Aobo Environmental Technology (Hong Kong) Limited and its controlled entities
奧波環境科技(香港)有限公司

(A company incorporated in Hong Kong)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

Contents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Sales revenue	4	96,646	83,445
Cost of sales		(55,844)	(51,050)
Gross profit		**40,802**	**32,395**
Other income	4	254	80
Interest income		150	5
Sales and marketing expenses	5	(3,306)	(3,021)
Research and development expenses		(5,269)	(4,265)
Administrative expenses	5	(5,583)	(2,035)
Other expenses		(172)	(668)
Finance costs	6	(601)	(8)
Profit before income tax		**26,275**	**22,483**
Income tax expense	7	(3,194)	(3,638)
Profit for the year		**23,081**	**18,845**

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Current assets			
Cash and cash equivalents	9	9,715	2,159
Trade and other receivables	10	91,032	37,962
Inventories	11	9,496	6,819
Other current assets	12	3,341	1,715
Total current assets		113,584	48,655
Non-current assets			
Property, plant and equipment	13	4,943	5,306
Intangible Assets		510	-
Deferred tax assets	16	245	141
Total non-current assets		5,698	5,447
Total assets		**119,282**	**54,102**
Current liabilities			
Trade and other payables	14	27,725	19,081
Other financial liabilities	15	32,707	-
Contract liabilities	4	1,763	-
Current tax liabilities	16	4,115	4,541
Total current liabilities		66,310	23,622
Total liabilities		**66,310**	**23,622**
Net assets		**52,972**	**30,480**
Equity			
Issued capital	17	1,000	1,000
Reserves	19	672	672
Retained earnings		51,300	28,808
Total equity		**52,972**	**30,480**

These consolidated financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Issued Capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	**1,000**	**672**	**9,963**	**11,635**
Profit for the year	-	-	18,845	18,845
Total profit for the year	**-**	**-**	**18,845**	**18,845**
Balance at 31 December 2017	**1,000**	**672**	**28,808**	**30,480**
Effects of IFRS 9 (Refer to Note 3)	-	-	(589)	(589)
Balance at 1 January 2018	**1,000**	**672**	**28,219**	**29,891**
Profit for the year	-	-	23,081	23,081
Total profit for the year	**-**	**-**	**23,081**	**23,081**
Balance at 31 December 2018	**1,000**	**672**	**51,300**	**52,972**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Receipts from customers		50,396	63,848
Payments to suppliers and employees		(60,490)	(55,943)
Interest received		150	5
Finance costs		(578)	(8)
Income tax paid		(3,725)	(174)
Net cash provided by (used in) operating activities	21	(14,247)	7,728
Cash flows from investing activities			
Purchases of property, plant and equipment		(775)	(5,642)
Purchase of intangible assets		(532)	-
Receipts from disposal of property, plant and equipment		10	110
Net cash provided by (used in) investing activities		(1,297)	(5,532)
Cash flows from financing activities			
Proceeds of borrowing		23,000	-
Advances to related parties		(1,930)	(2,352)
Advances from related parties		2,030	-
Net cash provided by (used in) financing activities		23,100	(2,352)
Net change in cash and cash equivalents held		7,556	(156)
Cash and cash equivalents at beginning of financial year		2,159	2,315
Cash and cash equivalents at end of financial year	9	9,715	2,159

Notes to the Consolidated Financial Statements for the year ended 31 December 2018

1 Nature of operations, General information and Statement of Compliance

Aobo Environmental Technology (Hong Kong) Limited ("Company" or "Aobo HK") and its subsidiaries (the "Group"). The main principal activities include manufacturing and selling of air treatment solutions for industrial applications, including designing, manufacturing and selling of equipment used in humidity and climate control in the People's Republic of China (PRC). During the year, the Company made sales of air treatment solutions outside of the PRC and energy storage systems (ESS).

There were no significant changes in the nature of the Group's principle activities during the year ended 31 December 2018.

The Consolidated financial statements is a general purpose financial report that has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Aobo HK is a company limited by issued capital and is incorporated and domiciled in Hong Kong.

The consolidated financial statements were authorised for issue by the directors on 15 June 2019.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. All amounts are presented in Chinese Yuan (RMB) which is the Group's presentational currency and the functional currency of its main operating subsidiary, Aobo Environmental New Energy (Wuxi) Co., Limited, unless otherwise noted.

2 Statement of significant accounting policies

The consolidated financial statements have been prepared using the significant accounting policies and measure bases summarised below.

a. Principle of Consolidation

The Group financial statements consolidate those of Aobo Environmental Technology (Hong Kong) Limited and its controlled entities as of 31 December 2018. Aobo Environmental Technology (Hong Kong) Limited controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

A list of controlled entities is contained in Note 26 to the consolidated financial statements. All controlled entities have a December financial year end.

Business Combination

Aobo Environmental Technology (Hong Kong) Limited ("Aobo HK") was incorporated in Hong Kong on 15 December 2017 to act as the ultimate holding company of the Group. Pursuant to a share transfer agreement on 23 February 2018, Aobo HK acquired 100% of contributed capital in Aobo Environmental New Energy (Wuxi) Co., Limited ("AENEWX") via its wholly owned subsidiary, Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX"). AETWX is an entity incorporated in the People's Republic of China and is a wholly foreign owned enterprise.

Aobo Environmental Technology (Hong Kong) Limited ("Aobo HK"), Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX") and Aobo Environmental New Energy (Wuxi) Co., Limited ("AENEWX") were owned and controlled by the same shareholders before and after the business reconstruction. Through this transaction effective control of AENEWX passed to the shareholders of Aobo HK. The transaction is the one referred to in IFRS 3 Business Combinations as common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure Aobo HK took control of AENEWX with no change in underlying control.

Business combination involving entities under common control is scoped out under IFRS 3 Business Combination. IFRS 3 provides no guidance on the accounting for these types of transactions; however requires an entity to develop an accounting policy. The two most common methods utilised are the purchase method and the pooling of interest-type method (predecessor value method).

Management has determined the pooling of interest-type method to be the most appropriate. The pooling of interest-type method requires the consolidated financial statements to be prepared using the predecessor book value without any step up to fair value. The difference between any consideration given and aggregate book value of the assets and liabilities of the acquired entity are recorded as an adjustment to equity. This may be recorded in retained earnings/reserve and no additional goodwill is created by the transaction. The comparatives have been presented as if the combination had occurred from the date when the combining entities first came under the control of the ultimate holding entity.

All transaction costs incurred in relation to the business reconstruction are expensed to profit and loss. The business combination was performed and completed during the year ended 31 December 2018 (Refer to Note 27).

Comparative Financial Statement Presentation

The consolidated financial statements can be presented using one of two methods. The first method, being the consolidated financial statements can incorporate the acquired entity's results as if both entities (acquirer and acquire) had always been combined. Alternatively the consolidated financial statements can incorporate acquired entity's results only from the date on which the transaction occurred.

Management has determined to use option one – reporting comparatives as if the Group had always been combined.

b. Income Tax

The income tax expense for the year comprises current income tax expense and deferred income tax expense.

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Deferred tax

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

c. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost, where applicable, any accumulated depreciation and impairment losses.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	Residual Value	Depreciation Basis
Office equipment	3-5 years	5%	Straight line
Machinery and equipment	10 years	5%	Straight line
Motor vehicle	4 years	5%	Straight line
Leasehold improvements	5 years	-	Straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.

d. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis on normal operating capacity. Costs are assigned on the basis of weighted average costs.

e. Leases

Operating lease

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

f. Financial Instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, the Group classifies its trade and other receivables as financial assets at amortised cost upon initial recognition.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items.

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

Notes to the Consolidated Financial Statements
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Subsequent measurement financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of Financial assets

IFRS 9's impairment requirements use more forward looking information to recognize expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under

IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess credit risk characteristics based on the days past due. Refer to Note 25 for details of credit risk analysis of the Group.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Accounting policy applicable to comparative period (31 December 2017)

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Financial instruments are classified and measured as set out below.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets at fair value through profit or loss.

Classification and subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and most other receivables fall into this category of financial instruments.

Financial liabilities

The Group's financial liabilities include trade and other payables. Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the profit or loss.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period and are recognised directly in the financial assets reserve in other comprehensive income.

g. Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on government bonds with terms to maturity that match the expected timing of cash flows.

i. Cash and Cash Equivalents

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

j. Revenue

Revenue arises mainly from the manufacturing and selling of air treatment solutions for industrial applications, including designing, manufacturing and selling of equipment used in humidity and climate control in the People's Republic of China (PRC).

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

Sale of goods maybe bundled with installation services and warranty services. In order to assess whether sale of good(s) and service(s) in a contract are distinct and therefore give rise to separate performance obligations, the Group considers the following criteria:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The Group allocates the transaction price to the identified performance obligations and recognises revenue when (or as) those performance obligations are satisfied.

For stand-alone sales of goods that are not subject to significant installation services, control transfers at the point in time the customer takes undisputed delivery of the goods. When such items sold together with significant installation services, the goods and services represent a single combined performance obligation over which control is considered to transfer at the point in time the installation is completed.

Revenue from sale of goods is recognised based on the price specified in the contract, net of the estimated volume discounts and rebates. Accumulated experience is used to estimate and provide for the discounts and rebates, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

The sales arrangements often contain an assurance-type warranties, which promises the customer that the delivered products are as specified in the contract. Such warranties is accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Asset. If a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service-type warranty is a separate performance obligation and the revenue is recognised over the service period.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts in the consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Accounting policy applicable to comparative period (31 December 2017)

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from sale of goods is recognised when the Group has transferred significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

All revenue is stated net of the amount of value added tax (VAT).

k. Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except where the amount of VAT incurred is not recoverable from the Local Taxation Office. In these circumstances, the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of VAT.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows.

l. Segment Reporting

Operating segments are presented on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

m. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

n. Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the consolidated financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates.

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

Key estimates — Impairment of non-financial assets

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

Key estimates — Estimation of useful lives and residual value of assets

The Group determine the estimated useful lives, residual values and related depreciation and amortisation charges for its land use rights and property, plant and equipment. The useful life and residual values could change significantly as a result of technical innovations or some other events. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

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o. Accounting Standards issued but not yet effective and not been adopted early by the Group

A number of new standards and amendments to standards are not yet effective for the year ending 31 December 2018 and have not been adopted by the Group in preparing the annual financial report.

The Group is in the process of making an assessment of what the impact of those amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standard which may have impact on the consolidated financial statements.

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted for entities that adopt IFRS 16 at or before the date of the initial adoption of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1.83 million, see Note 20.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

On 1 January 2019, the Group expects to recognise right-of-use assets of approximately RMB1.58 million and lease liabilities of approximately RMB1.68 million, leading to approximately a RMB0.1 million decrease in net asset value. The Group expects that the impact on net profit after tax will be insignificant for the year ending 31 December 2019 as a result of adopting the new standard.

p. Rounding of amounts

Amounts in this report have been rounded off to the nearest thousand Chinese Yuan (RMB), or in certain cases, the nearest Chinese Yuan (RMB).

3 Changes in significant accounting practices

3.1 New standards adopted as at 1 January 2018

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 January 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 January 2018 and comparatives are not restated.

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Contracts with multiple performance obligations

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, dehumidifiers, installation, and warranty. Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is 'separately identifiable' (i.e. the Group does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance only resulted in reclassification of contract assets and contract liabilities as presented below and did not have an impact on the timing or amount of revenue recognised by the Group during the year.

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated financial statements at 1 January 2018:

	Carrying amounts previously reported 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018
	RMB'000	RMB'000	RMB'000
Current liabilities			
Advances from customer	5,026	(5,026)	-
Contract liabilities	-	5,026	5,026

Contract liabilities relate to amounts received from customers in relation to unsatisfied performance obligations for future contracts not yet undertaken or contracts not yet fulfilled by the Group. It is expected that the Group will undertake/fulfil the contract within the next 12 months from balance date and recognised as revenue.

IFRS 9 *Financial Instruments*

The Group has initially adopted IFRS 9 Financial instruments from 1 January 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

For trade receivables and contract assets under IFRS 15 the Group applies a simplified approach of recognising lifetime expected credit losses as these items do not have a significant financing component.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 January 2018.

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The table below shows the classification of each class of financial asset and financial liability under IAS 39 and IFRS 9 as at 1 January 2018:

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount RMB'000	IFRS 9 carrying amount RMB'000
Financial assets				
Trade and other receivables	Loans and Receivables	Amortised cost	37,962	37,269
Financial liabilities				
Trade and other payables	Amortised cost	Amortised cost	19,081	14,055

The Group did not designate or de-designate any financial asset or financial liability at FVTPL at 1 January 2018.

Based on the assessment by the Group, the total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	RMB'000
Closing retained earnings 31 December 2017 – IAS 39	28,808
Restated retained earnings 31 December 2017	
- Increase in provision for expected credit losses on trade receivables and contract assets (i)	(693)
- Increase in deferred tax assets due to the increase in provision for trade receivables and contract assets (i)	104
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	(589)
Opening retained earnings 1 January 2018 – IFRS 9	28,219

(i) *Impairment of financial assets*

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

On that basis, the loss allowance as at 1 January 2018 was determined as follows for both trade receivables and contract assets:

1 January 2018	Within 1 year	1 -2 years	2 – 3 years	> 3 years	Total
Expected loss rate	0.84%	4.67%	50%	100%	
Gross carrying amount	30,441	2,120	1,550	483	34,594
Loss allowance	278	99	775	483	1,635

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Trade receivables RMB'000
At 31 December 2017 – calculated under IAS 39	950
Amounts restated through opening retained earnings	685
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	1,635

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 3 years.

Other amended standard adopted by the Group which do not have a material impact on the consolidated financial statements

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Notes to the Consolidated Financial Statements
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4 Revenue and Other Income

(a) Revenue and other income consist of the following:

Operating activities	2018 RMB'000	2017 RMB'000
Revenue recognised at point in time		
- Sales of goods (stand-alone)	61,416	43,893
- Sales and installation of goods	35,081	39,187
Revenue recognised over time		
- Warranty services	149	365
Total revenue	96,646	83,445
Non-operating activities		
Gain on disposal of property, plant and equipment	-	73
Other income	254	7
Total other income	254	80

(b) Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	2018 RMB'000	2017 RMB'000
Current contract liabilities relating to sales contracts	1,763	-
Total contract liabilities	**1,763**	**-**

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2018 RMB'000	2017 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	5,026	8,856

5 Expenses

	2018 RMB'000	2017 RMB'000
Administrative expenses		
Employee expenses	2,201	1,426
Travel expenses	215	420
Repairs and maintenance	120	25
Vehicle expenses	244	101
Consultant expenses	477	390
Depreciation	499	47
Office expenses	165	232
Rental	94	65
Hospitality Expenses	582	-
Audit Fee	155	-
Exhibition Expenses	367	-
Inventory stocktake movement	-	(844)
Other administrative expenses	464	173
Total administrative expenses	5,583	2,035
Sales and marketing expenses		
Employee expenses	509	772
Travel expenses	801	980
Marketing and promotional	78	101
Rental	120	84
Shipping expenses	759	714
Other sales and marketing expenses	1,039	370
Total sales and marketing expenses	3,306	3,021
Depreciation and amortisation		
Included in:		
- Cost of sales – manufacturing	285	326
- Research and development	350	747
- Administrative expenses	499	47
Total depreciation and amortisation expenses	1,134	1,120
Employee expenses		
Included in:		
- Cost of sales – manufacturing	2,218	1,667
- Research and development	2,098	1,015
- Sales staff – sales and marketing	509	772
- Administration staff	2,201	1,426
Total employee benefits	7,026	4,880

6 Finance Costs

	2018 RMB'000	2017 RMB'000
Finance costs		
Bank charges	16	5
Foreign exchange (gains)/losses	24	3
Interest expense	561	-
Total finance costs	601	8

7 Income Tax Expense

	2018 RMB'000	2017 RMB'000
The components of tax expense comprise:		
Current tax	3,194	3,738
Deferred tax	-	(100)
Total income tax expense	3,194	3,638
Reconciliation of tax expense		
Profit before income tax	26,275	22,483
Prima facie tax payable on profit before income tax at China tax rate of 25%	6,569	5,620
Less:		
High-tech enterprise status incentive (15% tax rate)	(2,628)	(2,250)
R&D expense incentive	(520)	-
Adjustment for non-deductible expenses	56	29
Other tax effects	(283)	239
Income tax attributable to the Group	3,194	3,638
The components of tax expense comprise:	12%	16%

The Group is subject to the income tax law of People's Republic of China (PRC) and Hong Kong (HK).

8 Segment Reporting

The Group operates in one segment being the manufacturing and selling of air treatment solutions for industrial applications, including designing, manufacturing and selling of equipment used in humidity and climate control in the People's Republic of China (PRC). This is based on the internal reports that are reviewed and used by the Board of Directors/Management Committee, who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and determining the allocation of resources. The Group operates predominately in one geographical area where the majority of sales revenue is generated and non-current assets are located, being the People's Republic of China. The Group's assets and liabilities are not specifically allocated to operating segments.

The Board has considered the requirements of IFRS8 Operating Segments and the internal reports that are reviewed by the CODM in allocating resources and have concluded at that there are no separately identifiable segments as there is currently no discrete financial information received by the chief operation decision maker.

9 Cash and Cash Equivalents

	2018 RMB'000	2017 RMB'000
Cash on hand	127	16
Cash at bank	9,588	2,143
Total cash and cash equivalents	9,715	2,159

Cash at bank balances as at 31 December 2018 are Chinese Renminbi denominated balances, which are held with reputable financial institutions in the People's Republic of China in current bank accounts.

The Renminbi is not freely convertible into foreign currencies. Under the People's Republic of China (PRC) Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

The exchange rate of Renminbi is determined by the government of the PRC and the remittance of funds out of the country is subjected to exchange restrictions imposed by the government of the PRC.

10 Trade and Other Receivables

	2018 RMB'000	2017 RMB'000
Current		
Trade receivables	82,122	34,594
Provision for expected credit losses	(1,807)	-
Provision for bad debts	-	(950)
Other receivables		
- Notes receivable	15	3,857
- Short-term security deposits (Refer to Note 15)	10,417	-
- Other receivables	285	461
Total current trade and other receivables	91,032	37,962

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances. Trade receivable include un-invoiced amount to RMB31,866,000 as at 31 December 2018 (2017: RMB19,853,000). The un-invoiced amounts related to confirmed sales and the collection of such amount is pending the passage of time.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the consolidated financial statements. The Group does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title. The Group generally requires its customers to pay in advance. Credit terms may be provided through negotiation with customers. No interest is charged on trade receivables.

Short-term bank security deposits are interest bearing and pledged as security for notes payable (Refer to Note 15) which is not available for general use by the Group but offset against notes payable on maturity. The effective interest rate on short-term bank security deposit was 3.59% per annum.

An analysis of impairment of trade receivables is presented in the credit risk analysis in Note 25.

11 Inventory

	2018 RMB'000	2017 RMB'000
Current		
Raw materials	2,607	2,400
Finished goods	4,485	2,166
Work in progress	2,404	2,253
Total inventory	9,496	6,819

12 Other current assets

	2018 RMB'000	2017 RMB'000
Prepayment to suppliers for purchases and services	3,341	1,715
Total other current assets	3,341	1,715

13 Property, Plant and Equipment

	2018 RMB'000	2017 RMB'000
Machinery and Office Equipment		
At cost	5,838	5,269
Accumulated depreciation	(1,875)	(1,215)
Total machinery and office equipment	3,963	4,054
Leasehold Improvement		
At cost	1,045	847
Accumulated depreciation	(393)	(47)
Total leasehold improvement	652	800
Motor Vehicles		
At cost	1,869	1,940
Accumulated depreciation	(1,541)	(1,488)
Total motor vehicles	328	452
Total property, plant and equipment	4,943	5,306

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

	Machinery and Office Equipment	Leasehold Improvement	Motor Vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	**195**	**-**	**625**	**820**
Additions	4,735	847	60	5,642
Disposal	(7)	-	(29)	(36)
Depreciation	(869)	(47)	(204)	(1,120)
Balance at 31 December 2017	**4,054**	**800**	**452**	**5,306**
Additions	567	198	6	771
Disposal	-	-	-	-
Depreciation	(658)	(346)	(130)	(1,134)
Balance at 31 December 2018	**3,963**	**652**	**328**	**4,943**

14 Trade and Other Payables

	2018 RMB'000	2017 RMB'000
Current		
Trade payables	20,616	6,981
VAT and other taxes payable	5,221	4,528
Advances from customer	-	5,026
Salary payable	1,702	1,826
Other payables	186	720
Total trade and other payables	27,725	19,081

All amounts are short-term. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

Within other payables there are amounts payable to shareholder, ZHANG Jian Gang (Chairman) amounting to RMB100,000 (2017: nil) (Refer to Note 24).

Notes to the Consolidated Financial Statements
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15 Other Financial Liabilities

	2018 RMB'000	2017 RMB'000
Short-term borrowings(*)	23,000	-
Notes payables (**)	9,707	-
Total other financial liabilities	32,707	-

(*) Short term borrowings amounting to RMB23 million are secured by personal guarantees provided by Mr. ZHANG Jian Gang (Chairman) and Ms. MU Xian Hong (wife of Mr. ZHANG Jian Gang). Interest is payable on rates between 4.75% to 5.22% per annum for the current financial period with maturity dates between May 2019 and October 2019.

(**) Notes payable are guaranteed by other monetary assets, recognised as a short term security deposit within Trade and Other Receivables.

16 Taxation

(a) Current tax liabilities

Amounts represent amounts payable to taxation authorities in the People's Republic of China.

	2018 RMB'000	2017 RMB'000
Current		
Income tax payable	4,115	4,541

(b) Deferred tax assets

Deferred taxes arising from temporary differences can be summarised as follows:

	2018 RMB'000	2017 RMB'000
Provision for expected credit losses	245	-
Provision for doubtful debts	-	141

17 Issued Capital

	31 December 2018 No. of shares	31 December 2017 No. of shares	31 December 2018 RMB'000(3)	31 December 2017 RMB'000(3)
Ordinary shares				
Balance at beginning of the period/incorporation(1)	10,000	10,000	-	-
Acquisition of Aobo Environmental New Energy (Wuxi) Co., Ltd (2)	-	-	1,000	-
End of the year	**10,000**	**10,000**	**1,000**	**-**

(1) Ordinary shares carry one vote per share and carry the right to dividends.

(2) Aobo Environmental Technology (Hong Kong) Limited was incorporated on 15 December 2017 with 10,000 ordinary shares. Pursuant to a Share Transfer Agreement on 23 February 2018, Aobo Environmental Technology (Hong Kong) Limited, 100% of the contributed capital of Aobo Environmental New Energy (Wuxi) Co., Ltd was transferred to Aobo Environmental Technology (Wuxi) Co., Ltd, which is a wholly owned subsidiary of Aobo Environmental Technology (Hong Kong) Limited. Issued capital of RMB1,000,000 has been disclosed in prior year comparatives. Refer to Note 2a and Note 27.

(3) Note represents movement in the legal parent company's issued capital.

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18 Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

	2018 RMB'000	2017 RMB'000
Total liabilities	66,310	23,622
Less: cash and cash equivalents	(9,715)	(2,159)
Net liabilities/(Net cash and cash equivalents)	56,595	21,463
Total equity	52,972	30,480
Net liabilities/(Net cash and cash equivalents) to equity ratio	107%	70%

19 Reserves

	2018 RMB'000	2017 RMB'000
Statutory reserve	672	672
Foreign currency translation reserve	-	-
Total reserves	672	672

Statutory reserve

Pursuant to the current People's Republic of China Company Law, the Group is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches minimal 50% of the registered capital. For the purposes of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

Foreign Currency Translation Reserve

The foreign currency translation reserve represents exchange differences arising from translation of the subsidiaries' functional currency (Chinese Renminbi and Hong Kong Dollars) into presentational currency of the Group (Chinese Renminbi).

Notes to the Consolidated Financial Statements
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20 Commitments

Capital commitments
The Group has not entered into any contracts leading to capital commitments as at 31 December 2018.

Lease commitments – operating

	2018 RMB'000	2017 RMB'000
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	763	763
One to five years	1,073	1,896
More than five years	-	-
Total lease commitments – operating	1,836	2,659

Lease commitments – operating relates to the lease of land-use rights and buildings at the Wuxi, Jiangsu Province manufacturing site and an office in Shenzhen, Guangdong Province, China.

21 Cash Flow Information

Reconciliation of Net Profit after Tax to Net Cash Flows from Operations

	2018 RMB'000	2017 RMB'000
Operating Profit/(Loss) after income tax	**23,081**	**18,845**
Non-cash flows in operating surplus		
Amortisation	22	-
Depreciation	1,134	1,120
Gain/(Loss) on sale of property, plant and equipment	(6)	(73)
Provision for doubtful debts	-	675
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	(53,764)	(11,918)
(Increase)/Decrease in notes receivable	-	(3,857)
(Increase)/Decrease in prepayment	(1,624)	64
(Increase)/Decrease in deferred tax assets	-	(100)
(Increase)/Decrease in inventory	(2,678)	5,164
Increase/(Decrease) in trade and other payables	20,015	(1,907)
Increase/(Decrease) in advances from customers	-	(3,830)
Increase/(Decrease) in income tax payable	(427)	3,545
Cash provided by/(used in) operating activities	**(14,247)**	**7,728**

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22 Contingent Liabilities

As at 31 December 2018, the Group is not aware of any other contingent assets or liabilities that should be disclosed in accordance with IFRS 37 Provisions, Contingent Liabilities and Contingent Assets (2017: nil).

23 Events After the Reporting Date

Aobo Environmental Technology (Wuxi) Co., Limited, subsidiary of the Group entered into a Transfer Agreement dated 31 January 2019 to purchase land-use rights in Wuxi, Jiangsu Province, People's Republic of China, amounting to RMB9.27 million. The land-use rights were transferred to the Group subsequently. The Group has agreed to commence construction of the site area by 31 October 2019 with a completion date of 31 October 2021.

Aobo Environmental Technology (Wuxi) Co., Limited, subsidiary of the Group entered into a Maximum Mortgage Contract dated 17 April 2019 with a financial institution in the People's Republic of China for an amount of RMB16.05 million, of which RMB15 million has been taken out as short-term borrowings subsequent to period-end by Aobo Environmental New Energy (Wuxi) Co., Limited (subsidiary of the Group). The land-use rights acquired by the Group (Refer to above) as per the Transfer Agreement dated 31 January 2019 has been pledged as collateral.

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

24 Related Party Transactions

a) Details of key management personnel during the year as follows:

- ZHANG Jian Gang (Chairman and General Manager)
- XING Li (Deputy General Manager)
- QIAN Jin (Finance Manager)
- CHEN Jing Wen (Procurement Manager)
- ZHANG Hao (Sales Manager)

b) Key Management Personnel Remuneration

The aggregate compensation made to Directors and other members of key management personnel ('KMP') of the Group is set out below:

	2018	**2017**
	RMB'000	**RMB'000**
Short-term employee benefits	954	779
Post-employment benefits	-	-
Share-based payments	-	-
Total KMP remuneration	954	779

c) Transaction with related parties and key management personnel

The following comprises transactions with entities in which the Directors have an interest

	2018	2017
	RMB'000	RMB'000
ZHANG Jian Gang (Chairman and General Manager)		
Repayment of advances from related party	(430)	(2,351)
Receipts from related party	530	-
Wuxi Aogang New Energy Co., Ltd		
(Director related entity)		
Advances to related party	(1,500)	-
Receipts from related party	1,500	-

Related party transactions have arisen from normal course of business and related party loans, no specific terms and conditions have been attached to the above transactions.

d) Balances with related parties and key management personnel

	2018	2017
	RMB'000	RMB'000
ZHANG Jian Gang (Chairman and General Manager)		
Payables to related party	100	-

e) Other transactions with related parties and key management personnel

Mr. ZHANG Jian Gang (Chairman) and Ms. MU Xian Hong (wife of Mr. ZHANG Jian Gang) has provided a personal guarantee for short-term borrowings (Refer to Note 15).

25 Financial Instrument Risk Management

Risk management objectives and policies
The Group is exposed to a variety of financial risks through its use of financial instruments.

Financial instruments used
The principal categories of financial instrument used by the Group:

- Trade and other receivables
- Cash at bank
- Trade and other payables
- Other financial liabilities

The main types of risks are market risk, credit risk and liquidity risk.

This note discloses the Group's objectives, policies and processes for managing and measuring these risks.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Market risk analysis
The Group is exposed to market risk through its use of financial instruments and specifically to interest rate risk, customer concentration risk, and certain other price risks, which result from both its operating and investing activities

Interest rate risk sensitivity
Exposure to interest rate risk arises on financial assets and liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

Price risk
The Group's financial instruments are not exposed to price risk.

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

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

The Group adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from default. The utilisation of credit limits by customers is regularly monitored by line management. For significant transactions, customers are required to make sufficient prepayments in order to reduce the credit risk to an acceptable level.

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The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2018	2017
	RMB'000	RMB'000
Classes of financial assets -		
Carrying amounts:		
Cash and cash equivalents	9,715	2,159
Trade and other receivables	91,032	37,962
Total	**100,747**	**40,121**

The Group's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Group's financial assets are secured by collateral or other credit enhancements.

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

(i) Trade receivables and contract assets

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables and contract assets as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables and contract assets have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the payment profile for sales over the past 24 months before 31 December 2018 and 1 January respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Group has identified gross domestic product (GDP) and unemployment rates of China in which the customers are domiciled to be the most relevant factors and according adjusts historical loss rates for expected changes in these factors. However given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables and contract assets are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 3 years.

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On the above basis the expected credit loss for trade receivables and contract assets as at 31 December 2018 and 1 January 2018 (on adoption of AASB 9) was determined as follows:

31 December 2018	Within 1 year	1 -2 years	2 – 3 years	> 3 years	Total
Expected loss rate	0.84%	4.67%	50%	100%	
Gross carrying amount	67,941	13,289	546	345	82,121
Loss allowance	569	620	273	345	1,807

1 January 2018	Within 1 year	1 -2 years	2 – 3 years	> 3 years	Total
Expected loss rate	0.84%	4.67%	50%	100%	
Gross carrying amount	30,441	2,120	1,550	483	34,594
Loss allowance	278	99	775	483	1,635

The Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables and contract assets consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables and contract assets that are not past due or impaired to be good.

Liquidity risk

Liquidity risk arises from the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt serving payments for financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.

Remaining contractual maturities

The following table details the Group's remaining contractual maturity for its financial instrument liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the consolidated statement of financial position.

	Weighted Average Effective Interest Rate		Interest Bearing Maturing within 1 Year		Interest Bearing Maturing within 2 to 5 Years		Non-interest Bearing Maturing within 1 Year		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	% per annum	% per annum	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest bearing										
- Short-term borrowings	5.16	-	23,579	-	-	-	-	-	23,579	-
- Notes payable	-	-	9,707	-	-	-	-	-	9,707	-
			33,286	**-**	**-**	**-**	**-**	**-**	**33,286**	**-**
Non-interest bearing										
- Trade and other payables	-	-	-	-	-	-	27,725	19,081	27,725	19,081
Total non-interest bearing			**-**	**-**	**-**	**-**	**27,725**	**19,081**	**27,725**	**19,081**
Total			**33,286**	**-**	**-**	**-**	**27,725**	**19,081**	**61,011**	**19,081**

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26 Controlled Entities

Details of subsidiaries controlled by the Group as at 31 December 2018 are as follows:

	Country of Incorporation	Percentage Owned (%) 31 December 2018	31 December 2017
Aobo Environmental Technology (Hong Kong) Limited ("Aobo HK")	Hong Kong (People's Republic of China)		
Subsidiaries of Aobo Environmental Technology (Hong Kong) Limited ("Aobo HK")			
i. Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX")	People's Republic of China	100%	-
ii. Aobo Environmental New Energy (Wuxi) Co., Limited ("AENEWX")	People's Republic of China	100%	-

(1) Percentage of voting power is in proportion to ownership.

(2) Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX") is a wholly owned subsidiary of Aobo Environmental Technology (Hong Kong) Limited incorporated in the People's Republic of China on 18 January 2018. It is the intermediate parent entity of Aobo Environmental New Energy (Wuxi) Co., Limited ("AENEWX"). Pursuant to a Share Transfer Agreement on 23 February 2018, Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX") acquired 100% of share capital in Aobo Environmental New Energy (Wuxi) Co., Limited ("AENEWX").

27 Business Reconstruction

Pursuant to a Share Transfer Agreement on 23 February 2018, 100% of the contributed capital in Aobo Environmental New Energy (Wuxi) Co., Limited (“AENEWX”) was transferred to Aobo Environmental Technology (Wuxi) Co., Limited (“AETWX”), which is a wholly owned subsidiary of Aobo Environmental Technology (Hong Kong) Limited (“Aobo HK”).

Aobo Environmental Technology (Hong Kong) Limited (“Aobo HK”), Aobo Environmental Technology (Wuxi) Co., Limited (“AETWX”) and Aobo Environmental New Energy (Wuxi) Co., Limited (“AENEWX”) were controlled by the same shareholders before and after the business reconstruction. Through this transaction effective control of AENEWX passed to the shareholders of Aobo HK. The transaction is the one referred to in IFRS 3 Business Combinations as common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure Aobo HK took control of AENEWX with no change in underlying control.

The fair value of the equity instruments issued has been estimated by reference to the value of historical (AENEWX) net assets as of 31 December 2017.

The following has been extracted from the audited financial information of AENEWX as at 31 December 2017.The assets and liabilities of AENEWX as at 31 December 2017 were:

	December 2017 RMB’000
Cash and cash equivalents	2,159
Trade and other receivables	37,962
Inventories	6,819
Other current assets	1,715
Property, plant and equipment	5,306
Deferred tax assets	141
Trade and other payables	(19,081)
Current tax liabilities	(4,541)
Total net assets acquired	**30,480**

Accounted for as:	
Issued capital	1,000
Reserves	672
Retained earnings	28,808
Total	**30,480**

28 Fair value measurement

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

29 Group Details

The registered office of the Group is:

RM. 901, 9/F, Easey Commercial Building
253-261 Hennessy Road
Wanchai, Hong Kong
China

The principle place of business of the Group is:

No. 358 Qianlu Road
Qianqiao Town, Huishan District,
Wuxi City, Jiangsu Province
214151 China

Director's declaration

The Directors of the Group declare that:

1. The consolidated financial statements and notes, as set out on pages 1 to 37, are in accordance with International Financial Reporting Standards and presents fairly the financial position as at 31 December 2018 and of the performance for the year ended on that date of the Group.

2. In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

____
Chairman
ZHANG Jian Gang

Dated this 15th day of June 2019

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Independent Auditor's Report

To the Members of Aobo Environmental Technology (Hong Kong) Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Aobo Environmental Technology (Hong Kong) Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group,

a presents fairly, the Group's financial position as at 31 December 2018 and of its performance for the year ended on that date; and

b complies with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that presents fairly in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that presents fairly and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 15 June 2019