered at the meeting.

If a quorum is present, the affirmative vote of a majority of the shares of stock represented at the meeting will be the act of the shareholders. At any meeting of shareholders, each shareholder entitled to vote any shares on any manner to be voted upon at such meeting shall be entitled to one vote on such matter for each such share. Any action required or permitted to be taken at a meeting, may be taken without a meeting if a consent in writing setting forth the action so taken, is

### ***Dissenters' Rights of Appraisal and Payment.***

Under the BCA, our stockholders have the right to dissent from various corporate actions, including any merger or sale of all or substantially all of our assets not made in the usual course of our business, and receive payment of the fair value of their shares. However, the right of a dissenting stockholder to receive payment of the fair value of his or her shares shall not be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation. In the event of any further amendment of our articles of incorporation, a stockholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting stockholder must follow the procedures set forth in the BCA to receive payment. In the event that we and any dissenting stockholder fail to agree on a price for the shares, the BCA procedures involve, among other things, the institution of proceedings in the circuit court in the judicial circuit in the Marshall Islands in which our Marshall Islands office is situated. The value of the shares of the dissenting stockholder is fixed by the court after reference, if the court so elects, to the recommendations of a court-appointed appraiser.

### ***Stockholders' Derivative Actions***

Under the BCA, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of common stock both at the time the derivative action is commenced and at the time of the transaction to which the action relates.

### ***Indemnification of Officers and Directors***

The BCA authorizes corporations to limit or eliminate the personal liability of directors and officers to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our amended and restated articles of incorporation include a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director to the fullest extent permitted by law. We must indemnify our directors and officers to the fullest extent authorized by law. We are also expressly authorized to advance certain expenses (including attorneys' fees and disbursements and court costs) to our directors and officers and carry directors' and officers' insurance providing indemnification for our directors, officers and certain employees for some liabilities.

The limitation of liability and indemnification provisions in our amended and restated articles of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

## **C. Material Contracts**

Information concerning our material contracts governing the business of the Company is included elsewhere in this report or in the information incorporated by reference herein.

On April 23, 2018, the Company entered into an employment agreement with Keyan Yan, pursuant to which Mr. Yan agreed to act as the Chief Executive Officer of the Company. The employment agreement has an initial term of three years, which will be automatically extended by a year at the expiration of the initial term and at the expiration of every one-year extension, until terminated in accordance with the termination provisions of the agreement. His compensation will be determined by the Board and reviewed from time to time according to the Company's policies. Mr. Yan is eligible to participate in annual performance bonus plans as may be established by the Company from time to time as well as the Company's equity incentive plan when and if such a plan is adopted by the Board.

On April 23, 2018, the Company entered into an employment agreement with Lixia Tu, pursuant to which Ms. Tu agreed to act as the Chief Financial Officer of the Company. The employment agreement has an initial term of three years, which will be automatically extended by a year at the expiration of the initial term and at the expiration of every one-year extension, until terminated in accordance with the termination provisions of the agreement. Her compensation will be determined by the Board and reviewed from time to time according to the Company's policies. Ms. Tu is eligible to participate in annual performance bonus plans as may be established by the Company from time to time as well as the Company's equity incentive plan when and if such a plan is adopted by the Board.

## **D. Exchange Controls**

### ***Marshall Islands Exchange Controls***

Under Marshall Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to nonresident holders of our shares.

### ***BVI Exchange Controls***

There are no material exchange controls restrictions on payment of dividends, interest or other payments to the holders of our ordinary shares or on the conduct of our operations in the BVI, where we were incorporated. There are no material BVI laws that impose any material exchange controls on us or that affect the payment of dividends, interest or other payments to nonresident holders of our ordinary shares. BVI law and our memorandum and articles of association do not impose any material limitations on the right of non-residents or foreign owners to hold or vote our ordinary shares.

### ***PRC Exchange Controls***

Under the Foreign Currency Administration Rules promulgated in 1996 and revised in 1997, and various regulations issued by SAFE and other relevant PRC government authorities, RMB is convertible into other currencies without prior approval from SAFE only to the extent of current account items, such as trade related receipts and payments, interest and dividends and after complying with certain procedural requirements. The conversion of RMB into other currencies and remittance of the converted foreign currency outside PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into RMB.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, which became effective as of November 1, 2005. According to the notice, a special purpose company, or SPV, refers to an offshore company established or indirectly controlled by PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of an SPV, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retroactively. As a result, PRC residents who have established or acquired control of these SPVs that previously made onshore investments in China were required to complete the relevant

overseas investment foreign exchange registration procedures which became effective on March 31, 2006. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (i) the PRC residents have completed the injection of equity investment or assets of a domestic company into the SPV; (ii) the overseas funding of the SPV has been completed; (iii) there is a material change in the capital of the SPV. Under the rules, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators to penalties under the PRC foreign exchange administration regulations.

On August 29, 2008, SAFE promulgated Circular 142 which regulates the conversion by a foreign-funded enterprise of foreign currency into RMB by restricting how the converted RMB may be used. In addition, SAFE promulgated Circular 45 on November 9, 2011 in order to clarify the application of Circular 142. Under Circular 142 and Circular 45, the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of foreign-invested enterprises. The use of such RMB capital may not be changed without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. On April 9, 2015, SAFE released the Notice on the Reform of the Administration Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19, which came into force and superseded SAFE Circular 142 on June 1, 2015. Circular 19 allows foreign invested enterprises to settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation and provides the procedures for foreign invested companies to use Renminbi converted from foreign currency-denominated capital for equity investment. Nevertheless, Circular 19 also reiterates the principle that Renminbi converted from foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope.

SAFE also promulgated Circular 59 in November 2010, which tightens the regulation over settlement of net proceeds from overseas offerings and requires, among other things, the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents.

In May, 2013 SAFE promulgated Circular 21 which provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and use, receipt and payment of funds, and settlement and sales of foreign exchange.

See also "Item 4.B. Information on the Company—Business Overview—Regulation—Dividend Distributions" and "Item 4.B. Information on the Company—Business Overview—Regulation—Circular 37."

## **E. Taxation**

*The following is a general summary of the material Marshall Islands, Hong Kong, BVI, PRC and U.S. federal income tax consequences relevant to an investment in our units, shares of common stock and warrants to acquire our shares of common stock, sometimes referred to collectively in this summary as our "securities". The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address United States state or local tax laws, or tax laws of jurisdictions other than the Marshall Islands, Hong Kong, the BVI, the PRC and the United States. We recommend that you consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our securities.*

---

### **Marshall Islands Taxation**

The following are the material Marshall Islands tax consequences of our activities to us and to our stockholders and warrant holders of investing in our Common Stock and warrants. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax or income tax will be imposed upon payments of dividends by us to our stockholders or proceeds from the disposition of our common stock and warrants, provided such stockholders or warrant holders, as the case may be, are not residents in the Marshall Islands. There is no tax treaty between the United States and the Republic of the Marshall Islands.

### **BVI Taxation**

The BVI does not impose a withholding tax on dividends paid to us by our BVI subsidiary, nor does the BVI levy any capital gains or income taxes on us or our BVI subsidiary. However, our BVI subsidiary is required to pay the BVI government an annual license fee based on the number of shares it is authorized to issue.

There is no income tax treaty or convention currently in effect between the United States and the BVI.

### **Hong Kong Taxation**

Our Hong Kong subsidiaries, under the current laws of Hong Kong, are subject to profits tax of 16.5%. No provision for Hong Kong profits tax has been made as our Hong Kong subsidiaries have no taxable income.

### **PRC Taxation**

We are a holding company incorporated in the Marshall Islands, which indirectly holds our equity interests in our PRC operating subsidiaries. The EIT Law and its implementation rules, both of which became effective as of January 1, 2008, provide that a PRC enterprise is subject to a standard income tax rate of 25% and China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10%, unless there are applicable treaties between the overseas parent's jurisdiction of incorporation and China to reduce such rate.

Under the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the Double Taxation Arrangement, effective as of January 1, 2007, such dividend withholding tax rate is reduced to 5% if a Hong Kong resident enterprise owns over 25% of the PRC company distributing the dividends. Under the aforesaid arrangement, any dividends that our PRC operating subsidiaries pay to their Hong Kong holding companies may be subject to a withholding tax at the rate of 5% if they are not considered to be a PRC "resident enterprise" as described below. However, if the Hong Kong holdings companies are not considered to be the "beneficial owner" of such dividends under the Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties promulgated by the State Administration of Taxation on October 27, 2009 (and not a PRC "resident enterprise"), such dividends would be subject to the withholding tax rate of 10%. The withholding tax rate of 5% or 10% applicable will have a significant impact on the amount of dividends to be received by us and ultimately by shareholders.

According to the Notice Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, the term "beneficial owner" refers to a person who has the right to own and dispose of the income and the rights or properties generated from the said income. The "beneficial owner" may be an individual, a company or any other organization which is usually engaged in substantial business operations. A conduit company is not a "beneficial owner." The term "conduit company" refers to a company which is usually established for purposes of dodging or reducing taxes, and transferring or accumulating profits. Such a company is only registered in the country of domicile to satisfy the organizational form as required by law, but it does not engage in such substantial business operations as manufacturing, distribution and management. As our Hong Kong holding companies are controlling companies and are not engaged in substantial business operations, they could be considered as conduit companies by tax authorities and we do not expect them to be a beneficial owner.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25% on its global income. The implementing rules define the term "de facto

It remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise. However, if the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on offering proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC shareholders and with respect to gains derived by our non-PRC shareholders from transferring our shares.

## **U.S. Federal Income Taxation**

The following is a discussion of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of our securities. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s situation. The discussion applies only to holders that hold their securities as capital assets (generally property held for investment) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This discussion is based on the Code, income tax regulations promulgated thereunder, judicial positions, published positions of the Internal Revenue Service, or the IRS, and other applicable authorities, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion is general in nature and is not exhaustive of all possible tax considerations, nor does the discussion address any state, local or foreign tax considerations or any U.S. tax considerations (e.g., estate or gift tax) other than U.S. federal income tax considerations, that may be applicable to particular holders.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant in light of particular circumstances, nor does it address the U.S. federal income tax consequences to persons who are subject to special rules under U.S. federal income tax law, including:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid United States federal income tax;
- certain former citizens or long-term residents of the United States;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock;
- holders who acquired our stock as compensation or pursuant to the exercise of a stock option; or
- persons who hold our shares as a position in a hedging transaction, “straddle,” or other risk reduction transaction.

For purposes of this discussion, a U.S. holder is (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States (or treated as such under applicable U.S. tax laws), any state thereof, or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) it has a valid election in effect under applicable law and regulations to be treated as a U.S. person for U.S. federal income tax purposes. A non-U.S. holder is a holder that is neither a U.S. holder nor a partnership or other entity classified as a partnership for U.S. federal income tax purposes.

In the case of a partnership or entity classified as a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. Partners of partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them of the merger or of the ownership and disposition of our shares.

As a result of consummation of the Share Exchange, (i) we acquired substantially all the properties of KBS International, a U.S. corporation, and (ii) the former shareholders of KBS International held at least 80 percent of our common stock by reason of having held stock of KBS International. Accordingly, under Section 7874 of the Code, we are treated for U.S. federal tax purposes as a U.S. corporation and, among other consequences, are subject to U.S. federal income tax on our worldwide income. This discussion assumes that Section 7874 of the Code continues to apply to treat us as a U.S. corporation for all purposes under the Code. If, for some reason (e.g., future repeal of Section 7874 of the Code), we were no longer treated as a U.S. corporation under the Code, the U.S. federal income tax consequences described herein could be materially and adversely affected.

### *U.S. Federal Income Tax Consequences for U.S. Holders*

#### *Distributions*

In the event that distributions are paid on our common stock, the gross amount of such distributions will be included in the gross income of the U.S. holder as dividend income on the date of receipt to the extent that the distribution is paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such dividends will be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. Dividends received by non-corporate U.S. holders, including individuals, may be subject to reduced rates of taxation under current law. A U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on dividends paid by us. However, the foreign tax credit rules are complex, and their application in connection with Section 7874 of the Code and the Agreement Between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the U.S.-PRC Tax Treaty, is not entirely clear at this time. U.S. holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules and the U.S.-PRC Tax Treaty.

To the extent that dividends paid to our common stock exceeds earnings and profits, the distributions will be treated first as a tax-free return of tax basis on our common stock, and to the extent that the amount of the distribution exceeds tax basis, the excess will be treated as gain from the disposition of those common stock. Because Section 7874 of the Code has applied to treat us as a U.S. corporation only since consummation of the Share Exchange in 2014, we may not be able to demonstrate to the IRS the extent to which a distribution on our common stock exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), in which case all of such distribution will be treated as a dividend for U.S. federal income tax purposes.

#### *Sale or Other Disposition*

U.S. holders of our common stock will recognize taxable gain or loss on any sale, exchange, or other taxable disposition of common stock equal to the difference between the amount realized for the common stock and the U.S. holder's tax basis in the common stock. This gain or loss generally will be capital gain or loss. Under current law, non-corporate U.S. holders, including individuals, are eligible for reduced tax rates if the common stock has been held for more than one year. The deductibility of capital losses is subject to limitations. A U.S. holder may be eligible to claim a foreign tax credit with respect to any PRC withholding tax imposed on gain from the sale or other disposition of common stock. However, the foreign tax credit rules are complex, and their application in connection with Section 7874 of the Code and the U.S.-PRC Tax Treaty is not entirely clear at this time. U.S. holders should consult their own tax advisors with respect to any benefits they may be entitled to under the foreign tax credit rules and the U.S.-PRC Tax Treaty.

#### *Unearned Income Medicare Contribution*

Certain U.S. holders who are individuals, trusts or estates are required to pay an additional 3.8% Medicare tax on, among other things, dividends on and capital gains from the sale or other disposition of shares of stock for taxable years beginning after December 31, 2012. U.S. holders should consult their own advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common stock.

62

#### *Passive Foreign Investment Company Rules.*

In general, a foreign corporation will be a passive foreign investment company ("PFIC") for any taxable year in which (1) 75% or more of its gross income consists of passive income (such as dividends, interest, rents royalties and certain gains) or (2) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income. Although we do not expect to be a PFIC, it is not entirely clear how the contractual arrangements between us and our variable interest entities will be treated for purposes of the PFIC rules. If it were determined that we do not own the stock of our variable interest entities for United States federal income tax purposes (for instance, because the relevant PRC authorities do not respect these arrangements), we may be treated as a PFIC.

If we were a PFIC for any taxable year during which a U.S. Holder owned our ordinary shares, the U.S. Holder may be subject to adverse tax consequences. Generally, gain recognized upon a disposition (including, under certain circumstances, a pledge) of ordinary shares by the U.S. Holder would be allocated ratably over the U.S. Holder's holding period for such share. The amounts allocated to the taxable year of disposition and to taxable years prior to the first taxable year in which we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for that taxable year for individuals or corporations, as appropriate, and an interest charge would be imposed on the tax attributable to the allocated amounts. Further, to the extent that any distribution received by a U.S. Holder on ordinary shares exceeded 125% of the average of the annual distributions received on such shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment) of the shares. U.S. Holders should consult their tax advisers to determine whether such elections are available and, if so, what the consequences of the alternative treatments would be in those holders' particular circumstances. U.S. Holders should also consult their tax advisers regarding the determination of whether we are a PFIC and the potential application of the PFIC rules.

#### *U.S. Federal Income Tax Consequences for Non-U.S. Holders*

##### *Distributions*

The rules applicable to non-U.S. holders for determining the extent to which distributions on our common stock, if any, constitute dividends for U.S. federal income tax purposes are the same as for U.S. holders. See "*U.S. Federal Income Tax Consequences for U.S. Holders—Distributions.*"

Any dividends paid to a non-U.S. holder by us are treated as income derived from sources within the United States and generally will be subject to U.S. federal income tax withholding at a rate of 30% of the gross amount of the dividends, or at a lower rate provided by an applicable income tax treaty if non-U.S. holders provide proper certification of eligibility for the lower rate (usually on IRS Form W-8BEN or W-8BEN-E). Dividends received by a non-U.S. holder that are effectively connected with such holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. holder in the U.S.) are exempt from such withholding tax, provided that applicable certification requirements are satisfied. In such case, however, non-U.S. holders will be subject to U.S. federal income tax on such dividends, net of certain deductions, at the rates applicable to U.S. persons. In addition, corporate non-U.S. holders may be subject to an additional branch profits tax equal to 30% or such lower rate as may be specified by an applicable tax treaty on dividends received that are effectively connected with the conduct of a trade or business in the United States.

If non-U.S. holders are eligible for a reduced rate of U.S. withholding tax pursuant to an applicable income tax treaty, such non-U.S. holders may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

63

#### *Sale or Other Disposition*

Except as described below for a reduced rate of U.S. withholding tax pursuant to an applicable income tax treaty, any gain realized by a non-U.S. holder upon the sale or other disposition of our common stock generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with the conduct of a trade or business in the United States by such non-U.S. holder, and, if an income tax treaty applies, is attributable to a permanent establishment maintained by such non-U.S. holder in the U.S.;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met; or
- We are or have been a "U.S. real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period during which the holder has held our Common Stock.

Non-U.S. holders whose gain is described in the first bullet point above will be subject to U.S. federal income tax on the gain derived from the sale, net of certain deductions, at the rates applicable to U.S. persons. Corporate non-U.S. holders whose gain is described in the first bullet point above may also be subject to the branch profits tax described above at a 30% rate or lower rate provided by an applicable income tax treaty. Individual non-U.S. holders described in the second bullet

point above will be subject to a flat 30% U.S. federal income tax rate on the gain derived from the sale, which may be offset by U.S.-source capital losses, even though such non-U.S. holders are not considered to be residents of the United States.

A corporation will be a USRPHC if the fair market value of its U.S. real property interests equals or exceeds 50 percent of the aggregate of its real property interests (U.S. and non-U.S.) and its assets used or held for use in a trade or business. Because we do not currently own significant U.S. real property, we believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock are regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if a non-U.S. holder actually or constructively holds more than 5% of such regularly traded common stock at any time during the applicable period that is specified in the Code.

#### *Foreign Account Tax Compliance*

The Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (generally referred to as “FATCA”), when applicable, will impose a U.S. federal withholding tax of 30% on payments of dividends on, and (for dispositions after December 31, 2018) gross proceeds from dispositions of, our ordinary shares that are held through “foreign financial institutions” (which is broadly defined for this purpose and in general includes investment vehicles) and certain other non-U.S. entities unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of certain interests in or accounts with those entities) have been satisfied or an exemption applies. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. U.S. Holders should consult their tax advisers regarding the effect, if any, of the FATCA provisions on their particular circumstances.

#### *Information Reporting and Backup Withholding*

Payments of dividends or of proceeds on the disposition of stock made to a holder of our ordinary shares may be subject to information reporting and backup withholding at a current rate of 28% unless such holder provides a correct taxpayer identification number on IRS Form W-9 (or other appropriate withholding form) or establishes an exemption from backup withholding, for example by properly certifying the holder’s non-U.S. status on a Form W-8BEN, Form W-8BEN-E or another appropriate version of IRS Form W-8. Payments of dividends to holders must generally be reported annually to the IRS, along with the name and address of the holder and the amount of tax withheld, if any. A similar report is sent to the holder. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in the holder’s country of residence.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We have filed this report on Form 20-F with the SEC under the Exchange Act. Statements made in this report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

We are subject to the informational requirements of the Exchange Act as a foreign private issuer and file reports and other information with the SEC. Reports and other information filed by us with the SEC, including this report, may be inspected and copied at the public reference room of the SEC at 100 F Street, N.E., Washington D.C. 20549. You can also obtain copies of this report by mail from the Public Reference Section of the SEC, 100 F. Street, N.E., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the SEC’s Internet site at <http://www.sec.gov>. The SEC’s telephone number is 1-800-SEC-0330 free.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

#### **I. Subsidiary Information**

Not applicable.

#### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

##### ***Interest Rate Risk***

We deposit surplus funds with Chinese banks earning daily interest. We do not invest in any instruments for trading purposes. Most of our outstanding debt instruments carry fixed rates of interest. Our operations generally are not directly sensitive to fluctuations in interest rates and we currently do not have any long-term debt outstanding. Management monitors the banks’ prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

##### ***Foreign Exchange Risk***

While our reporting currency is the U.S. dollar, substantially all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. Substantially all of our assets are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of equity. An average appreciation (depreciation) of the RMB against the U.S. dollar of 5% would increase (decrease) our comprehensive income by \$1.18 million based on our outstanding revenues, costs and expenses, assets and liabilities denominated in RMB as of December 31, 2017. As of December 31, 2017, our accumulated other comprehensive income was \$4.8 million. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China’s political and economic conditions. Since July 2005, RMB has not been pegged to the U.S. dollar. Although the People’s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it



---

**Inflation**

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

We do not have any American Depositary Shares.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

There has been no default of any indebtedness nor is there any arrearage in the payment of dividends.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**E. Use of Proceeds**

As of August 1, 2014, there was \$57,178,033.67 held in the trust account of the Company. We used \$51,314,888 in connection with the redemption of 4,981,736 shares of common stock validly tendered and not withdrawn in the tender offer. We also used a portion of the remaining cash to pay related expenses for the share exchange closed on August 1, 2014.

**ITEM 15. CONTROLS AND PROCEDURES**

**A. Disclosure Controls and Procedures**

An evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2017, was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, we concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

**B. Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with IFRS and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, our management assessed the effectiveness of the our internal control over the financial reporting as of December 31, 2017, using criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment using those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

**C. Attestation Report of the Registered Public Accounting Firm**

Because the Company is a non-accelerated filer, this annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting.

**D. Changes in Internal Controls over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The audit committee of our board of directors currently consists of three members, Matthew C. Los (who serves as chairman), John Sano and Yuet Mei Chan. Our board of directors has determined that all of our audit committee members are “independent” under the Exchange Act and have the requisite financial knowledge and experience to serve as members of our audit committee. In addition, our board of directors has determined that Matthew C. Los is an “audit committee financial expert” as defined in Item 16A of the Instructions to Form 20-F and meets NASDAQ’s financial sophistication requirements due to his current and past experience in various companies in which he was responsible for, amongst others, the financial oversight responsibilities.

**ITEM 16B. CODE OF ETHICS**

On October 25, 2014, our Audit Committee adopted a Code of Ethics that applies to all of the directors, officers and employees of the Company and its subsidiaries, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics addresses, among other things, honesty and ethical conduct, conflicts of interest, compliance with laws, regulations and policies, including disclosure requirements under the federal securities laws, confidentiality, trading on inside information, and reporting of violations of the code. A copy of the Code of Ethics is filed as Exhibit 11.1 to the annual report on Form 20-F filed on October 27, 2015 and is also available on our website at www.kbsfashion.com. During the fiscal year ended December 31, 2017, there were no waivers of our Code of Ethics.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with services rendered by our principal external auditors for the periods indicated.

	Fiscal Year Ended December 31,	
	2017	2016
Audit Fees*	\$ 110,000	\$ 110,000
Audit-Related Fees	-	-
Tax Fees	-	-
<b>TOTAL</b>	<b>\$ 110,000</b>	<b>\$ 110,000</b>

\*“Audit Fees” consisted of the aggregate fees billed for professional services rendered for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

Our Audit Committee pre-approves all auditing services and permitted non-audit services to be performed for us by our independent auditor, including the fees and terms thereof (subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by our Audit Committee prior to the completion of the audit). The percentage of services provided for which we paid audit-related fees, tax fees, or other fees that were approved by our Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X promulgated by the SEC was 100%.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Prior to July 10, 2017, in lieu of an audit committee comprised of three independent directors, our audit committee was comprised of two independent members of our board of directors. On July 10, 2017, the board of directors appointed Ms. Yuet Mei Chan as an independent director and a member of the audit committee. As a result, we are in full compliance with the Nasdaq listing rules for the audit committee.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

There were no purchases of equity securities by us or by any of our affiliates during the period covered by this Annual Report.

**ITEM 16F. CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT**

On April 25, 2016, the audit committee of the board of directors of the Company decided not to renew the Company’s engagement of BDO China Shu Lun Pan Certified Public Accountants LLP (“BDO”) as its independent registered public accounting firm, effectively immediately.

On the same date, in connection with the disengagement of BDO, upon the audit committee’s approval, the Company engaged WWC, P.C. (“WWC”) as its new independent registered public accounting firm to audit and review the Company’s financial statements effective immediately. The disclosures required pursuant to this Item 16.F was included in the Company’s Report on Form 20-F filed with the SEC on May 2, 2016 as amended on May 16 and November 30, 2016, including Exhibit 15.1 thereto, which are hereby incorporated by reference into this Form 20-F.

**ITEM 16G. CORPORATE GOVERNANCE**

We were incorporated in the Republic of the Marshall Islands (“RMI”) and our corporate governance practices are governed by applicable RMI law, our articles of incorporation and bylaws. In addition, because our common stock is listed on NASDAQ, we are subject to NASDAQ’s corporate governance requirements.

NASDAQ Listing Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in lieu of certain requirements of Listing Rule 5600, provided that such foreign private issuer discloses in its annual report filed with the SEC each requirement of Rule 5600 that it does not follow and describes the home country practice followed in lieu of such requirement. The home country practices that we follow in lieu of NASDAQ’s corporate governance rules are as follows:

- we currently do not have a nominating committee or a compensation committee;
- we did not hold an annual shareholder meeting in fiscal 2017; however, we may, hold annual shareholder meetings in the future if there are significant issues that require shareholders’ approvals; and
- in lieu of obtaining shareholder approval prior to the adoption of an agreement pursuant to which stock may be acquired by officers, directors, employees or consultants, the board of directors approves such adoption.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

## PART III

## ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statement pursuant to Item 18.

## ITEM 18. FINANCIAL STATEMENTS~

The financial statements are filed as part of this annual report beginning on page F-1.

## ITEM 19. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
1.1	<a href="#">Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.3 to the Amendment No. 4 to the registrant's Registration Statement on Form F-1 filed on October 24, 2012 (Commission File No. 333-180571)).</a>
1.2	<a href="#">Articles of Amendment, filed with the Office of the Registrar of Corporations of Republic of the Marshall Islands on October 31, 2014 (incorporated by reference to Exhibit 1.2 to the Annual Report on Form 20-F filed by the registrant on October 27, 2015)</a>
1.3	<a href="#">Articles of Amendment, filed with the Office of the Registrar of Corporations of Republic of the Marshall Islands on February 3, 2017 (incorporated by reference to Exhibit 99.1 to the Report on Form 6-K furnished by the registrant on February 3, 2017)</a>
1.4	<a href="#">By-laws as amended on September 22, 2014 (incorporated by reference to Exhibit 1.3 to the Annual Report on Form 20-F filed by the registrant on October 27, 2015)</a>
2.1	<a href="#">Specimen of Unit Certificate (incorporated by reference to Exhibit 2.1 to the Annual Report on Form 20-F filed by the registrant on October 27, 2015)</a>
2.2	<a href="#">Specimen of Common Stock Certificate (incorporated by reference to Exhibit 2.2 to the Annual Report on Form 20-F filed by the registrant on October 27, 2015)</a>
2.3	<a href="#">Specimen of Public Redeemable Warrant Certificate (incorporated by reference to Exhibit 2.3 to the Annual Report on Form 20-F filed by the registrant on October 27, 2015)</a>
2.4	<a href="#">Specimen Placement Unit Certificate (incorporated by reference to Exhibit 4.4 to the Amendment No. 3 to the registrant's Registration Statement on Form F-1 filed on October 15, 2012 (Commission File No. 333-180571)).</a>
2.5	<a href="#">Specimen Placement Warrant Certificate (incorporated by reference to Exhibit 4.5 to the Amendment No. 1 to the registrant's Registration Statement on Form F-1 filed on June 5, 2012 (Commission File No. 333-180571)).</a>

70

<u>Exhibit No.</u>	<u>Description</u>
2.6	<a href="#">Form of Warrant Agreement (incorporated by reference to Exhibit 4.6 to the Amendment No. 4 to the registrant's Registration Statement on Form F-1 filed on October 24, 2012 (Commission File No. 333-180571)).</a>
2.7	<a href="#">Form of Unit Purchase Option (incorporated by reference to Exhibit 4.7 to the Amendment No. 3 to the registrant's Registration Statement on Form F-1 filed on October 15, 2012 (Commission File No. 333-180571)).</a>
4.1	<a href="#">Form of Registration Rights Agreement among the Registrant and the founders (incorporated by reference to Exhibit 10.5 to the Amendment No. 1 to the registrant's Registration Statement on Form F-1 filed on June 5, 2012 (Commission File No. 333-180571)).</a>
4.2	<a href="#">Form of Placement Unit Purchase Agreement between the registrant and the founders (incorporated by reference to Exhibit 10.6 to the Amendment No. 4 to the Registrant's Registration Statement on Form F-1 filed on October 24, 2012 (Commission File No. 333-180571)).</a>
4.3	<a href="#">Share Exchange Agreement and Plan of Liquidation, dated March 24, 2014, by and among Aquasition Corp., KBS International Holdings, Inc., Hongri International Holdings Limited, Cheung So Wa and Chan Sun Keung (incorporated by reference to Exhibit 10.1 to the Registration Report on Form 6-K filed by the registrant on April 4, 2014)</a>
4.4	<a href="#">Frist Amendment to Share Exchange Agreement and Plan of Liquidation, dated June 21, 2014 by and among Aquasition Corp., KBS International Holdings, Inc., Hongri International Holdings Limited, Cheung So Wa and Chan Sun Keung (incorporated by reference to Exhibit (D)(3) to Amendment No.4 to the Schedule TO filed by the registrant on July 9, 2014)</a>
4.5	<a href="#">Voting Agreement, dated August 1, 2014, by and among Aquasition Corp., Aquasition Investments Corp., Cheung So Wa and Chan Sun Keung (incorporated by reference to Exhibit 4.11 to Shell Company Report on Form 20-F filed by the registrant on August 7, 2014)</a>
4.6	<a href="#">Form of Resale Lock-Up Agreement, dated August 1, 2014, by and among Aquasition Corp., Aquasition Investments Corp., Cheung So Wa, Chan Sun Keung and other named parties(incorporated by reference to Exhibit 4.12 to Shell Company Report on Form 20-F filed by the registrant on August 7, 2014)</a>
4.7	<a href="#">Employee Agreement with Keyan Yan, dated April 23, 2018.</a>
4.8	<a href="#">Employee Agreement with Lixia Tu, dated April 23, 2018.</a>
8.1	<a href="#">List of the registrant's subsidiaries (incorporated by reference to Exhibit 8.1 to Shell Company Report on Form 20-F filed by the registrant on August 7, 2014)</a>
11.1	<a href="#">Code of Ethics, adopted on October 25, 2014 (incorporated by reference to Exhibit 11.1 to the Annual Report on Form 20-F filed by the registrant on October 27, 2015)</a>
12.1	<a href="#">Certifications of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)</a>
12.2	<a href="#">Certifications of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)</a>

13.1	<a href="#">Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2	<a href="#">Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

---

71

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this report on its behalf.

Date: April 30, 2018

**KBS FASHION GROUP LIMITED**

/s/ Keyan Yan

Keyan Yan

Chief Executive Officer

---

72

**KBS Fashion Group Limited**  
**Consolidated Financial Statements**

For the years ended December 31, 2017, 2016, and 2015  
(Stated in US dollars)

---

F-1

CONTENTS	PAGES
<a href="#">CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/ (LOSS)</a>	F-4
<a href="#">CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</a>	F-5
<a href="#">CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</a>	F-6
<a href="#">CONSOLIDATED STATEMENTS OF CASH FLOWS</a>	F-7 - F- 8
<a href="#">NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</a>	F-9 - F-53

---

F-2



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To: The Board of Directors and Stockholders of  
KBS Fashion Group Limited

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of KBS Fashion Group Limited (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the year in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Emphasis of Matter**

The Company incurred significant losses during the year ended December 31, 2017. The losses were related to the sale of products at discounted prices. Management has deployed a cash management strategy whereby non-performing assets have been liquidated so that the Company maintains its liquidity and solvency, and can redeploy cash for opportunities that are expected to generate future profit.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ WWC, P.C.  
WWC, P.C.  
Certified Public Accountants

We have served as the Company's auditor since April 25, 2016.

San Mateo, California  
April 30, 2018

**KBS Fashion Group Limited**  
**Consolidated Statements of Comprehensive Income/ (Loss)**  
For the years ended December 31, 2017, 2016, 2015  
(Stated in U.S. Dollars)

	Notes	Year ended December 31,		
		2017	2016	2015
Revenue	8	23,762,536	41,200,205	61,343,681
Cost of sales	9	(35,274,352)	(39,041,932)	(46,511,274)
<b>Gross (loss)/profit</b>		<b>(11,511,816)</b>	<b>2,158,273</b>	<b>14,832,407</b>
Other income	10	461,564	555,051	302,144
Other gains and (losses)	11	(122,243)	(11,123,767)	(3,877,832)
Distribution and selling expenses	12	(3,265,380)	(3,606,010)	(6,621,256)
Administrative expenses	13	(4,879,397)	(3,543,993)	(2,798,082)
<b>(Loss)/profit from operations</b>		<b>(19,317,272)</b>	<b>(15,560,446)</b>	<b>1,837,381</b>

Finance costs	14	(96,385)	(71,783)	-
Change in fair value of warrant liabilities	32	-	3,409	11,978
<b>(Loss)/profit before tax</b>		(19,413,657)	(15,628,820)	1,849,359
Income tax income/(expense)	15	4,598,061	3,726,133	(605,689)
<b>(Loss)/profit for the year</b>	16	(14,815,596)	(11,902,687)	1,243,670
<b>Other comprehensive loss</b>				
-currency translation differences		4,810,715	(6,125,433)	(6,044,772)
<b>Total comprehensive loss for the year</b>		<u>(10,004,881)</u>	<u>(18,028,120)</u>	<u>(4,801,102)</u>
<b>(Loss)/earnings per share of common stock attributable to the Company</b>				
-Basic	19	(7.96)	(6.80)	0.73
-Diluted	19	(7.96)	(6.80)	0.73
Weighted average shares outstanding:				
-Basic	19	1,860,831	1,750,142	1,694,489
-Diluted	19	1,860,831	1,750,142	1,694,489

The accompanying notes are an integral part of these consolidated financial statements.

F-4

**KBS Fashion Group Limited**  
**Consolidated Statements of Financial Position**  
As at December 31, 2017, and 2016  
(Stated in U.S. Dollars)

	Notes	As of December 31,	
		2017	2016
<b>Non-current assets</b>			
Property, plant and equipment-net	20	27,824,523	26,758,749
Prepayments and premiums under operating leases	21	2,568,199	2,491,647
Prepayment for construction of new plant	22	-	-
Prepayment for acquisition of land use right	23	-	-
Land use rights	24	648,652	624,894
Deferred tax assets	15	9,924,944	4,879,652
		<u>40,966,318</u>	<u>34,754,942</u>
<b>Current assets</b>			
Inventories	25	1,806,212	2,450,866
Trade receivables	26	10,501,543	23,483,465
Other receivables and prepayments	26	1,901,268	5,364,120
Subsidies prepaid to distributors	27	-	389,996
Prepayments and premiums under operating leases	21	83,907	79,035
Cash and cash equivalents	28	26,050,456	24,576,341
		<u>40,343,386</u>	<u>56,343,823</u>
<b>Total assets</b>		<u>81,309,704</u>	<u>91,098,765</u>
<b>Current liabilities</b>			
Short term bank loans	31	1,606,930	1,513,623
Trade and other payables	29	5,451,830	4,774,628
Related parties payables	30	154,137	1,150,129
Income tax payable		-	258,259
Deposits received		69,612	-
		<u>7,282,509</u>	<u>7,696,639</u>
<b>Non-current liability</b>			
Warrant liabilities	32	-	-
		<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>7,282,509</u>	<u>7,696,639</u>
<b>Equity</b>			
Share capital	33	198	177
Share premium	33	6,686,169	6,056,240
Revaluation reserve	34	184,272	184,272
Statutory surplus reserve	34	6,084,836	6,084,836
Retained profits	34	64,146,811	78,962,407
Foreign currency translation reserve	34	(3,075,091)	(7,885,806)
		<u>74,027,195</u>	<u>83,402,126</u>
<b>Total liabilities and equity</b>		<u>81,309,704</u>	<u>91,098,765</u>

The accompanying notes are an integral part of these consolidated financial statements.

F-5

**KBS Fashion Group Limited**  
**Consolidated Statements of Changes in Equity**  
For the years ended December 31, 2017, 2016, 2015  
(Stated in U.S. Dollars)

Statutory Foreign  
currency

	Share capital (Note 33)	Share premium (Note 33)	Revaluation reserve (Note 34)	surplus reserve (Note 34)	Retained profits (Note 34)	translation reserve (Note 34)	Total
<b>Balance at January 1, 2015</b>	170	5,627,247	-	5,815,493	89,890,767	4,284,399	105,618,076
Profit for the year	-	-	-	-	1,243,670	-	1,243,670
Other comprehensive income for the year	-	-	-	-	-	(6,044,772)	(6,044,772)
Appropriation to statutory surplus reserve	-	-	-	253,964	(253,964)	-	-
<b>Balance at December 31, 2015</b>	170	5,627,247	-	6,069,457	90,880,473	(1,760,373)	100,816,974
Reclassification of revaluation surplus	-	-	184,272	-	-	-	184,272
Shares issued for stock based compensation	7	428,993	-	-	-	-	429,000
Loss for the year	-	-	-	-	(11,902,687)	-	(11,902,687)
Other comprehensive loss for the year	-	-	-	-	-	(6,125,433)	(6,125,433)
Appropriation to statutory surplus reserve	-	-	-	15,379	(15,379)	-	-
<b>Balance at December 31, 2016</b>	177	6,056,240	184,272	6,084,836	78,962,407	(7,885,806)	83,402,126
Shares issued for stock based compensation	21	629,929	-	-	-	-	629,950
Loss for the year	-	-	-	-	(14,815,596)	-	(14,815,596)
Other comprehensive income for the year	-	-	-	-	-	4,810,715	4,810,715
<b>Balance at December 31, 2017</b>	198	6,686,170	184,272	6,084,836	64,146,811	(3,075,091)	74,027,195

The accompanying notes are an integral part of these consolidated financial statements.

F-6

### KBS Fashion Group Limited

#### Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016, 2015  
(Stated in U.S. Dollars)

	Year ended December 31,		
	2017	2016	2015
<b>OPERATING ACTIVITIES</b>			
(Loss)/profit for the year	(14,815,596)	(11,902,687)	1,243,670
Adjustments for:			
Share-based payment	629,950	429,000	-
Finance cost	96,385	71,783	-
Change in fair value of warrant liabilities	-	(3,409)	(11,978)
Interest income	(81,517)	(85,482)	(92,747)
Depreciation of property, plant and equipment	1,510,213	1,942,735	2,015,437
Amortization of prepaid lease payments and trademark	14,307	19,009	17,061
Amortization of subsidies prepaid to distributors	401,259	910,537	1,093,036
Amortization of prepayments and premiums under operating leases	105,340	118,783	728,996
Provision/ (reversal) of inventory obsolescence	101,256	(1,667)	342
Bad debt provision of trade receivables	-	331,196	1,028,439
Gain on disposal of property, plant and equipment	2,418	1,441	11,412
Provision of impairment loss in prepayments	-	11,649,038	2,565,334
Operating cash flows before movements in working capital	(12,035,985)	3,480,277	8,599,002
Decrease/ (increase) in trade and other receivables	13,983,781	7,265,940	(345,348)
Decrease/ (increase) in inventories	669,923	889,384	(2,893,284)
Increase /(decrease) in trade and other payables	522,839	(1,080,978)	101,240
(Decrease)/ increase in income tax payable	(263,333)	155,632	1,236,921
Increase in deferred tax assets	(4,598,061)	(3,779,923)	(908,889)
Prepayments and premiums paid under operating leases	3,645,471	(1,761,155)	(449,935)
Subsidies prepaid to distributors	-	(910,537)	(1,093,036)
<b>CASH GENERATED FROM OPERATING ACTIVITIES</b>	1,924,635	4,258,640	4,246,671
Income tax paid	(2,385)	(1,064,351)	(2,012,038)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	1,922,250	3,194,289	2,234,633
<b>INVESTING ACTIVITIES</b>			
Interest received	81,517	85,482	92,747
Purchase of property, plant and equipment	(946,882)	(40,037)	(1,020,623)
<b>NET CASH (USED IN)/FROM INVESTING ACTIVITIES</b>	(865,365)	45,445	(927,876)

The accompanying notes are an integral part of these consolidated financial statements.

F-7

### KBS Fashion Group Limited

#### Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016, 2015  
(Stated in U.S. Dollars)

<b>FINANCING ACTIVITIES</b>			
Interest paid	(96,385)	(71,783)	-
New bank loans raised	1,557,336	1,578,289	-
Repayment of borrowings	(1,557,336)	-	-
Advance from related party	387,030	173,003	330,099
Repayment to related party	(1,386,555)	-	-

NET CASH (DECREASE)/INCREASE FROM FINANCING ACTIVITIES	(1,095,910)	1,679,509	330,099
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(39,025)	4,919,243	1,636,856
Effects of currency translation	1,513,140	(1,556,982)	(1,027,358)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,576,341	21,214,080	20,604,582
CASH AND CASH EQUIVALENTS AT END OF YEAR	26,050,456	24,576,341	21,214,080

The accompanying notes are an integral part of these consolidated financial statements.

F-8

## KBS Fashion Group Limited Notes to Financial Statements

### 1. GENERAL INFORMATION

On January 26, 2012, Aquasition Investments Corp (“Company”) was organized as a blank check company pursuant to the laws of the Republic of the Marshall Islands for the purpose of acquiring through a merger, capital stock exchange, asset acquisition, stock purchase, or similar acquisition transaction, one or more operating businesses or assets.

On March 24, 2014, the Company entered into a Share Exchange Agreement and Plan of Liquidation (the “Agreement”) among KBS International Holdings, Inc. (“KBS”), a Nevada corporation, Hongri International Holdings Ltd (“Hongri”), a company organized under the laws of the British Virgin Islands, and Cheung So Wa and Chan Sun Keung, the principal shareholders of KBS.

On August 1, 2014, the share exchange was completed. In order to align with the brand and operations of the entities acquired pursuant to the Agreement, the Company changed its name from Aquasition Investments Corp to KBS Fashion Group Limited.

The Company’s units which are comprised of one share of common stock and one warrant are traded on the NASDAQ Capital Markets. The Company’s trading symbol is KBSF.

The acquisition was accounted for as a reverse merger and recapitalization where the Company, the legal acquirer is the accounting acquiree, and KBS, the legal acquiree, was the accounting acquirer.

Description of Subsidiaries:

Hongri International Holdings Limited (the “Hongri”), formerly known as Wah Ying International Investment Inc., was incorporated in the British Virgin Islands (the “BVI”) on July 8, 2008 as a limited liability company with authorized share capital of \$50,000, divided into 50,000 common shares with \$1 par value. Up through December 31, 2010, 10,000 common shares had been issued at par. On January 27, 2011, the Company issued an additional 10,000 common shares for cash consideration at \$77 per share. The principal activity of the Company is investment holding. Hongri a directly wholly owned subsidiary of the Company.

France Cock (China) Limited (“France Cock”) was incorporated in Hong Kong on September 21, 2005 as a limited liability company with authorized capital of HK\$10,000, divided into 10,000 common shares with par value of HK\$1. The capital has been fully paid up. The principal activity of France Cock is the holding of intellectual property rights such as trademarks. France Cock owns the Company’s trademarks, including “KBS” and “Kabiniao”. France Cock is a directly wholly owned subsidiary of Hongri.

F-9

## KBS Fashion Group Limited Notes to Financial Statements

Roller Rome Limited (“Roller Rome”) was incorporated in the BVI on March 28, 2006 as a limited liability company with authorized share capital of \$50,000, divided into 50,000 common shares with par value of \$1. The principal activity of Roller Rome is the provision of design and development services for sports apparel. Roller Rome is a directly wholly owned subsidiary of Hongri.

Vast Billion Investment Limited (“Vast Billion”) was incorporated in Hong Kong on November 25, 2010 as a limited liability company with authorized share capital of HK\$10,000 divided into 10,000 ordinary shares with HK\$1 par value. One ordinary share has been issued at par. Vast Billion is an investment holding company, and is a directly wholly owned subsidiary of Hongri.

Hongri (Fujian) Sports Goods Co. Ltd. (“Hongri Fujian”) was established in the People’s Republic of China (the “PRC”) on November 17, 2005 with a registered and paid up capital of RMB 5,000,000. On March 24, 2011, Hongri Fujian increased registered capital from RMB 70,000,000 to RMB75,000,000. As of September 30, 2011, the paid up capital was RMB 39,551,860. Hongri Fujian is engaged in the design, manufacture, marketing, and sale of apparel in the PRC. Hongri Fujian is a directly wholly owned subsidiary of Vast Billion.

Anhui Kai Xin Apparel Company Limited (“Anhui Kai Xin”) was established in the PRC on March 16, 2011 with a registered and paid up capital of RMB 1,000,000. Anhui Kai Xin is a wholly owned subsidiary of Hongri Fujian. Anhui Kai Xin provides contracting manufacturing services for companies in the sports apparel business.

### 2. GROUP ORGANIZATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group structure as at the reporting date is as follows:







**KBS Fashion Group Limited**  
**Notes to Financial Statements**

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Except as described below, for the year ended December 31, 2017 the Company has consistently adopted all the new and revised standards, amendments and interpretations (collectively IFRSs) issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee (formerly known as “International Financial Reporting Interpretations Committee” (“IFRIC”)) of the IASB that are effective for financial year beginning on January 1, 2017 in the preparation of the consolidated financial statements throughout the year.

For the year ended December 31, 2017, the following new and revised standards, amendments or interpretations that have become effective during the reporting period.

Amendments to IAS 7 Statement of cash flows

Amendments to IAS 12 Income taxes

Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 cycle

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2017 are not material to the Group.

At the date these consolidated financial statements are authorized for issuance, the IASB has issued the following new and revised International Accounting Standards (“IASs”), IFRSs, amendments and IFRICs which are not yet effective in respect of the years. The Company has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture <sup>(1)</sup>

IFRS 9 Financial instruments <sup>(2)</sup>

IFRS 15 Revenue from contracts with customers <sup>(2)</sup>

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions <sup>(2)</sup>

Amendments to IAS 40 Transfer of Investment Property <sup>(2)</sup>

Annual Improvement to IFRS Standards 2014-2016 Cycle <sup>(2)</sup>

IFRIC 22 Foreign Currency Transaction and Advance Consideration <sup>(2)</sup>

IFRS 16 Leases <sup>(3)</sup>

\*The IASB has also issued Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, which is effective for the accounting period beginning on January 1, 2018; however, this is not applicable to the Company since the Company does not issue any insurance contracts.

<sup>(1)</sup> The amendments were originally intended to be effective for the accounting periods beginning on or after 1 January 2016. The effective date has now been deferred.

<sup>(2)</sup> Effective for the accounting period beginning on January 1, 2018.

<sup>(3)</sup> Effective for the accounting period beginning on January 1, 2019.

The Company will apply the above new standards and amendments to standards when they become effective. The Company is in the process of making an assessment of the impact of the above new standards and amendments to standards.

In relation to IFRS 9, the Company does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

In relation to IFRS 15, the standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. IFRS 15 specifies how and when the Group will recognize revenue as well as requiring the Group to provide users of financial statements with more informative and relevant disclosures. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently analyzing the impact of the new standard on the Group’s financial statements and has initially identified areas which are likely to be affected, including identification of separate performance obligations, the determination of stand-alone selling price and its relative allocation. The

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

In relation to IFRS 16, the standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of 2,669,859, see Note 35. However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for accounting periods commencing on or after 1 January 2019. At this stage, the Company does not intend to adopt the standard before its effective date.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the consolidated financial statements of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis and in accordance with IFRS as issued by the IASB. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Group conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

Translation from RMB to USD found place at the following rates:

	Period end rates	Average rates
December 31, 2015	USD 1.00= RMB 6.4936	USD 1.00=RMB 6.2401
December 31, 2016	USD 1.00= RMB 6.9370	USD 1.00=RMB 6.6528
December 31, 2017	USD 1.00= RMB 6.5924	USD 1.00=RMB 6.7423

Translation from HKD to USD found place at the following rates:

	Period end rates	Average rates
December 31, 2015	USD 1.00= HKD 7.7508	USD 1.00=HKD 7.7517
December 31, 2016	USD 1.00= HKD 7.7552	USD 1.00=HKD 7.7614
December 31, 2017	USD 1.00= HKD 7.8170	USD 1.00=HKD 7.7928

The results and financial positions in functional currency are translated into the presentation currency, USD, of the Company as follows:

- (1) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

- (3) Share equity, share premium and dividends are translated at historical exchange rates; and
- (4) All resulting exchange differences are recognized in foreign currency translation reserve, a separate component of equity.

All financial information presented in USD has been rounded to the nearest dollar, except when otherwise indicated.

#### Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria. The Group's three segments are wholesale, retail and contract manufacturing.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

The Group's revenue originates (i) from corporate owned stores, (ii) distributors and (iii) the services performed as an original design manufacturer. Revenue from all above categories is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group has fully rendered service to the contract manufacturing customer by shipping the product to the customer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Group; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of goods is recognized when the goods are delivered and title has passed.

#### Value added tax (VAT)

Output VAT is 17% of product sales and taxable services revenue, according to tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.

#### Borrowing costs

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

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

#### Retirement benefit costs

Pursuant to the relevant regulations of the PRC government, the Group's subsidiaries located in the PRC participate in a local municipal government retirement benefits scheme (the "Scheme"), whereby they contribute a prescribed percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. Once the Scheme has been funded via contributions by the Group's participating subsidiaries, the local municipal government takes responsibility for the retirement benefits obligations of all existing and future retired employees of those subsidiaries located in the PRC; accordingly, the only obligation of the Group with respect to the Scheme is to pay the on-going required contributions as long as the employees maintain employment with the Group. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions. These plans are considered defined contribution plans. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions into the pension schemes. Contributions to pension schemes are recognized as an expense in the period in which the related service is performed.

#### Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which

applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

---

F-17

## **KBS Fashion Group Limited** **Notes to Financial Statements**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Store pre-opening cost

Store pre-opening cost was the start-up activity costs incurred prior to opening a new store, mainly including leasing, leasehold improvements, payroll and supplies. The accounting policies for leasing and leasehold improvements were as below. Other store pre-opening costs were directly charged to expenses when occurred.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### Leasehold improvements

Leasehold improvements, principally comprising costs of office buildings and shops renovation, are held for administrative and selling purposes. Leasehold improvements are initially measured at cost and amortized systematically over its useful life.

### Property, plant and equipment

Property, plant and equipment ("PPE") including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

---

F-18

## **KBS Fashion Group Limited** **Notes to Financial Statements**

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is de-recognized.

### The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

### Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years.

## Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## **KBS Fashion Group Limited** **Notes to Financial Statements**

### Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when a group entity 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### (1) Financial assets

The Group's financial assets are classified as receivables.

#### *Effective interest method*

The effective interest method is a method of calculating the amortized 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 and points 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.

Interest income is recognized on an effective interest basis for debt instruments.

#### *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables (including trade and other receivables, related parties receivables, and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any impairment (see accounting policy on impairment loss on receivables below).

#### *Impairments of receivables*

Receivables are assessed for indicators of impairment at the end of the reporting period. Receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the receivables, the estimated future cash flows of the receivables have been affected.

## **KBS Fashion Group Limited** **Notes to Financial Statements**

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

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

An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition

#### (2) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

*Effective interest method*

The effective interest method is a method of calculating the amortized 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 and points 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.

Interest expense is recognized on an effective interest basis.

*Financial liabilities*

Financial liabilities including trade and other payables, related parties payables and short-term loans are subsequently measured at amortized cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

(3) De-recognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Subsidies prepaid to distributors

Subsidies were paid to major distributors for compensating their rental expenses. Such subsidies would vest to distributors when they met the sales targets predetermined by the Company. Subsidies prepaid to distributors were recognized when payments were made and amortized over the agreement term on a straight-line basis in selling expenses.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

Capital and Reserves

Share capital represents the nominal value of shares that have been issued by the Group. Share capital is determined using the nominal value of shares that have been issued.

Retained profits include all current and prior period results as determined in the combined statement of comprehensive income.

Foreign currency translation reserve arising on the translation are included in the currency translation reserve.

In accordance with the relevant laws and regulations of PRC, the subsidiaries of the Group established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary's share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiary subject to the approval of the relevant authorities. However, except for offsetting prior years' losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

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

Earnings/(loss) per share

Basic earnings per share ("EPS") are computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. Potential dilutive securities are excluded from the calculation of diluted EPS in loss periods as their effect would be anti-dilutive.

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying the Group's accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and reported amount of revenue and expenses during the reporting period. The following estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below.

## 5. SIGNIFICANT MANAGEMENT JUDGEMENT IN APPLYING ACCOUNTING POLICIES

Allowance for Bad and Doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates, where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been charged.

Impairment Losses

Impairment losses are based on an assessment of the investment or long lived assets' ability to generate future cash flows when there is evidence that these assets may be impaired. The calculation of the amount of impairment loss are based on estimates made by management when applying broad accounting principles governing the accounting for these assets. The determination of these estimates requires judgment by management. The final outcome may differ from the original estimates made by management, which may impact the carrying value of the assets which management has determined to be impaired and charged to the Company's profit loss during the period.

Income Tax

The Group has exposure to income taxes in numerous jurisdictions. Significant judgment is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and differed tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable as at December 31, 2017 and 2016 amounted to \$nil and \$258,259 respectively.

## 6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Depreciation of building, machinery and equipment

As described in Note 4, the Group reviews the estimated useful lives and residual values of property, plant and equipment at the end of each reporting period. The cost of building, machinery and equipment is depreciated on a straight-line basis over the assets' estimated useful lives. Management estimates the useful lives of these buildings, machinery and equipment to be within 5 to 20 years. These are the common life expectancies applied in the same industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Fair value of warrants

The fair value of warrants was determined using a binomial-lattice model. This model requires the input of highly subjective assumptions, including price volatility of the underlying stock. Changes in the subjective input assumptions can materially affect the estimate of fair value of the warrants and the Company's results of operations could be impacted. This model is dependent upon several variables such as the instrument's expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term, and the expected volatility of the Company's stock price over the expected term. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected terms of the options at the date of valuation. Expected dividend yield is based on historical trends. The Company measures volatility using the volatility rates of market index.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**
Impairment of non-financial assets

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognized as an impairment loss in the income statement, unless the asset is

carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognized in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

During the years ended December 31, 2017 and 2016, the Company recognized impairment losses of \$nil and \$4,659,838, respectively, for its prepayments for acquisition of land use rights. During the years ended December 31, 2017 and 2016, the Company recognized impairment losses of \$nil and \$6,989,200, respectively, for its related prepayments for construction on such land. The impairment reflects the current reduction in the value of the investment as a result of the delay in time to complete the construction projects and delay in procurement of legal certificates that would lead to the assets being put into service that would give rise to expected future profitability which at December 31, 2017, has been temporarily postponed beyond the next operating period. The impairment losses charged to the prepayments has brought the carrying values to their respective recoverable amount in its fair value less costs to sell.

F-26

## KBS Fashion Group Limited Notes to Financial Statements

For the prepayment for acquisition of land use rights, the Company provided an estimate of its fair value based on the market value substitution rule. The estimated fair value belongs to Level 2 of the fair value hierarchy because the input is determined through quoted prices of similar assets without an actively quoted market. Using the market approach, the Company compares the price of the land use right that the Company intended to acquire with the price of similar land use rights in the same geographical area, adjusted by factors such as price index, frequency of actual transactions conducted, environmental conditions, etc. Significant assumptions used in this estimation include the ability to legally obtain such land use rights, the usage of land as industrial use, the date of transaction at year end, etc. As a result, the Company provided an estimate in the amount of \$5,154,034. Finally, the fair value is reduced by estimated costs to sell which include, but not limited to, legal costs, stamp duty, similar transaction tax, etc. in the amount of \$379,971. The net value is then compared to the carrying value, and the difference is recorded as impairment loss in the amount of \$1,317,295 in 2015. In 2016, since there is no progress in regards to the acquisition of land use rights, the Company provided further impairment to bring the carrying value down to \$0 as management is unable to assert the recoverability of such asset.

For the prepayment for construction, the Company provided an estimate of its fair value based on the time value approach. The estimated fair value belongs to Level 3 of the fair value hierarchy because the input is not easily observable. Using this approach, the Company calculates the time value of money of the amount prepaid based on the Company's weighted average cost of capital ("WACC") in order to arrive at its fair value. The Company uses this approach to determine its recoverable amount because such prepayments are not readily resalable, and the ability to realize this amount is contingent upon the Company's ability to successfully acquire the land use right as mentioned above. Significant assumptions used in this estimation include using the WACC, which is comprised of the Company's metrics of return of equity, return of debt, the relevant weights of the returns of equity and debt, and tax rate, in determining the fair value. As a result, as at December 31, 2015, the Company provided an estimate in the amount of \$7,160,523. Since this asset is not resalable, the company estimated costs to sell for this asset in the amount of \$0. The net value is then compared to the carrying value, and the difference is recorded as impairment loss in the amount of \$1,248,039 in 2015. In 2017, since there was no progress in regards to the construction, the Company provided further impairment to bring the carrying value down to \$0 as management is unable to assert the recoverability of such asset.

F-27

## KBS Fashion Group Limited Notes to Financial Statements

### 7. SEGMENT REPORTING

Management currently identifies the Group's three sales models as operating segments, which are wholesale, retail and contract manufacturing. The segment presentation is in accordance with management's expectation of future business developments. These operating segments are monitored and strategic decisions are made on the basis of segmental gross margins.

By business	Wholesale			Retail			Subcontracting			Consolidated		
	For the year ended December 31,			For the year ended December 31,			For the year ended December 31,			For the year ended December 31,		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Sales to external customers	15,034,800	32,127,083	40,815,528	6,983,592	5,529,985	18,091,585	1,744,144	3,543,137	2,436,568	23,762,536	41,200,205	61,343,681
Segment revenue	15,034,800	32,127,083	40,815,528	6,983,592	5,529,985	18,091,585	1,744,144	3,543,137	2,436,568	23,762,536	41,200,205	61,343,681
Segment gross margins/(loss)	2,277,858	6,504,893	9,668,518	(14,291,680)	(5,668,061)	4,239,168	502,007	1,321,441	924,721	(11,511,815)	2,158,273	14,832,407
Reconciling items										(7,901,842)	(17,787,093)	(12,983,048)
Profit/(loss) before tax										(19,413,657)	(15,628,820)	1,849,359
Income tax income/(expense)										4,598,061	3,726,133	(605,689)
Profit/(loss) for the year										(14,815,596)	(11,902,687)	1,243,670

As of December 31, 2017

	Wholesale and Retail		Subcontracting	Unallocated	Consolidated
	<b>Current assets</b>	<b>34,036,883</b>	<b>6,284,118</b>	<b>22,384</b>	<b>40,343,385</b>
<b>Non-current assets</b>	<b>8,987,857</b>	<b>31,978,462</b>	<b>-</b>	<b>40,966,319</b>	
<b>Total assets</b>	<b>43,024,740</b>	<b>38,262,580</b>	<b>22,384</b>	<b>81,309,704</b>	
<b>Current liabilities</b>	<b>3,722,277</b>	<b>1,995,164</b>	<b>1,565,068</b>	<b>7,282,509</b>	
<b>Total liabilities</b>	<b>3,722,277</b>	<b>1,995,164</b>	<b>1,565,068</b>	<b>7,282,509</b>	

As of December 31, 2016

	Wholesale and Retail		Subcontracting	Unallocated	Consolidated



Current assets	50,272,887	6,048,538	22,398	56,343,823
Non-current assets	4,354,540	30,400,401	-	34,754,941
<b>Total assets</b>	<b>54,627,427</b>	<b>36,448,939</b>	<b>22,398</b>	<b>91,098,764</b>
Current liabilities	3,342,199	1,793,351	2,561,089	7,696,639
<b>Total liabilities</b>	<b>3,342,199</b>	<b>1,793,351</b>	<b>2,561,089</b>	<b>7,696,639</b>

Geographical information

The Group's operations are located in the PRC and all of the Group's revenue is derived from sales to customers in the PRC. Hence, no analysis by geographical area of operations is provided.

F-28

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

Information about major customers

Major distributors that make up 10% or more of wholesale revenue are as below:

	Year ended December 31,		
	2017	2016	2015
Distributor A	1,454,862	3,782,718	6,625,797
Other distributors	13,579,938	28,344,365	34,189,731
	<u>15,034,800</u>	<u>32,127,083</u>	<u>40,815,528</u>

Information about major suppliers

Major suppliers that make up 10% or more of purchases are as below:

	Year ended December 31,		
	2017	2016	2015
Supplier A	2,403,309	6,655,740	15,048,108
Supplier B	1,714,468	5,424,342	8,354,316
Supplier C	1,684,743	4,083,924	6,588,639
Supplier D	1,530,429	3,023,297	5,294,921
Other suppliers	5,065,563	6,436,809	12,752,234
	<u>12,398,512</u>	<u>25,624,112</u>	<u>48,038,218</u>

8. REVENUE

	Year ended December 31,		
	2017	2016	2015
Apparel			
-Wholesale	15,034,800	32,127,083	40,815,527
-Retail	6,983,592	5,529,985	18,112,019
Subtotal	<u>22,018,392</u>	<u>37,657,068</u>	<u>58,927,546</u>
Subcontracting	1,744,144	3,543,137	2,416,135
	<u>23,762,536</u>	<u>41,200,205</u>	<u>61,343,681</u>

Revenue is denominated only in USD.

F-29

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

9. COST OF SALES

Cost of sales comprises of purchasing materials, labor costs for personnel employed in production, depreciation of non-current assets used for production purpose, outsourced manufacturing cost, taxes and surcharges, and water and electricity. The following table shows a breakdown of cost of sales for the periods presented for each category:

	Year ended December 31,		
	2017	2016	2015
Changes in inventories of finished goods and work in progress	227,132	(302,979)	64,814
Materials consumed in production	41,057	120,847	183,831
Purchases of finished goods	33,877,598	36,567,197	44,786,912
Labor	602,196	1,313,120	787,472
Depreciation	370,858	236,578	252,055
Rental	-	-	23,184
Outsourced manufacturing cost	-	-	-
Taxes and surcharges *	157,314	253,039	212,516
Water and electricity	52,796	48,557	55,522
Inventory provision	8	320	342
Others	120,886	238,562	197,778
Foreign currency translation difference	(175,493)	566,691	(53,152)

\* Tax and surcharges are mainly Urban Maintenance and Construction Tax (7% of Valued Added Tax payment amount), Extra Charges of Education Fund (3% of Valued Added Tax payment amount) and Local Surcharge for Education Fund (2% of Valued Added Tax payment amount).

10. OTHER INCOME

	Year ended December 31,		
	2017	2016	2015
Government grant	367,260	469,569	209,397
Interest income on bank deposits	81,517	85,482	92,747
Others	12,787	-	-
	<u>461,564</u>	<u>555,051</u>	<u>302,144</u>

11. OTHER GAINS AND (LOSSES)

	Year ended December 31,		
	2017	2016	2015
Gain on disposals of property, plant and equipment	171	10,541	11,412
Foreign exchange gain	(48)	54	(233,532)
Provision / reversal of inventory obsolescence	(101,256)	(1,667)	(342)
Bad debt provision of trade receivables	-	(331,196)	(1,070,563)
Impairment of prepayments in land purchase and related construction	-	(11,649,038)	(2,565,334)
Others	(21,110)	847,539	(19,473)
	<u>(122,243)</u>	<u>(11,123,767)</u>	<u>(3,877,832)</u>

F-30

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

12. DISTRIBUTION AND SELLING EXPENSES

	Year ended December 31,		
	2017	2016	2015
Rental	21,527	30,225	508,039
Depreciation	2,680	490,527	1,239,644
Labor	258,233	211,274	739,789
Subsidy to distributors	773,238	910,537	1,061,685
Promotion	32,216	137,210	899,664
Advertisement	1,591,742	1,554,023	1,702,863
Others	585,744	272,214	469,572
	<u>3,265,380</u>	<u>3,606,010</u>	<u>6,621,256</u>

13. ADMINISTRATIVE EXPENSE

	Year ended December 31,		
	2017	2016	2015
Labor	1,600,380	1,170,013	757,639
Audit fee	216,281	(33,997)	175,859
Professional fee	77,754	75,609	136,499
Design fee	937,478	465,120	529,141
Depreciation and amortization charges	1,149,455	1,163,293	540,799
Bank charges	18,352	12,943	35,179
Rental	74,668	75,673	80,677
Travelling and entertainment	107,566	44,874	59,516
Others	697,463	570,465	482,774
	<u>4,879,397</u>	<u>3,543,993</u>	<u>2,798,083</u>

14. FINANCE COSTS

	Year ended December 31,		
	2017	2016	2015
Interest expenses on bank borrowings wholly repayable within one year	96,385	71,783	-

Bank borrowings interests are charged at a rate of 6.09% per annum for the bank loan that was fully repaid in 2017.

Bank borrowings interests are charged at a rate of 6.09% per annum for the current bank loan.

F-31

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

15. INCOME TAX (INCOME)/ EXPENSE

	Year ended December 31,		
	2017	2016	2015
PRC enterprises income tax:			
Current tax	-	53,790	1,514,577
Deferred tax	(4,598,061)	(3,779,923)	(908,888)
	<u>-</u>	<u>(3,726,133)</u>	<u>605,689</u>

Hongri Fujian and Anhui Kai Xin subject to the applicable enterprise income tax rate of 25%. As of December 31, 2017, 2016, and 2015, the Company had no unrecognized tax benefits.

France Cock and Vast Billion were incorporated in Hong Kong and subject to Hong Kong profits tax at a tax rate of 16.5%. No provision for Hong Kong profits tax has been made as France Cock and Vast Billion has no taxable income during the reporting period.

Hongri International Holding Limited and Roller Rome were incorporated in the BVI and, under the current laws of the BVI, are not subject to income taxes.

KBS Fashion Group Limited was incorporated in the Marshall Island, and, under the current laws of the Marshall Island, is not subject to income taxes.

The tax charge for the year can be reconciled to the profit per the consolidated statements of comprehensive income as follows:

	Year ended December 31,		
	2017	2016	2015
(Loss)/profit before tax	(19,413,657)	(15,628,820)	1,849,359
Tax calculated at domestic tax rates applicable to profits in PRC (2017, 2016, and 2017: 25%)	(4,853,414)	(3,907,205)	462,340
Tax effect of expenses not deductible for tax purpose	-	-	908,974
Tax effect of tax loss of tax exempt entities	255,354	181,072	(765,625)
Tax charge for the year	<u>(4,598,061)</u>	<u>(3,726,133)</u>	<u>605,689</u>

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017		2016		2015	
	Temporary difference	Deferred tax assets	Temporary difference	Deferred tax assets	Temporary difference	Deferred tax assets
Beginning of the year	20,737,366	4,879,652	5,617,674	1,340,268	1,981,777	495,444
Bad Debt provisions charged to profit or loss	-	-	331,196	82,799	1,070,563	267,641
Impairment charged to profit or loss	101,256	25,314	11,649,038	2,912,259	2,565,334	641,333
Tax loss carried forward	17,922,508	4,480,627	3,139,458	784,865	-	-
Effect of translation	-	539,351	-	(240,539)	-	(64,150)
End of the year	38,761,130	9,924,944	20,737,366	4,879,652	5,617,674	1,340,268

F-32

## KBS Fashion Group Limited Notes to Financial Statements

### 16. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended December 31,		
	2017	2016	2015
Cost of inventories recognized as expenses	35,094,050	38,788,893	46,298,758
Taxes and surcharges	180,302	253,039	212,516
	<u>35,274,352</u>	<u>39,041,932</u>	<u>46,511,274</u>
Depreciation of property, plant and equipment	1,137,831	1,944,176	2,015,437
Amortization of land use rights and trademarks	14,307	19,009	17,061
Amortization of subsidies prepaid to distributors	401,259	910,537	1,093,036
Amortization of prepayments and premiums under operating leases	105,340	118,783	728,996
Provision (Reversal) of inventory obsolescence	101,256	(1,667)	342
Provision of bad debt allowance	-	331,196	1,028,439
Provision of impairment loss in prepayments	-	11,649,038	2,565,334
	<u>1,759,993</u>	<u>14,971,072</u>	<u>7,448,645</u>

### 17. EMPLOYEES' EMOLUMENTS

	Year ended December 31,		
	2017	2016	2015
Salaries and other short-term benefits	2,476,506	1,369,524	1,878,963
Defined contribution benefit schemes	189,621	280,594	1,888,828
Total employee benefits expense (including directors' emoluments)	<u>2,666,127</u>	<u>1,650,118</u>	<u>3,767,791</u>

The employees of the Group's PRC subsidiaries are members of state-managed retirement benefit schemes operated by the local government. The subsidiaries are required to contribute a specified percentage of its payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

### 18. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the Company were as follows:

Year ended December 31,

	2017	2016	2015
<b>Salaries</b>			
Yan Keyan	304,050	216,342	105,000
Lixia Tu	235,854	203,559	62,371
John Sano	43,950	39,000	20,000
Themis Kalapotharakos	87,900	97,500	-
Matthew Los	87,900	97,500	-
Zhongmin Zhang	43,950	-	-
Yuet Mei Chan	43,950	-	-
	<u>847,554</u>	<u>749,173</u>	<u>292,371</u>
<b>Social Welfare</b>			
Yan Keyan	1,006	960	982
	<u>1,006</u>	<u>960</u>	<u>982</u>

F-33

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

19. EARNINGS/ (LOSS) PER SHARE

	For the years ended December 31,		
	2017	2016	2015
<b>Basic (Loss)/Earnings Per Share Numerator</b>			
Profit for the year attributable to owners of the Company	\$ (14,815,596)	\$ (11,902,687)	\$ 1,243,670
<b>Diluted (Loss)/Earnings Per Share Numerator</b>			
Profit for the year attributable to owners of the Company	\$ (14,815,596)	\$ (11,902,687)	\$ 1,243,670
<b>Basic (Loss)/Earnings Per Share Denominator<sup>#</sup></b>			
Original shares:	1,767,821	1,694,489	1,694,489
<i>Additions from actual events:</i>			
- Issuance of common stock, weighted	93,010	55,653	-
Basic weighted average shares outstanding	<u>1,860,831</u>	<u>1,750,142</u>	<u>1,694,489</u>
<b>Diluted (Loss)/Earnings Per Share Denominator<sup>#</sup></b>			
Basic weighted average shares outstanding	1,860,831	1,750,142	1,694,489
<i>Dilutive shares: Potential additions from dilutive events:</i>			
- Exercise of investor warrants*	-	-	-
Diluted Weighted Average Shares Outstanding:	<u>1,860,831</u>	<u>1,750,142</u>	<u>1,694,489</u>
<b>(Loss)/Earnings Per Share<sup>#</sup></b>			
- Basic	\$ (7.96)	\$ (6.80)	\$ 0.73
- Diluted	\$ (7.96)	\$ (6.80)	\$ 0.73
<b>Weighted Average Shares Outstanding<sup>#</sup></b>			
- Basic	1,860,831	1,750,142	1,694,489
- Diluted	1,860,831	1,750,142	1,694,489

\* There were no potential dilutive additions to diluted weighted shares outstanding as a result of the outstanding warrants being out-of-the-money during the periods presented.

# The amount of shares and the respective calculations of earnings/(loss) per share have been adjusted according to reverse split effective during the year.

F-34

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

20. PROPERTIES, PLANT AND EQUIPMENT

	Plant	Machinery	Office equipment	Motor vehicles	Furniture and fixtures	Leasehold improvements-factories and offices	Leasehold improvements-shops	Distributor shops' furniture and fixtures	Total
<b>COST</b>									
At January 1, 2016	30,479,750	1,040,458	130,975	130,681	156,349	750,464	3,920,325	3,203,483	39,812,485
Additions	-	27,637	14,495	-	317	141,271	-	-	183,720
Disposals	-	(142,425)	(2,397)	-	(699)	-	(3,416,591)	(2,998,722)	(6,560,834)
Translation adjustment	(1,948,208)	(66,504)	(8,372)	(8,353)	(9,994)	(47,968)	(250,580)	(204,761)	(2,544,740)
At December 31, 2016	<u>28,531,542</u>	<u>859,166</u>	<u>134,701</u>	<u>122,328</u>	<u>145,973</u>	<u>843,767</u>	<u>253,154</u>	<u>-</u>	<u>30,890,631</u>
Additions	965,792	15,893	-	-	-	-	-	-	981,685
Disposals	-	-	(12,490)	(43,215)	(1,836)	-	-	-	(57,541)
Translation adjustment	<u>1,758,824</u>	<u>52,963</u>	<u>8,304</u>	<u>7,541</u>	<u>8,999</u>	<u>52,014</u>	<u>15,606</u>	<u>-</u>	<u>1,904,251</u>

At December 31, 2017	31,256,158	928,022	130,515	86,654	153,136	895,781	268,760	-	33,719,026
<b>DEPRECIATION</b>									
At January 1, 2016	(1,199,268)	(765,500)	(75,573)	(111,127)	(134,786)	(358,958)	(3,920,325)	(2,710,227)	(9,275,764)
Provided for the year	(1,283,919)	(69,007)	(20,528)	(5,867)	(10,812)	(99,622)	-	(374,763)	(1,864,518)
Eliminated upon disposal of assets	-	85,455	1,351	-	357	-	3,416,591	2,911,757	6,415,511
Translation adjustment	76,655	48,929	4,830	7,103	8,615	22,944	250,580	173,233	592,889
At December 31, 2016	(2,406,532)	(700,123)	(89,920)	(109,891)	(136,626)	(435,636)	(253,154)	-	(4,131,882)
Provided for the year	(1,377,553)	(48,120)	(14,495)	(174)	(3,202)	(114,764)	-	-	(1,558,308)
Eliminated upon disposal of assets	-	-	10,071	38,893	1,432	-	-	-	50,396
Translation adjustment	(148,350)	(43,159)	(5,543)	(6,774)	(8,422)	(26,855)	(15,606)	-	(254,709)
At December 31, 2017	(3,932,435)	(791,402)	(99,887)	(77,946)	(146,818)	(577,255)	(268,760)	-	(5,894,503)

<b>CARRYING AMOUNT</b>									
At December 31, 2016	26,125,010	159,043	44,781	12,437	9,347	408,131	-	-	26,758,749
At December 31, 2017	27,323,723	136,620	30,628	8,708	6,318	318,526	-	-	27,824,523

F-35

### KBS Fashion Group Limited Notes to Financial Statements

Net exchange differences from translating the financial statements from functional currency to presentation currency were \$(1,649,540) and \$(1,669,507) as at December 31, 2017 and 2016.

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 were \$1,510,213, \$1,942,735, and \$2,015,437, respectively. There was no impairment loss charged for the periods presented.

Depreciation is provided on straight-line basis for all property, plant and equipment over their estimated useful lives of the assets as follows:

	Useful life	Residual Value
Plant	20 years	10%
Machinery	5 years	10%
Office equipment	5 years	10%
Motor vehicles	5 years	10%
Furniture and fixtures	5 years	10%
Leasehold improvements-factories and offices	Shorter of estimated useful life of 5 years or lease term	10%
Leasehold improvements-shops	Shorter of estimated useful life of 5 years or lease term	Nil
Distributor shops' furniture and fixtures	1.5 years	Nil

Plant includes buildings owned by Anhui Kaixin built on the following land:

Location	Description	Gross area (m <sup>2</sup> )
Jinxi Town, Longshan Road, Taihu City, Anhui Province, the PRC	Dormitory	8,573
Jinxi Town, Longshan Road, Taihu City, Anhui Province, the PRC	Factory	22,292

The buildings were pledged as security for the outstanding bank loans as set forth in note 31.

The gross carrying amount of the fully depreciated property, plant and equipment that is still in use is \$38,851 and \$32,803 as at December 31, 2017 and 2016, respectively.

F-36

### KBS Fashion Group Limited Notes to Financial Statements

In 2012, the Company performed a revaluation of certain equipment. The revaluation was performed by an independent appraiser on November 10, 2012 and, as a result of the revaluation, the Company recognized a revaluation surplus in the amount of 184,272. The amount is classified as revaluation reserve. Since the surplus has not been realized, the amount recognized is not available for distribution. There was no movement in the revaluation reserve during 2017 and 2016. The carrying amount that would have been recognized had the assets been carried under the cost model is as follows:

	As at December 31,	
	2017	2016
Machinery	95,826	141,075
Motor Vehicles	35	33
Office Equipment	2,661	3,202
Furniture and fixtures	739	1,844
	99,261	146,154

#### 21. PREPAYMENTS AND PREMIUMS UNDER OPERATING LEASES

	Amount
At January 1, 2016	2,820,458
additions for the year	38,300

charge for the year	(118,783)
translation adjustment	(169,293)
At December 31, 2016	<u>2,570,682</u>
additions for the year	30,672
charge for the year	(105,340)
translation adjustment	156,092
At December 31, 2017	<u>2,652,106</u>

Analyzed for reporting purposes as:

	As at December 31,	
	2017	2016
Current asset	83,907	79,035
Non-current asset	2,568,199	2,491,647
	<u>2,652,106</u>	<u>2,570,682</u>

## 22. PREPAYMENT FOR CONSTRUCTION OF NEW PLANT

On November 20, 2010, Hongri Fujian entered into an agreement with a third party, Anqing Zhongfang Construction and Installation Co., Ltd., for the construction of the new plant in Anhui at a consideration of \$17,826,251. In 2012, Kaixin Anhui made a prepayment of \$6,363,853 for the second phase of the project. In 2013, Kaixin Anhui made another prepayment of \$9,747,897 for the second phase of the project. The amount of \$16,401,778 was recognized in Construction in progress.

In 2014, Kaixin Anhui made another prepayment of \$15,525,413 for the second and third phase of the project, and an amount of \$6,537,016 was recognized in construction in progress.

F-37

### KBS Fashion Group Limited Notes to Financial Statements

In 2015, an amount of \$110,041 was recognized in construction in progress, which was subsequently recognized as fixed asset along with the completion of the second phase of the project. The total amount transferred to fixed assets from construction in progress amounted to \$22,960,220.

The third phase of the project is related to the construction of a building. The construction site is located on a piece of land whose land use right was to be acquired by the Company. Due to reasons as set forth in note 23, the anticipated completion date of the project is expected to be delayed and, in the worst case, may be terminated. Accordingly, management provided a provision of impairment loss against the carrying value of such prepayment. The detail of estimation of such provision is explained in note 6.

As at December 31, 2017, the carrying amount of the prepayment for construction of new plant is as follows:

	As at December 31, 2017
Prepaid in 2015	8,469,878
Recognized as construction in progress	(110,041)
	<u>8,359,837</u>
Impairment loss in 2015:	(1,199,314)
	<u>7,160,523</u>
Impairment loss in 2016:	(6,989,200)
Translation adjustment:	(171,323)
	<u>-</u>

## 23. PREPAYMENT FOR ACQUISITION OF LAND USE RIGHT

On September 2, 2010, Hongri Fujian entered into an agreement with a third party, Taihu Weiqi Sports Apparel Co., Ltd., to acquire a land use right in relation to the development of factories in Anhui Kaixin for a total consideration of \$6,340,456. As of December 31, 2015, the transaction has not been completed yet due to disputes between the original owner of the land and the government regarding the compensation for vacating the premises. In relation to this dispute, the Company expected that the project would be delayed or, in the worst case, be terminated. Accordingly, the Company provided a provision of impairment loss against the carrying value for such prepayment. The detail estimation of such provision is explained in note 6.

F-38

### KBS Fashion Group Limited Notes to Financial Statements

As at December 31, 2017, the carrying amount of the prepayment for acquisition of land use right is as follows:

	As at December 31, 2017
Prepaid in 2010	6,039,930
Impairment loss:	(1,265,867)
	<u>4,774,063</u>
Impairment loss in 2016:	(4,659,838)
Translation adjustment:	(114,225)
	<u>-</u>

## 24. LAND USE RIGHTS

	<u>Amount</u>
<b><u>COST</u></b>	
At January 1, 2016	769,643
additions for the year	-
translation adjustment	(78,025)
At December 31, 2016	691,618
additions for the year	-
translation adjustment	42,635
At December 31, 2017	734,253
<b><u>AMORTIZATION</u></b>	
At January 1, 2016	(82,605)
charge for the year	(19,009)
translation adjustment	34,890
At December 31, 2016	(66,724)
charge for the year	(14,307)
translation adjustment	(4,569)
At December 31, 2017	(85,600)
<b><u>CARRYING AMOUNTS</u></b>	
At December 31, 2016	624,894
At December 31, 2017	648,653

The amounts represent the prepayment of rentals for land use right (industrial use) situated in the PRC. The land use rights have the term of 50 years.

All the land use rights mentioned above were owned by Anhui Kaixin.

F-39

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

The land use right is comprised of the following:

Location	Expiry date of tenure	Land area (m <sup>2</sup> )
Longshan Road, Economic development District, Taihu County	2062-05-23	2,440
Longshan Road, Economic development District, Taihu County	2061-11-06	7,405

25. INVENTORIES

	As at December 31,	
	2017	2016
Raw materials	1,186,467	1,985,131
Finished goods	726,373	467,757
Provision for obsolete inventories	(106,628)	(2,022)
	<u>1,806,212</u>	<u>2,450,866</u>

26. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,	
	2017	2016
Trade receivables	11,860,798	24,763,795
Bad debt provision for trade receivables	(1,359,255)	(1,280,330)
	<u>10,501,543</u>	<u>23,483,465</u>
	As at December 31,	
	2017	2016
Other receivables	2,849	2,251
Prepayments	1,898,419	5,361,869
	<u>1,901,268</u>	<u>5,364,120</u>

The fair value of trade and other receivables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the consolidated statements of financial position to be reasonable approximation of their fair values.

Prepayments include advances to suppliers and prepaid income tax.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defined credit limits by customer. Limits attributed to customers are reviewed once a year. The aging analysis of trade receivables is as follows:

	As at December 31,	
	2017	2016
Current	1,791,936	1,496,397
Past due for less than 4 months	2,721,633	9,306,568
Past due for more than 4 months	7,347,229	13,960,830
	<u>11,860,798</u>	<u>24,763,795</u>

F-40

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

The Group allows an average credit period of 90 -120 days to its trade customers. For the overdue trade receivable, the Company provided a bad debt allowance amounting to \$nil and \$331,196 during the years ended December 31, 2017 and 2016, respectively. The provision for doubtful debts is recorded using a provision account unless the Group is satisfied that recovery is remote, in which case the unrecovered loss is written off against trade receivables and the provision for doubtful debts directly. The Group does not hold any collateral over these balances.

The movement in the provision for doubtful debts during the year is as follows:

	2017	2016
As at January 1	1,280,330	1,028,439
Provision provided in the year	-	331,196
Translation adjustment	78,925	(79,305)
As at December 31	1,359,255	1,280,330

Among the amounts of trade receivables, \$1,723,364 and \$3,598,158 of output VAT was included as of December 31, 2017 and 2016, respectively.

27. SUBSIDIES PREPAID TO DISTRIBUTORS

	Amount
At January 1, 2016	516,231
additions for the year	779,991
charge for the year	(873,231)
translation adjustment	(32,995)
At December 31, 2016	389,996
additions for the year	-
charge for the year	(389,996)
translation adjustment	-
At December 31, 2017	-

Subsidies were paid to major distributors for compensating their rental expenses. Such subsidies would vest to distributors when they met the sales targets predetermined by the Company. Until June 2017, Subsidies prepaid to distributors were recognized when payments were made and amortized over the agreement term on a straight-line basis in selling expenses. After June 2017, the Company no longer prepay such subsidies to its major distributors; therefore, no such prepayment is outstanding as of December 31, 2017. The amortization expense for 2017 and 2016 were \$401,258 and \$910,537, respectively.

F-41

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

28. CASH AND CASH EQUIVALENTS

	As at December 31,	
	2017	2016
Cash on hand	16,413	15,066
Bank deposits	26,034,043	24,561,275
	<u>26,050,456</u>	<u>24,576,341</u>
	As at December 31,	
	2017	2016
Renminbi	26,040,572	24,566,443
Hong Kong Dollars	8,914	8,921
United States Dollars	970	977
	<u>26,050,456</u>	<u>24,576,341</u>

Cash and cash equivalents comprise cash held by the Group and short-term deposits with an original maturity of three months or less. Bank deposits as at December 31, 2017 carry interest at market rates which ranged from 0.35% to 0.50% (2016: 0.35%-0.50%) per annum. Majority of our cash is deposited with financial institution in the PRC. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

29. TRADE AND OTHER PAYABLES

	As at December 31,	
	2017	2016
Trade payables	104,258	78,994
Employee benefits payable	226,210	207,671
Other payables	1,648,060	1,531,532
Subtotal financial liabilities	1,978,528	1,818,197
Other taxes payable	3,473,302	2,956,431
	<u>5,451,830</u>	<u>4,774,628</u>

The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the consolidated statements of financial position to be reasonable approximation of their fair values.

Trade payables comprise amounts outstanding for trade purchase. The average credit period is 30 days from the time when the services are rendered by or goods received from suppliers. The aging analysis of trade payables is as follows:

As at December 31,



	2017	2016
Current	23,587	31,083
Past due for less than 4 months	57,637	16,211
Past due for over 4 months	23,034	31,700
	<u>104,258</u>	<u>78,994</u>

The Company was granted a credit term of 30 days. The balances past due were mainly for the Company's high bargaining power.

F-42

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

30. RELATED PARTIES PAYABLE

(1) Nature of relationship with related parties

Name	Relationship with the Group
Yan, Keyan	Chairman, Director, and CEO
Chen, Bizhen	Wife of Yan, Keyan
KBS International	Ex-shareholder of Hongri
Shishi City Lingxiu Hongri Knitwear Factory	Company owned by Chen, Bizhen

(2) Significant balances between the Group and the above related parties:

Name	Nature	As at December 31,	
		2017	2016
Yan, Keyan	Borrowing of funds	154,137	1,125,912
Chen, Bizhen	Borrowing of funds	-	24,416
		<u>154,137</u>	<u>1,150,328</u>

Related parties payables were unsecured, non-interest bearing and repayment on demand.

During 2017, Mr. Yan and Ms. Chen provided personal guarantees for the loans as set forth in Note 31.

\*The Company entered into a lease arrangement for office space with this related party in 2010. The breakdown of the commitment to the lease is disclosed in note 35.

31. SHORT-TERM BANK LOANS

	As at December 31,	
	2017	2016
Secured bank borrowings	1,606,930	1,513,623
Carrying amount repayable within 1 year	<u>1,606,930</u>	<u>1,513,623</u>

The borrowings are fixed-rate and denominated in RMB.

Bank loans	Amount USD	Period	Interest rate	Mortgage	Personal guarantee	
#1	459,123	4/6/2017	4/5/2018	6.09%	Land use right and buildings	Yan, Keyan/ Chen, Bizhen
#2	1,147,807	3/24/2017	3/21/2018	6.09%	Land use right and buildings	Yan, Keyan/ Chen, Bizhen
	<u>1,606,930</u>					

F-43

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

32. WARRANT LIABILITIES

On November 1, 2012, the Company sold 5,000,000 Units at an offering price of \$10.00 per Unit generating gross proceeds of \$50,000,000 in the Public Offering. Each Unit consisted of one share of common stock of the Company and one warrant to purchase one share of common stock of the Company ("Redeemable Warrants"). Each Redeemable Warrant entitled the holder to purchase one share of common stock at a price of \$11.50 which would commence on the later of either the completion of an initial Acquisition Transaction or October 24, 2013, and would expire five years from the completion date of an initial Acquisition Transaction, provided that there is an effective registration statement covering the shares of common stock underlying the Redeemable Warrants. The Company is entitled to redeem the Redeemable Warrants at a price of \$0.01 per Redeemable Warrant upon providing 30 days' notice, subject to the last sale price of the common stock was at a minimum of \$17.50 per share for any 20 trading days within a 30-trading day period ("30-Day Trading Period") that ended on the third day prior to the date on which notice of redemption is given, provided that there is a current registration statement in effect with respect to the shares of common stock underlying such Redeemable Warrants commencing ten days prior to the 30-Day Trading Period and continuing each day thereafter until the date of redemption. The Company is required to use its best efforts to maintain the effectiveness of the registration statement covering the Redeemable Warrants. However, there are no contractual penalties for failure to deliver securities if a registration statement is not effective at the time of exercise. Additionally, in the event that a registration statement is not effective at the time of exercise, the holder of such Redeemable Warrant shall not be entitled to exercise such Redeemable Warrant for cash and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle the Redeemable Warrant exercise.

Simultaneously with the consummation of the Public Offering, the Company consummated a Private Placement for the sale of 337,750 Placement Units to its

Founders at a price of \$10.00 per share, generating total proceeds of \$3,377,500. The Placement Units are identical to the Units sold in the Public Offering except that the warrants included in the Placement Units (i) were not redeemable by the Company and (ii) may be exercised for cash, or on a cashless basis, so long as they are held by the initial purchaser or any of its permitted transferees. Additionally, the Placement Units have been placed in escrow and the purchasers have agreed not to transfer, assign or sell any of the Placement Units, including the underlying securities (except to certain permitted transferees) until 30 days following the completion of an initial Acquisition Transaction. The securities held in the escrow account will only be released prior to the end of the escrow period if following the initial Acquisition Transaction, the Company consummates a subsequent transaction that results in all stockholders having a right to exchange their shares for cash or other consideration.

F-44

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

The Company granted the underwriter in the Public Offering a 45-day option to purchase up to an additional 750,000 Units solely to cover over-allotments, if any. On November 7, 2012, the underwriters exercised a portion of their option and the Company sold an additional 550,000 Units at a price of \$10.00 per Unit generating gross proceeds of \$5,500,000. In addition, the Company sold an additional 30,250 Private Placement Units generating gross proceeds of \$302,500.

The table below provides a reconciliation of the beginning and ending balances for the liabilities measured using fair significant unobservable inputs:

Balance – January 26, 2012 (inception)	-
Correction of an error	3,200,223
Issuance of warrants as part of Units on November 7, 2012	322,884
Change in fair value	(45,225)
Balance – December 31, 2012	3,477,882
Change in fair value	(45,442)
Balance – December 31, 2013	3,432,440
Change in fair value	(3,417,053)
Balance – December 31, 2014	15,387
Change in fair value	(11,978)
Balance – December 31, 2015	3,409
Change in fair value	(3,409)
Balance – December 31, 2016	-
Change in fair value	-
Balance – December 31, 2017	-

The fair value of warrants was determined using a binomial-lattice model. This model requires the input of highly subjective assumptions, including price volatility of the underlying stock. Changes in the subjective input assumptions can materially affect the estimate of fair value of the warrants and the Company's results of operations could be impacted. This model is dependent upon several variables such as the instrument's expected term, expected strike price, expected risk-free interest rate over the expected instrument term, the expected dividend yield rate over the expected instrument term, and the expected volatility of the Company's stock price over the expected term. The expected term represents the period of time that the instruments granted are expected to be outstanding. The expected strike price is based upon a weighted average probability analysis of the strike price changes expected during the term as a result of the down round protection. The risk-free rates are based on U.S. Treasury securities with similar maturities as the expected terms of the options at the date of valuation. Expected dividend yield is based on historical trends. The Company measures volatility using the volatility rates of market index.

F-45

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

The inputs to the model were as follows:

	December 31, 2017	December 31, 2016
Stock price	\$ 4.14	\$ 0.28
Dividend yield	N/A	N/A
Risk-free rate	1.89%	1.28%
Expected term (in years)	1.58	2.58
Expected volatility	22.3%	23.6%

The quoted price of the warrants on the over-the-counter-markets ("OTC") were \$0.001 and \$0.02 as at December 31, 2017 and 2016, respectively.

At December 31, 2017, there were 393,835 unexpired warrants outstanding.

33. SHARE CAPITAL AND SHARE PREMIUM

The details of the Group's share capital are as follows:

	Number of shares	Share capital	Share premium
Shares outstanding as December 31, 2016	1,767,821	\$ 177	\$ 6,056,240
Issuance of shares	218,478	21	629,930
Shares outstanding as December 31, 2017	1,986,299	\$ 198	\$ 6,686,170
	Number of shares	Share capital	Share premium
Authorized Common shares of US\$0.0001 as at December 31, 2017	150,000,000	\$ 15,000	\$ -
Issue and fully paid common shares of US\$0.0001 as at December 31, 2016, retroactively adjusted	1,767,821	\$ 177	\$ 6,056,240
Issue and fully paid common shares of US\$0.0001 as at December 31, 2017	1,986,299	\$ 198	\$ 6,686,170

The Company is authorized to issue 5,000,000 preferred shares with a par value of \$0.0001 per share with such designation, rights and preferences as may be determined by the Company's board of directors. No preferred shares are currently issued or outstanding.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

Common Stock

The Company is authorized to issue 150,000,000 shares of common stock with a par value of \$0.0001 per share.

On March 29, 2016, the Company granted 1,100,000 of common stock to its executive officers and directors as compensation of their past services. The shares were vested immediately. The fair value of the award was calculated on the date of grant using the quoted price of the Company's common stock. Total expense recognized in connection with this share-based payment amounted to \$429,000.

On January 20, 2017, the Company granted and issued 57,600 shares to its employees.

On February 6, 2017, the 1-15 reverse stock split took effect and, as a result, the number of issued and outstanding shares of the Company's Common Stock is reduced from 26,517,329 shares to approximately 1,767,821 shares. The accompanying financial statements have been retroactively adjusted to reflect the effects of the reverse stock split.

On July 10, 2017, the Company granted, and subsequently issued, 215,000 shares to its directors. The shares are for services rendered in 2017. The shares are vested immediately upon granting.

On February 10, 2018, the Company granted, and subsequently issued, 285,000 shares to its directors. The shares are for services rendered in 2018. The shares are vested immediately upon granting.

34. RESERVE

Statutory surplus reserve

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprises, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriations to such reserve are made out of net profit after tax of the statutory financial statements of the PRC subsidiaries at the amounts determined by their respective boards of directors annually up to 50% of authorized capital, but must not be less than 10% of the net profit after tax.

The statutory surplus reserve can be used for making up losses of the group entities in Mainland China, if any. The statutory surplus reserve may also be used to increase capital or to meet unexpected or future losses. The statutory surplus reserve is non-distributable other than upon liquidation.

The statutory surplus reserve of the Group amounts to \$6,084,836 and \$6,084,836 at December 31, 2017 and 2016, respectively. The statutory surplus reserve of the Group is related to Hongri Fujian and Anhui Kaixin.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

Revaluation reserve

Revaluation reserve is comprised of the surplus or deficit arising from the revaluation of the Company's fixed assets.

Retained profits

The retained profits comprise the cumulative net gains and losses recognized in the Company's income statement.

Foreign currency translation reserve (other comprehensive income)

Foreign currency translation reserve represents the foreign currency translation difference arising from the translation of the financial statements of companies within the Group from their functional currency to the Group's presentation currency.

35. RISK MANAGEMENT AND FAIR VALUES

1. Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to owners through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consisted of borrowings net of bank balances and cash, and equity attributable to owners of the Company comprising issued share capital and various reserves.

The directors of the Company review the capital structure regularly. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital using the Gearing Ratio, which is net debt divided by total equity. Net debt represents borrowings less cash and cash equivalents. The Company met its objective by minor borrowing activities.

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

The Company and its subsidiaries are not subject to externally imposed capital requirements.

	December 31, 2017	December 31, 2016
Total borrowing	1,609,930	1,513,623
Less: cash and cash equivalents	(26,050,456)	(24,576,341)
Net debt	(24,443,526)	(23,062,718)
Total equity	74,027,196	83,402,126
Total capital	49,583,670	60,339,408
Gearing ratio	(33)%	(28)%

2. Financial risk

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, related parties receivables, cash and cash equivalents, trade and other payables, related parties payables and short-term loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, market risk (interest rate risk and currency risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

3. Market risk

(i) Foreign currency risk

While our reporting currency is the U.S. dollar, substantially all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. Substantially all of our assets are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of equity. An average appreciation (depreciation) of the RMB against the U.S. dollar of 6% would increase (decrease) our comprehensive income by \$0.8 million based on our outstanding revenues, costs and expenses, assets and liabilities denominated in RMB as of December 31, 2017. As of December 31, 2017, our accumulated other comprehensive loss was \$(3.0) million. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

F-49

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

(ii) Interest rate risk

We deposit surplus funds with Chinese banks earning daily interest. We do not invest in any instruments for trading purposes. Most of our outstanding debt instruments carry fixed rates of interest. Our operations generally are not directly sensitive to fluctuations in interest rates and we currently do not have any long-term debt outstanding. Management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

4. Credit risk

As at December 31, 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on the Group's trade receivables. The outstanding balance of the five largest customers represented approximately 26% of the trade receivables of the Group at December 31, 2017 (2016: 28%). In order to minimize the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

F-50

**KBS Fashion Group Limited**  
**Notes to Financial Statements**

5. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

## Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at December 31, 2017 based on agreed repayment terms. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

As at December 31, 2017

	Within 1 year	Over 1 year	Total
Short-term bank loans and related interests	1,606,930	-	1,606,930
Trade and other payables	5,451,830	-	5,521,442
Related parties payables	154,137	-	154,137
Income tax payable	-	-	-
<b>Total</b>	<b>7,212,897</b>	<b>-</b>	<b>7,282,509</b>

As at December 31, 2016

	Within 1 year	Over 1 year	Total
Short-term bank loans and related interests	1,535,053	-	1,535,053
Trade and other payables	4,774,628	-	4,774,628
Related parties payables	1,150,129	-	1,150,129
Income tax payable	258,259	-	258,259
<b>Total</b>	<b>7,718,069</b>	<b>-</b>	<b>7,718,069</b>

## 6. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

F-51

## KBS Fashion Group Limited Notes to Financial Statements

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	December 31, 2017 Level 2	December 31, 2016 Level 2
Recurring fair value measurements		
Liabilities:		
Warrant liabilities	-	-
	<b>-</b>	<b>-</b>

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of financial assets in Level 2 is determined by the model as disclosed in note 32.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost approximate their fair values.

## 36. COMMITMENTS AND CONTINGENCIES

- (1) The Company had the following capital commitments in respect of the construction of plant and equipment which were contracted but not provided for in the financial statements:

	As at December 31, 2017	As at December 31, 2016
Contracted and authorized, in RMB	439,850,378	439,850,378
Contracted and authorized, in USD	67,315,108	63,406,426

F-52

## KBS Fashion Group Limited Notes to Financial Statements

- (2) As at December 31, 2017, the Company had lease commitments as follows:

	As at December 31,	
	2017	2016
Within 1 year	101,660	79,035
2-5 years	231,138	290,289
Thereafter	2,337,061	2,237,645
	<u>2,669,859</u>	<u>2,606,969</u>

The amount of \$101,660 as of December 31, 2017 represents leases of two offices, four units of staff quarters, and one warehouse. There is no contingent rent payable for all of the leases. All leases are within one year except for one of the offices, which is leased by a related party as disclosed in note 30. The commitment pertains to this particular lease is as follows:

	As at December 31,	
	2017	2016
Within 1 year	77,046	72,252
2-5 years	231,138	290,289
Thereafter	2,337,061	2,237,645
	<u>2,645,245</u>	<u>2,600,506</u>

The Company has prepaid this lease in the full amount. The lease commenced on January 1, 2009 and will expire on April 22, 2052. The lease does not specify the terms of renewal, purchase options, or escalation clauses. The Company may not sublease the office to a third party.

### 37. EVENTS AFTER THE BALANCE SHEET

#### Shares issuance

On February 10, 2018, the Company granted, and subsequently issued, 285,000 shares to its directors.

\* \* \* \* \*

F-53

EX-4.7 2 f20f2017ex4-7\_kbsfashion.htm EMPLOYMENT LETTER FOR CEO

**Exhibit 4.7**

**KBS FASHION GROUP LIMITED**  
Xin Fengge Building  
Yupu Industrial Park  
Shishi City, Fujian Province, China 362700

April 23, 2018

Keyan Yan  
Xin Fengge Building, Yupu Industrial Park  
Shishi City, Fujian Province, China 362700

Dear Mr. Yan:

This will confirm the terms of your employment with KBS Fashion Group Limited, (the “**Company**”) as of the date hereof.

1. Duties. Your job title will be Chief Executive Officer of the Company, reporting to the Board of Directors of the Company (the “**Board**”). Your duties will include the general management of the affairs of the Company, together with the powers and duties usually incident to the office of Chief Executive Officer, except as specifically limited by appropriate written resolution of the Board and will have such other powers and perform such other duties as may be assigned to you by the Board. This is a full-time position.

2. Term. Subject to Section 8 of this letter, your employment begins on the date hereof (the “**Effective Date**”) and continues for a period of three (3) years thereafter unless earlier terminated in accordance with Section 8 of this letter, provided that, on such third anniversary of the Effective Date and each annual anniversary thereafter, your term of employment shall be deemed to be automatically extended, upon the same terms and conditions, for successive periods of one year.

3. Compensation. Your initial annual base salary will be determined by the Board or the Compensation Committee of the Board, if applicable, within 30 days following the date hereof. Your compensation will be reviewed from time to time according to the Company’s policies. All reasonable business expenses that are documented by you and incurred in the ordinary course of business will be reimbursed in accordance with the Company’s standard policies and procedures.

4. Incentive Compensation. You will be eligible to participate in such annual performance bonus plans as may be established by the Company from time to time for similarly situated employees, subject to the terms and conditions established by the Company for such bonus plans. Any such bonuses will be based on the achievement of goals and milestones established by the Company in its sole discretion, and the Company in its sole discretion may amend or terminate any such bonus plans at any time.

5. Equity Awards. You will be entitled to participate in the Company’s Equity Incentive Plan when and if such a Plan is adopted by the Board.

6. Employee Benefits. You are eligible to participate in such Company-sponsored benefits, including health benefits, vacation (annual leave), sick leave, holidays and other benefits that the Company may offer to similarly situated employees from time to time. Your eligibility to receive such benefits will be subject in each case to the generally applicable terms and conditions for the benefits in question and to the determinations of any person or committee administering such benefits. The Company may from time to time, in its sole discretion, amend or terminate the benefits available to you and the Company’s other employees. You will be covered by worker’s compensation insurance, disability insurance and other governmental benefit programs as required by applicable laws.

7. Adjustments and Changes in Employment Status. The Company reserves the right to make personnel decisions regarding your employment, including but not limited to decisions regarding any transfers or other changes in duties or assignments, changes in your salary and other compensation, changes in benefits and changes in Company policies or procedures.

8. At-Will Employment. Your employment with the Company is "at-will." In other words, either you or the Company can terminate your employment at any time for any reason, with or without cause and with or without notice, without liability except as expressly set forth in this letter. This term of employment is not subject to change or modification of any kind except if in writing and signed by you and an authorized representative of the Company.

9. Non-competition. During your employment with the Company, you will devote full time to the duties of your position. You will not engage in any activities in competition with the business of the Company.

10. Confidentiality. At all times during your employment with the Company, you will maintain the confidentiality of all information and materials which are confidential or proprietary to the Company.

11. Taxes. All forms of compensation referred to in this letter are subject to reduction to reflect applicable withholding and payroll taxes and all other deductions required by law. You acknowledge that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company or the Board related to tax liabilities arising from your compensation.

12. No Conflicting Obligations. By execution of this letter, you represent and warrant that your performance of this letter does not and will not breach any agreement you have entered into, or will enter into, with any other party. You agree not to enter into any written or oral agreement that conflicts with this letter.

13. Integrated Agreement. This letter supersedes any prior agreements, representations or promises of any kind, whether written, oral, express or implied between the parties hereto with respect to its subject matter. Likewise, this letter will constitute the full, complete and exclusive agreement between you and the Company with respect to its subject matter. This Agreement may only be changed by a writing, signed by you and an authorized representative of the Company.

14. Severability. If any term of this letter is held to be invalid, void or unenforceable, the remainder of the terms herein will remain in full force and effect and will in no way be affected, and the parties will use their best efforts to find an alternative way to achieve the same result.

15. Governing Law. The terms of this letter and the resolution of any dispute as to the meaning, effect, performance or validity of this letter or arising out of, related to, or in any way connected with, this letter, your employment with the Company or any other relationship between you and the Company (a "Dispute") will be governed by the laws of Hong Kong, S.A.R., China, without giving effect to the principles of conflict of laws.

[Signature Page Follows]

2

To confirm your agreement with and acceptance of these terms, please sign one copy of this letter and return it to me. The other copy is for your records.

Sincerely,

KBS FASHION GROUP LIMITED

By: /s/ Lixia Tu  
Lixia Tu

Its: Chief Financial Officer

Agreed and accepted as  
of the date written above:

/s/ Keyan Yan  
Keyan Yan

3

EX-4.8 3 f20f2017ex4-8\_kbsfashion.htm EMPLOYMENT LETTER FOR CFO

Exhibit 4.8

**KBS FASHION GROUP LIMITED**  
Xin Fengge Building  
Yupu Industrial Park  
Shishi City, Fujian Province, China 362700

April 23, 2018

Lixia Tu  
Room 402, Building 2C, Guojixiang Town, Citong Road  
Fengzhe District, Quanzhou, Fujian, 362600

Dear Ms. Tu:

This will confirm the terms of your employment with KBS Fashion Group Limited, (the "**Company**") as of the date hereof.

1. Duties. Your job title will be Chief Financial Officer of the Company, reporting to the Chief Executive Officer of the Company. Your duties will be commensurate with those typical for such a position as determined by the CEO from time to time. This is a full-time position.

2. Term. Subject to Section 8 of this letter, your employment begins on the date hereof (the "**Effective Date**") and continues for a period of three (3) years thereafter unless earlier terminated in accordance with Section 8 of this letter, provided that, on such third anniversary of the Effective Date and each annual anniversary thereafter, your term of employment shall be deemed to be automatically extended, upon the same terms and conditions, for successive periods of one year.

3. Compensation. Your initial annual base salary will be determined by the Board of Directors of the Company (the "**Board**") or the Compensation Committee of the Board, if applicable, within 30 days following the date hereof. Your compensation will be reviewed from time to time according to the Company's policies. All reasonable business expenses that are documented by you and incurred in the ordinary course of business will be reimbursed in accordance with the Company's standard policies and procedures.

4. Incentive Compensation. You will be eligible to participate in such annual performance bonus plans as may be established by the Company from time to

time for similarly situated employees, subject to conditions established by the Company for such bonus plans. Any such bonuses will be based on the achievement of goals and milestones established by the Company in its sole discretion, and the Company in its sole discretion may amend or terminate any such bonus plans at any time.

5. Equity Awards. You will be entitled to participate in the Company's Equity Incentive Plan when and if such a Plan is adopted by the Board.

6. Employee Benefits. You are eligible to participate in such Company-sponsored benefits, including health benefits, vacation (annual leave), sick leave, holidays and other benefits that the Company may offer to similarly situated employees from time to time. Your eligibility to receive such benefits will be subject in each case to the generally applicable terms and conditions for the benefits in question and to the determinations of any person or committee administering such benefits. The Company may from time to time, in its sole discretion, amend or terminate the benefits available to you and the Company's other employees. You will be covered by worker's compensation insurance, disability insurance and other governmental benefit programs as required by applicable laws.

7. Adjustments and Changes in Employment Status. The Company reserves the right to make personnel decisions regarding your employment, including but not limited to decisions regarding any transfers or other changes in duties or assignments, changes in your salary and other compensation, changes in benefits and changes in Company policies or procedures.

---

8. At-Will Employment. Your employment with the Company is "at-will." In other words, either you or the Company can terminate your employment at any time for any reason, with or without cause and with or without notice, without liability except as expressly set forth in this letter. This term of employment is not subject to change or modification of any kind except if in writing and signed by you and an authorized representative of the Company.

9. Non-competition. During your employment with the Company, you will devote full time to the duties of your position. You will not engage in any activities in competition with the business of the Company.

10. Confidentiality. At all times during your employment with the Company, you will maintain the confidentiality of all information and materials which are confidential or proprietary to the Company.

11. Taxes. All forms of compensation referred to in this letter are subject to reduction to reflect applicable withholding and payroll taxes and all other deductions required by law. You acknowledge that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company or the Board related to tax liabilities arising from your compensation.

12. No Conflicting Obligations. By execution of this letter, you represent and warrant that your performance of this letter does not and will not breach any agreement you have entered into, or will enter into, with any other party. You agree not to enter into any written or oral agreement that conflicts with this letter.

13. Integrated Agreement. This letter supersedes any prior agreements, representations or promises of any kind, whether written, oral, express or implied between the parties hereto with respect to its subject matter. Likewise, this letter will constitute the full, complete and exclusive agreement between you and the Company with respect to its subject matter. This Agreement may only be changed by a writing, signed by you and an authorized representative of the Company.

14. Severability. If any term of this letter is held to be invalid, void or unenforceable, the remainder of the terms herein will remain in full force and effect and will in no way be affected, and the parties will use their best efforts to find an alternative way to achieve the same result.

15. Governing Law. The terms of this letter and the resolution of any dispute as to the meaning, effect, performance or validity of this letter or arising out of, related to, or in any way connected with, this letter, your employment with the Company or any other relationship between you and the Company (a "Dispute") will be governed by the laws of Hong Kong, S.A.R., China, without giving effect to the principles of conflict of laws.

[Signature Page Follows]

---

2

To confirm your agreement with and acceptance of these terms, please sign one copy of this letter and return it to me. The other copy is for your records.

Sincerely,

KBS FASHION GROUP LIMITED

By: /s/ Keyan Yan  
Keyan Yan

Its: Chief Executive Officer

Agreed and accepted as  
of the date written above:

/s/ Lixia Tu  
Lixia Tu

---

3

EX-12.1 4 f20f2017ex12-1\_kbsfashion.htm CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) OR RULE 15D-1(A)

Exhibit 12.1

### CERTIFICATIONS

I, Keyan Yan, certify that:

1. I have reviewed this annual report on Form 20-F of KBS Fashion Group Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements



made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2018

/s/ Keyan Yan

Keyan Yan  
Chief Executive Officer

EX-12.2 5 f20f2017ex12-2\_kbsfashion.htm CERTIFICATIONS OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) OR RULE 15D-1(A)

**Exhibit 12.2**

#### CERTIFICATIONS

I, Lixia Tu, certify that:

1. I have reviewed this annual report on Form 20-F of KBS Fashion Group Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2018

/s/ Lixia Tu

Lixia Tu  
Chief Financial Officer

EX-13.1 6 f20f2017ex13-1\_kbsfashion.htm CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

**Exhibit 13.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Keyan Yan, the Chief Executive Officer of KBS FASHION GROUP LIMITED (the “Company”), DOES HEREBY CERTIFY that:

1. The Company’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 30<sup>th</sup> day of April, 2018.

/s/ Keyan Yan  
 \_\_\_\_\_  
 Keyan Yan  
 Chief Executive Officer  
*(Principal Executive Officer)*

A signed original of this written statement required by Section 906 has been provided to KBS Fashion Group Limited and will be retained by KBS Fashion Group Limited and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

EX-13.2 7 f20f2017ex13-2\_kbsfashion.htm CERTIFICATIONS OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

**Exhibit 13.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Lixia Tu, the Chief Financial Officer of KBS FASHION GROUP LIMITED (the “Company”), DOES HEREBY CERTIFY that:

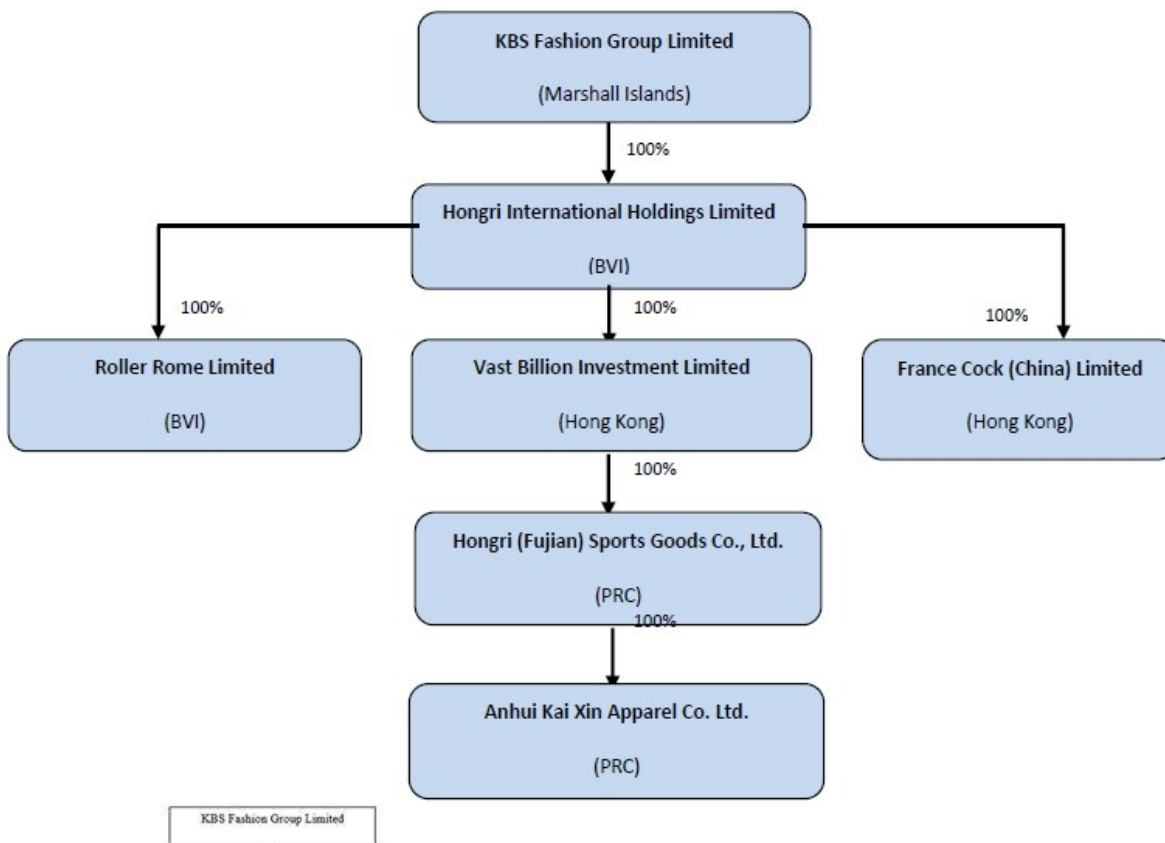
1. The Company’s Annual Report on Form 20-F for the fiscal year ended December 31, 2017 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

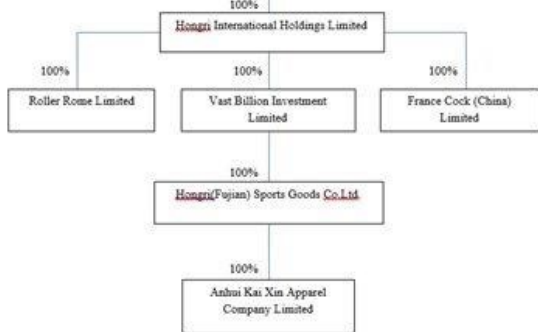
IN WITNESS WHEREOF, the undersigned has executed this statement this 30<sup>th</sup> day of April, 2018.

/s/ Lixia Tu  
 \_\_\_\_\_  
 Lixia Tu  
 Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906 has been provided to KBS Fashion Group Limited and will be retained by KBS Fashion Group Limited and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.





**WWC, P.C.** CERTIFIED PUBLIC ACCOUNTANTS

---

---

2010 PIONEER COURT, SAN MATEO, CA 94403 TEL.: (650) 658-0808 FAX.: (650) 658-0878  
EMAIL: INFO@WWCCPA.COM WEBSITE: WWW.WWCCPA.COM