Aobo Environmental Technology Limited and its controlled entities

(ACN 633 117 807)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

Contents

Directors' Report

For the year ended 31 December 2019

The directors present their report together with the financial report of Aobo Environmental Technology Limited ("the Company") and its controlled entities ("the Group") for the year ended 31 December 2019 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year to the date of this report are:

Name	Position	Appointment Date
Andrew Smith	Non-Executive Chairman	29 April 2019
Zhang Jiangang	Executive Director and Chief Executive Officer	29 April 2019
Hon. Andrew Thomson	Non-Executive Director	3 February 2020
Brendan Connell	Non-Executive Director	30 January 2020
Jiang Ting	Non-Executive Director and Company Secretary	29 April 2019 *(Resigned as Director on 30 January 2020)*

Andrew Smith (Non-Executive Chairman)

Andrew's business career has focused on finance and the financial markets in the Asia Pacific. He was the managing director and chief executive of the stockbroking and corporate finance group Intersuisse Ltd (now Phillip Capital) from 2000 to 2010. Prior to that, Andrew was Chairman of the Sedgwick Group in the Asia Pacific between 1995 and 2000.

Andrew holds a Bachelor of Economics and Politics from Monash University.

Zhang Jiangang *(Executive Director and Chief Executive Officer)*

Mr Zhang has been employed by Aobo for 21 years. He is integral to Aobo's journey. He has experience across all areas of business. Mr Zhang oversees Aobo's operation and production and is responsible for developing and implementing Aobo's strategy. Prior to Aobo, Mr Zhang worked as engineer and general manager for manufacturing companies in Wuxi. He is an engineer by trade.

Mr Zhang obtained a diploma in Business Administration from Xi'an University of Finance and Economics.

Hon. Andrew Thomson *(Non-Executive Director)*

The Hon. Andrew Thomson has significant experiences in legal practices in Australia and overseas. He commenced his career as a solicitor at Mallesons before holding the position of Investment Manager at GT Management (Japan) Ltd and Assistant Vice President of Compliance at Credit Suisse First Boston (Japan Ltd). He is a special counsel for Lander & Rogers Lawyers.

The Hon. Andrew Thomson also held positions as a Member (House of Representatives) in the Australian Parliament, Parliamentary Secretary for Foreign Affairs, the Minister for Sport, Tourism and Sydney Olympic Games, and Chairman of the Joint Committee on Treaties for the Australian Parliament. He had previously been a Chairman for a number of ASX-listed companies. The Hon. Andrew Thomson holds a Bachelor of Arts and Bachelor of Laws from the University of Melbourne and a Master of Laws from Georgetown University. He is fluent in Japanese and Mandarin.

Brendan Connell *(Non-Executive Director)*

Brendan is a lawyer with over 35 years' experience and was formerly the Managing Partner of one of the largest law firms in South Australia.

Having qualified in 1982 he has acted for numerous Chinese companies in mergers and acquisitions and in corporate finance transactions.

Brendan provides legal advice to listed and unlisted companies on all aspects of governance and has extensive experience with capital market transactions on all Australian stock exchanges. Brendan holds a Bachelor of Laws from Adelaide University and GDLP from South Australian Institute of Technology. He is admitted to South Australia Supreme Court and High Court of Australia.

Jiang Ting *(Non-Executive Director and Company Secretary)*
Mr Jiang is a qualified Certified Practising Accountant in Australia and has broad experience in corporate finance and corporate advisory and legal practice, and has completed a range of capital market transactions in both Australia and China.

Principal activities
The main principal activities include manufacturing and selling of air treatment solutions for industrial applications, and battery energy storage systems in the People's Republic of China (PRC) and international markets such as Australia.

There were no significant changes in the nature of the activities of the Company during the year.

Financial Results
The Group has recorded a profit after tax for the financial year of $457,922 (2018: $4,667,765).

The drop in profit after tax was caused by a combination of a decrease in revenue and gross margins and increase of sales and marketing expenses and finance costs. Increase in sales and marketing expenses was due to promotion and exhibition costs for battery energy storage products.

Dividends
No dividend has been declared, recommended or paid relating to the 31 December 2019 financial year.

Options
No options have been issued by the Group.

Significant Changes in State of Affairs
Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

Subsequent Events After the Balance Date
The COVID-19 outbreak was declared a pandemic by the World Health Organization ('WHO') in March 2020, which continues to spread throughout Australia and the People's Republic of China (PRC) *(the Group's main geographical area of operation)*. Subsequent to the declaration by the WHO, the outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the overall economy. The scale and duration of these developments remain uncertain as at the date of this report and it is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering the above matters that provide evidence of conditions that existed at the end of the reporting period. Since the declaration by the WHO occurred in March 2020, the ongoing impact from the 31 December 2019 to the date of the financial report is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2020 for the impacts of COVID-19.

After the COVID-19 outbreak in 2020, the Group is paying close attention to the development of, and the disruption to business and economic activities caused by the outbreak and its potential impact on the financial position, cash flows and operating results. With effective control of COVID-19 in China improved, the Group's operation returns back to a more normal status.

The construction of a new manufacturing facility is nearing completion and has not been materially affected by COVID-19. Construction is proceeding according to the plan. Main buildings are now completed, and road construction, in and out of the manufacturing facility, is in progress. It is expected that construction work for the new manufacturing facility will completed in October 2020 with commencement of operations on the new site in 2021.

The Company issued and lodged with ASIC a prospectus dated 25 February 2020 for a proposed listing on the NSX (National Stock Exchange of Australia) to raise between $800,000 to $5,000,000 at an offer price of $0.25 per share.

The Directors are not aware of any 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.

Likely Developments
The Group will continue to

- Focus on core market segments and expand the Company's market share in China;
- Pursue growth opportunities in niche market segments and different regions;
- Expand its energy storage business in Australia and penetrate into other international markets;
- Capture recurring sales opportunities from services; and
- Expand production capacity in China and economies of scale.

Directors' Meetings
The following table sets out the number of Directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member).

	Board of Directors		Audit and Risk Committee		Remuneration Committee	
Andrew Smith	3	3	-	-	-	-
Zhang Jiangang	3	3	-	-	-	-
Hon. Andrew Thomson	-	-	-	-	-	-
Brendan Connell	-	-	-	-	-	-
Jiang Ting	3	3	-	-	-	-

Environmental Regulation and Performance
The Group is subject to environmental regulations under Commonwealth and State legislation and those of the People's Republic of China. The Board is not aware of any breach of those environmental requirements.

Indemnification and Insurance of Directors and Officers
No indemnities have been given or insurance premiums paid, during the financial year for any person who is or had been an officer of the Company.

Indemnification of Auditors
To the extent permitted by law, the Company has agreed to indemnify its auditors, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify during or since the financial year.

Auditor's Independence Declaration
The auditor's independence declaration is set out immediately after the Directors' Report and forms part of the Directors' Report for the financial year ended 31 December 2019.

This report is made in accordance with a resolution of the directors.

Dated at this 8th day of October 2020

Zhang Jiangang
Executive Director

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Adelaide SA 5000

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Auditor's Independence Declaration

To the Directors of Aobo Environmental Technology Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Aobo Environmental Technology Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

D Chau
Partner – Audit & Assurance

Adelaide, 8 October 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 AUD	2018 AUD
Sales revenue	4	13,848,152	19,551,700
Cost of sales		(9,475,191)	(11,297,370)
Gross profit		**4,372,961**	**8,254,330**
Other income	4	5,868	51,451
Interest income		59,360	30,325
Sales and marketing expenses	5	(1,417,327)	(668,813)
Research and development expenses		(954,404)	(1,065,975)
Administrative expenses	5	(1,368,136)	(1,131,005)
Other expenses		(3,756)	(34,696)
Finance costs	6	(380,423)	(121,756)
Profit before income tax		**314,143**	**5,313,861**
Income tax benefit/(expense)	7	143,779	(646,096)
Profit for the year		**457,922**	**4,667,765**
Other comprehensive income: *Items that may subsequently be reclassified to profit or loss:*			
• Exchange differences on translating foreign operations		(86,033)	224,605
Total comprehensive income for the period		**371,889**	**4,892,370**
Earnings per share on profit attributable to ordinary equity holders			
Basic earnings per share (cents per share)	29	1.42	14.45
Diluted earnings per share (cents per share)	29	1.42	14.45

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 AUD	2018 AUD
Current assets			
Cash and cash equivalents	9	1,232,904	2,001,179
Trade and other receivables	10	10,531,069	18,751,066
Inventories	11	1,689,065	1,956,337
Right of use asset	3	86,547	-
Other current assets	12	7,657,209	688,087
Total current assets		21,196,794	23,396,669
Non-current assets			
Property, plant and equipment	13	3,100,029	1,018,098
Intangible Assets		55,785	109,322
Deferred tax assets	17	85,299	50,530
Land use rights	14	1,928,502	-
Total non-current assets		5,169,615	1,177,950
Total assets		**26,366,409**	**24,574,619**
Current liabilities			
Trade and other payables	15	7,140,444	5,710,795
Other financial liabilities	16	7,429,443	6,737,116
Contract liabilities	4	421,986	363,199
Lease liability	3	90,843	-
Current tax liabilities	17	-	847,559
Total current liabilities		15,082,716	13,658,669
Total liabilities		**15,082,716**	**13,658,669**
Net assets		**11,283,693**	**10,915,950**
Equity			
Issued capital	18	209,467	209,367
Reserves	20	(120,308)	(34,275)
Retained earnings		11,194,534	10,740,858
Total equity		**11,283,693**	**10,915,950**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Issued Capital AUD	Reserves AUD	Retained earnings AUD	Total AUD
Balance at 1 January 2018	**209,367**	**(258,880)**	**6,073,093**	**6,023,580**
Profit for the year	-	-	4,667,765	4,667,765
Other comprehensive income for the year	-	224,605	-	224,605
Total comprehensive income for the year	**-**	**224,605**	**4,667,765**	**4,892,370**
Balance at 31 December 2018	**209,367**	**(34,275)**	**10,740,858**	**10,915,950**
Effects of AASB 16 (Refer to Note 3)	-	-	(4,246)	(4,246)
Balance at 1 January 2019	**209,367**	**(34,275)**	**10,736,612**	**10,911,704**
Profit for the year	-	-	457,922	457,922
Other comprehensive income for the year	-	(86,033)	-	(86,033)
Total comprehensive income for the year	**-**	**(86,033)**	**457,922**	**371,889**
Issuance of share capital, net of related issuance costs	100	-	-	100
Transactions with owners in their capacity as owners	**100**	**-**	**-**	**100**
Balance at 31 December 2019	**209,467**	**(120,308)**	**11,194,534**	**11,283,693**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 AUD	2018 AUD
Cash flows from operating activities			
Receipts from customers		14,683,524	10,145,536
Payments to suppliers and employees		(14,223,614)	(12,201,562)
Interest received		59,360	30,325
Finance costs		(377,541)	(117,018)
Income tax paid		(733,199)	(755,498)
Net cash provided by (used in) operating activities	22	(591,470)	(2,898,217)
Cash flows from investing activities			
Purchases of property, plant and equipment		(128,876)	(159,276)
Purchase of intangible assets		(11,948)	(109,563)
Purchase of land use rights		(1,949,722)	-
Receipts from disposal of property, plant and equipment		-	2,023
Net cash provided by (used in) investing activities		(2,090,546)	(266,816)
Cash flows from financing activities			
Proceeds from borrowings		2,045,994	4,737,579
Proceeds from issuance of shares		100	-
Advances to related parties		(363,565)	(390,443)
Repayments from related parties		258,316	410,673
Net cash provided by (used in) financing activities		1,940,845	4,757,809
Net change in cash and cash equivalents held		(741,171)	1,592,776
Cash and cash equivalents at beginning of financial year		2,001,179	424,649
Effect of exchange rates on cash holdings in foreign currencies		(27,104)	(16,246)
Cash and cash equivalents at end of financial year	9	1,232,904	2,001,179

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

1 Nature of operations, General information and Statement of Compliance

Aobo Environmental Technology Limited ("Company") and its subsidiaries (the "Group") is a for-profit unlisted public company, incorporated in Australia on 29 April 2019.

The principal activities include manufacturing and selling of air treatment solutions for industrial applications and battery energy storage systems in the People's Republic of China (PRC) and international markets such as Australia. The Group operates predominately in one geographical location being the People's Republic of China (PRC) where the majority of the Group's assets are held. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The consolidated financial statements were authorised for issue by the directors on 8 October 2020.

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 Australian Dollars *(unless otherwise stated)* which is the Group's presentational currency and the functional currency of Aobo Environmental Technology Limited (parent entity).

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 Limited and its controlled entities as of 31 December 2019. Aobo Environmental Technology 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 27 to the consolidated financial statements. All controlled entities have a December financial year end.

Business Combination/Reconstruction

Aobo Environmental Technology Limited was incorporated in Australia on 29 April 2019 to act as the ultimate holding company of the Group. Pursuant to a Share Sale Deed dated 6 May 2019 *(finalised 19 November 2019)*, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited (“Aobo HK”) and its controlled entities and became a wholly owned subsidiary of the Company.

Aobo Environmental Technology Limited and Aobo HK were owned and controlled by the same shareholders before and after the business reconstruction.

Aobo HK was incorporated in Hong Kong on 15 December 2017 to act as the holding company of the Group’s companies domiciled in the People’s Republic of China (PRC). 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

Through these transactions effective control of Aobo HK and AENEWX/AETWX in the respective transactions passed to the shareholders of Aobo Environmental Technology and Aobo HK respectively. The transaction is the one referred to in AASB 3 *Business Combinations* as a common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure there has been no change in underlying control.

Business combination involving entities under common control is scoped out under AASB 3 *Business Combination*. AASB 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 2019 between Aobo Environmental Technology Limited and Aobo HK and during the year ended 31 December 2018 between Aobo HK and AENEWX/AETWX.

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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

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.

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

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

The Group assesses at contract inception whether a contract is, or contains, a lease, that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment tests.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Accounting policy applicable to comparative period (31 December 2018)
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 de-recognition
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 AASB 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.

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

AASB 9's impairment requirements use more forward looking information to recognise 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

AASB 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 26 for details of credit risk analysis of the Group.

Classification and measurement of financial liabilities

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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

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.

k. Value Added Tax (VAT)/Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of VAT/GST, except where the amount of VAT/GST incurred is not recoverable from the Local Taxation Office. In these circumstances, the VAT/GST 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/GST 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

n. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjust the figures used to determine basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

o. Foreign Currency Translations and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Australian Dollars which is the parent entity's functional and presentational currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in profit or loss.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed.

p. Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare 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 of sale. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

q. 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.

r. 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 2019 and have not been adopted by the Group in preparing the annual financial report, these include:

- AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate of Joint Ventures*
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*

When these amendments are first adopted for the year ending 31 December 2020, it is not expected to have a material impact on the financial statements.

3 Changes in significant accounting practices

New standards adopted as at 1 January 2019

AASB 16 *Leases*

AASB 16 Leases became effective for periods beginning on or after 1 January 2019. Accordingly, the Group has adopted AASB 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

During the period, the Group acquired land use rights which represents up-front payments to relevant government authorities for long-term interest for usage of land. Land use rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation of land use rights are calculated using the straight line method to allocate the cost of the land use right over its estimated useful life. Land use rights which has been recognised as an unamortised upfront payment as a finance lease in accordance with AASB 16 Leases to the extent to which risks and rewards incidental to ownership of the land resides within the Group arising from the land right term.

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*, Int. 4 *Determining whether an Arrangement contains a Lease*, Int.115 *Operating Leases-Lease Incentives* and Int. 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.35%.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019	**1 January 2019**
	AUD	**AUD**
Leased properties	86,547	174,026
Total right-of-use assets	**86,547**	**174,026**

The recognised lease liabilities relate to the following types of assets:

	31 December 2019	**1 January 2019**
	AUD	**AUD**
Leased properties	90,843	178,272
Total lease liabilities	**90,843**	**178,272**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by $174,026
- Lease liabilities – increase by $178,272
- The net impact on retained earnings on 1 January 2019 was a decrease of $4,246
- The resulting tax impact was insignificant

The group leases various buildings in China. Rental contracts are typically made for fixed periods of 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until this financial year, leases of property were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities mainly represent the net present value of the fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

4 Revenue and Other Income

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

Operating activities	2019 AUD	2018 AUD
Revenue recognised at point in time		
- Sales of goods (stand-alone/installation)	13,848,152	19,521,557
Revenue recognised over time		
- Warranty services	-	30,143
Total revenue	13,848,152	19,551,700
Non-operating activities		
Other income	5,868	51,451
Total other income	5,868	51,451

(b) Liabilities related to contracts with customers

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

	2019 AUD	2018 AUD
Current contract liabilities relating to sales contracts	421,986	363,199
Total contract liabilities	**421,986**	**363,199**

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.

	2019 AUD	2018 AUD
Revenue recognised that was included in the contract liability balance at the beginning of the period	363,199	1,016,770

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

5 Expenses

	2019 AUD	2018 AUD
Administrative expenses		
Employee expenses	717,195	445,305
Travel expenses	79,504	43,410
Repairs and maintenance	834	24,175
Vehicle expenses	47,422	49,431
Consultant expenses	83,025	96,529
Depreciation	224,889	101,020
Office expenses	20,492	33,302
Rental	701	18,950
Hospitality Expenses	121,722	117,809
Audit Fee	4,912	31,456
Exhibition Expenses	64	74,328
Other administrative expenses	67,376	95,290
Total administrative expenses	1,368,136	1,131,005
Sales and marketing expenses		
Employee expenses	105,276	103,026
Travel expenses	76,443	36,793
Marketing and promotional	161,618	15,706
Rental	24,991	24,276
Shipping expenses	139,962	153,462
Other sales and marketing expenses	909,037	335,550
Total sales and marketing expenses	1,417,327	668,813
Depreciation and amortisation		
Included in:		
- Cost of sales – manufacturing	59,598	57,585
- Research and development	95,760	70,805
- Administrative expenses	224,889	101,020
Total depreciation and amortisation expenses	380,247	229,410
Employee expenses		
Included in:		
- Cost of sales – manufacturing	411,393	448,614
- Research and development	533,318	424,430
- Sales staff – sales and marketing	105,276	103,026
- Administration staff	717,195	445,305
Total employee benefits	1,767,182	1,421,375

6 Finance Costs

	2019 AUD	2018 AUD
Finance costs		
Bank charges	2,936	3,304
Foreign exchange (gains)/losses	2,883	4,979
Interest expense	374,604	113,473
Total finance costs	380,423	121,756

7 Income Tax Expense

	2019 AUD	2018 AUD
The components of tax expense comprise:		
Current tax	108,044	(646,096)
Deferred tax	35,735	-
Total income tax benefit/(expense)	143,779	(646,096)
Reconciliation of tax expense/(benefit)		
Profit before income tax	314,143	5,313,861
Prima facie tax payable on profit before income tax at 30%	94,242	1,594,158
Less:		
Differences in taxation rates in foreign subsidiaries	(19,963)	(265,693)
High-tech enterprise status incentive (15% tax rate)	(39,927)	(531,386)
R&D expense incentive	-	(105,197)
Other tax effects	(178,131)	(45,786)
Income tax attributable to the Group	(143,779)	646,096
The applicable weighted average effective tax rate:	-%	12%

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

8 Segment Reporting

The Group operates predominately 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, 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 AASB 8 *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

	2019 AUD	2018 AUD
Cash on hand	3,065	5,758
Cash at bank	1,229,839	1,995,421
Total cash and cash equivalents	1,232,904	2,001,179

Cash at bank balances amounting to $1,195,568 (RMB5,843,462) as at 31 December 2019 (2018: $1,995,421, RMB9,587,950) 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

	2019 AUD	2018 AUD
Current		
Trade receivables	8,811,661	16,915,474
Provision for expected credit losses	(373,384)	(372,192)
Other receivables		
- Notes receivable	-	3,202
- Short-term security deposits (Refer to Note 16)	716,098	2,145,798
- Other receivables	1,376,694	58,784
Total current trade and other receivables	10,531,069	18,751,066

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 $822,209 (RMB4,018,629) (2018:$6,563,813 (RMB31,866,000)) as at 31 December 2019. 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.

An analysis of impairment of trade receivables is presented in the credit risk analysis in Note 26.

Short-term bank security deposits are interest bearing and pledged as security for notes payable (Refer to Note 16) 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 3.51% per annum (2018:3.59% per annum).

Within other receivables at 31 December 2019 is a receivable from Jiang Ting *(former Director)* amounting to $155,781 and $810,214 from a government linked entity.

Notes to the Consolidated Financial Statements
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11 Inventory

	2019 AUD	2018 AUD
Current		
Raw materials	976,315	537,024
Finished goods	251,520	923,816
Work in progress	350,477	495,497
Outsourced goods	15,754	-
Goods in transit	94,999	-
Total inventory	1,689,065	1,956,337

12 Other current assets

	2019 AUD	2018 AUD
Prepayment to suppliers for purchases and services	7,641,664	688,087
Other current assets	15,545	-
Total other current assets	7,657,209	688,087

Within other current assets at 31 December 2019, $7.06 million (RMB34.52 million) is associated with the delivery of completed dehumidifiers and equipment to lithium battery suppliers and equipment suppliers which act as a deposit for future battery and equipment purchases. The Group has entered into agreements with these customers to take-up stock of lithium batteries for the production of the Group's battery energy storage system and to purchase equipment/components for use in air treatment solution projects undertaken by the Company in lieu of cash receipts from the customers.

Lithium batteries have been provided to the Group by the customers at a price point below that of the wholesale market price and the Group has been able to receive lithium batteries below the standard minimum order quantities required by reputable suppliers.

13 Property, Plant and Equipment

	2019 AUD	2018 AUD
Machinery and Office Equipment		
At cost	1,198,036	1,202,581
Accumulated depreciation	(540,985)	(386,280)
Total machinery and office equipment	657,051	816,301
Leasehold Improvement		
At cost	213,699	215,143
Accumulated depreciation	(151,656)	(80,967)
Total leasehold improvement	62,043	134,176
Motor Vehicles		
At cost	382,379	384,962
Accumulated depreciation	(341,910)	(317,341)
Total motor vehicles	40,469	67,621
Construction in Progress	2,340,466	-
Total property, plant and equipment	3,100,029	1,018,098

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	Construction in Progress	Total
	AUD	AUD	AUD	AUD	AUD
Balance at 1 January 2018	**796,156**	**166,506**	**90,235**	**-**	**1,052,897**
Additions	116,671	40,041	-	-	156,712
Depreciation	(133,035)	(79,521)	(26,398)	-	(238,954)
Net exchange differences	36,509	7,150	3,784	-	47,443
Balance at 31 December 2018	**816,301**	**134,176**	**67,621**	**-**	**1,018,098**
Additions	3,591	-	-	2,382,286	2,385,877
Depreciation	(160,109)	(72,506)	(27,175)	-	(259,790)
Net exchange differences	(2,732)	373	23	(41,820)	(44,156)
Balance at 31 December 2019	**657,051**	**62,043**	**40,469**	**2,340,466**	**3,100,029**

14 Land use rights

	2019 AUD	2018 AUD
At cost	1,960,533	-
Accumulated amortisation	(32,031)	-
Total land use rights	1,928,502	-

Movements in Carrying Amounts

Movement in the carrying amounts for land use right between the beginning and the end of the current financial year:

	2019 AUD
Balance at 1 January 2019	-
Additions	1,995,564
Amortisation	(32,603)
Net exchange differences	(34,459)
Total land use rights	1,928,502

Land use rights relate to the following:

Location	Use of property	Land area (sq.metres)	Tenure
Land Registration – Huishan Area, Wuxi City, Jiangsu Province, People's Republic of China	Industrial	26,756	50 years (valid until 13 February 2069)

15 Trade and Other Payables

	2019 AUD	2018 AUD
Current		
Trade payables	5,838,523	4,246,547
VAT and other taxes payable	176,223	1,075,398
Salary payable	235,145	350,482
Other payables	890,553	38,368
Total trade and other payables	7,140,444	5,710,795

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 Jiangang (*Director*) amounting to $7,500 (2018: $20,598 (RMB100,000)) (Refer to Note 25). Also included in other payables at 31 December 2019, is an amount of $818,806 (RMB4,002,000) relating to a performance deposit for the construction of a new manufacturing site in Wuxi.

16 Other Financial Liabilities

	2019 AUD	2018 AUD
Short-term borrowings(*)	6,751,780	4,737,579
Notes payables (**)	677,663	1,999,537
Total other financial liabilities	7,429,443	6,737,116

(*) Short term borrowings amounting to $6.75 million (RMB33 million) (2018: $4.74 million (RMB23 million)) are secured by personal guarantees provided by Zhang Jiangang *(Director)* and Mu Xianhong *(wife of Zhang Jiangang)*. Interest is payable on rates between 4.785% to 5.22% per annum (2018: 4.75% to 5.22% per annum) for the current financial period with maturity dates between January 2020 and October 2020. Land use rights (Refer to Note 14) has also been used as guarantees for short-term borrowings.

(**) Notes payable are guaranteed by short term security deposit within Trade and Other Receivables.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

17 Taxation

(a) Current tax liabilities

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

	2019 AUD	2018 AUD
Current		
Income tax payable	-	847,559

(b) Deferred tax assets

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

	2019 AUD	2018 AUD
Provision for expected credit losses	50,190	50,530
Other	35,109	-

18 Issued Capital

	31 December 2019 No. of shares	31 December 2018 No. of shares	31 December 2019 AUD[3]	31 December 2018 AUD[3]
Ordinary shares				
Balance at beginning of the period/incorporation [1]	-	-	-	-
Issuance of share capital (29 April 2019)	100	-	100	-
Acquisition of Aobo Environmental Technology (Hong Kong) Limited [2]	189,999,900	-	209,367	-
End of the year	**190,000,000**	**-**	**209,467**	**-**

[1] Ordinary shares carry one vote per share and carry the right to dividends.

[2] Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

[3] Note represents movement in the legal parent company's issued capital.

Notes to the Consolidated Financial Statements
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19 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.

	2019 AUD	2018 AUD
Total liabilities	15,082,716	13,658,669
Less: cash and cash equivalents	(1,232,904)	(2,001,179)
Net liabilities/(Net cash and cash equivalents)	13,849,812	11,657,490
Total equity	11,283,693	10,911,704
Net liabilities/(Net cash and cash equivalents) to equity ratio	123%	107%

20 Reserves

	2019 AUD	2018 AUD
Statutory reserve	140,746	140,746
Foreign currency translation reserve	(261,054)	(175,021)
Total reserves	(120,308)	(34,275)

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 (Australian Dollars).

21 Commitments

Capital commitments
Aobo Environmental Technology (Wuxi) Co., Limited entered into a construction contract on 6 September 2019 for the construction of a new manufacturing site. The total contract value is RMB32.5 million (AUD$6.65 million). As at 31 December 2019, there is RMB21.775 million (AUD$4.46 million) remaining of the contract value based on the level of completed works at 31 December 2019.

22 Cash Flow Information

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

(Increase)/Decrease in notes receivable

	2019	2018
	AUD	**AUD**
Operating Profit/(Loss) after income tax	**457,922**	**4,667,765**
Non-cash flows in operating surplus		
Depreciation/Amortisation	353,794	237,839
Provision for expected credit losses	3,756	-
Gain/(Loss) on sale of property, plant and equipment	-	(1,197)
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	8,302,362	(10,930,033)
(Increase)/Decrease in other current assets	(6,989,683)	(334,520)
(Increase)/Decrease in deferred tax assets	(35,108)	(21,405)
(Increase)/Decrease in inventory	254,144	(551,706)
(Increase)/Decrease in right of use asset	(86,547)	-
Increase/(Decrease) in lease liability	90,843	-
Increase/(Decrease) in trade and other payables	(853,852)	2,795,684
Increase/(Decrease) in contract liabilities	61,224	(672,183)
Increase/(Decrease) in notes payable	(1,308,454)	1,999,537
Increase/(Decrease) in income tax payable	(841,871)	(87,998)
Cash provided by/(used in) operating activities	**(591,470)**	**(2,898,217)**

23 Contingent Liabilities

As at 31 December 2019, the Group is not aware of any other contingent assets or liabilities that should be disclosed in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (2018: nil).

24 Events After the Reporting Date

The COVID-19 outbreak was declared a pandemic by the World Health Organization ('WHO') in March 2020, which continues to spread throughout Australia and the People's Republic of China (PRC) (the Group's main geographical area of operation). Subsequent to the declaration by the WHO, the outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the overall economy. The scale and duration of these developments remain uncertain as at the date of this report and it is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses.

The financial statements have been prepared based upon conditions existing at 31 December 2019 and considering the above matters that provide evidence of conditions that existed at the end of the reporting period. Since the declaration by the WHO occurred in March 2020, the ongoing impact from the 31 December 2019 to the date of the financial report is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 31 December 2020 for the impacts of COVID-19.

After the COVID-19 outbreak in 2020, the Group is paying close attention to the development of, and the disruption to business and economic activities caused by the outbreak and its potential impact on the financial position, cash flows and operating results. With effective control of COVID-19 in China improved, the Group's operation returns back to a more normal status.

The construction of a new manufacturing facility is nearing completion and has not been materially affected by COVID-19. Construction is proceeding according to the plan. Main buildings are now completed, and road construction, in and out of the manufacturing facility, is in progress. It is expected that construction work for the new manufacturing facility will completed in October 2020 with commencement of operations on the new site in 2021.

The Company issued and lodged with ASIC a prospectus dated 25 February 2020 for a proposed listing on the NSX (National Stock Exchange of Australia) to raise between $800,000 to $5,000,000 at an offer price of $0.25 per share.

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.

25 Related Party Transactions

a) Details of Directors and Key Management Personnel during the year as follows:

Directors

- Andrew Smith (Non-Executive Chairman)
- Zhang Jiangang (Executive Director)
- Jiang Ting (Non-Executive Director) *(Resigned 30 January 2020)*

Key Management Personnel (Other)

- Xing Li (Deputy General Manager)
- Qian Jin (Finance Manager)
- Zhang Hao (Sales Manager)
- Mu Xianhong (Head of Human Resources and Administration)

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:

	2019 AUD	2018 AUD
Short-term employee benefits	216,993	192,996
Post-employment benefits	-	-
Share-based payments	-	-
Total KMP remuneration	216,993	192,996

c) Transaction with related parties and key management personnel

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

	2019 AUD	2018 AUD
Zhang Jiangang (Executive Director)		
Advances to related party	(151,609)	(86,990)
Receipts from related party	159,109	107,220
Wuxi Aogang New Energy Co., Ltd		
(Director related entity)		
Advances to related party	(53,391)	(303,453)
Receipts from related party	99,207	303,453
Jiang Ting (Non-Executive Director) ***(Resigned 30 January 2020)***		
Advances to from related party	(158,565)	-

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

	2019	2018
	AUD	**AUD**
Zhang Jiangang (Executive Director)		
Payable to related party	7,500	20,598
Wuxi Aogang New Energy Co., Ltd		
(Director related entity)		
Payable to related party	45,011	-
Jiang Ting (Non-Executive Director) ***(Resigned 30 January 2020)***		
Receivable from related party	155,781	-

e) Other transactions with related parties and key management personnel

Zhang Jiangang *(Director)* and Mu Xianhong *(wife of Zhang Jiangang)* have provided a personal guarantee for short-term borrowings (Refer to Note 16).

26 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

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.

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

	2019	**2018**
	AUD	**AUD**
Classes of financial assets -		
Carrying amounts:		
Cash and cash equivalents	1,232,904	2,001,179
Trade and other receivables	10,531,069	18,751,066
Total	**11,763,973**	**20,752,245**

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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

(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 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 historical payment profile for sales with customers as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and available forward looking information, 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.

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 2 years.

On the above basis the expected credit loss for trade receivables and contract assets as at 31 December 2019 was determined as follows:

31 December 2019	**Within 1 year**	**1 -2 years**	**2 – 3 years**	**> 3 years**	**Total**
Expected loss rate	1%	25%	100%	100%	
Gross carrying amount	7,702,477	996,672	43,827	68,685	8,811,661
Loss allowance	103,343	188,219	43,827	37,995	373,384

31 December 2018	**Within 1 year**	**1 -2 years**	**2 – 3 years**	**> 3 years**	**Total**
Expected loss rate	1%	5%	50%	100%	
Gross carrying amount	13,994,660	2,737,281	112,453	71,080	16,915,474
Loss allowance	117,135	127,750	56,227	71,080	372,192

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

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**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	% per annum	**% per annum**	**AUD**	**AUD**	**AUD**	**AUD**	**AUD**	**AUD**	**AUD**	**AUD**
Interest bearing										
- Short-term borrowings	5.05	5.16	6,868,142	4,856,843	-	-	-	-	6,868,142	4,856,843
- Notes payable	-	-	677,663	1,999,537	-	-	-	-	677,663	1,999,537
			7,545,805	**6,856,380**	**-**	**-**	**-**	**-**	**7,545,805**	**6,856,380**
Non-interest bearing										
- Trade and other payables	-	-	-	-	-	-	7,140,444	5,710,795	7,140,444	5,710,795
Total non-interest bearing			**-**	**-**	**-**	**-**	**7,140,444**	**5,710,795**	**7,140,444**	**5,710,795**
Total			**7,545,805**	**6,856,380**	**-**	**-**	**7,140,444**	**5,710,795**	**14,686,249**	**12,567,175**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

27 Controlled Entities

Details of subsidiaries controlled by the Group as at 31 December 2019 are as follows:

	Country of Incorporation	Percentage Owned (%) 31 December 2019	31 December 2018
Aobo Environmental Technology Limited	Australia		
Subsidiaries of Aobo Environmental Technology Limited			
i. Aobo New Energy Pty Ltd	Australia	100%	-
ii. Aobo Environmental Technology (Hong Kong) Limited ("Aobo HK")	Hong Kong (People's Republic of China)	100%	-
iii. Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX")	People's Republic of China	100%	-
iv. 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) Pursuant to a Share Sale Deed dated 15 November 2019, Aobo New Energy Pty Ltd was acquired from Mr. Zhang Jiangang (Executive Director), sole shareholder of Aobo New Energy Pty Ltd prior to the acquisition by Aobo Environmental Technology Limited.

(3) Aobo Environmental Technology (Hong Kong) Limited is a wholly owned subsidiary of Aobo Environmental Technology Limited. Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited.

(4) 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").

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

28 Business Reconstruction

Transaction between Aobo Environmental Technology Limited and Aobo Environmental Technology (Hong Kong) Limited

Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

Through this transaction effective control of Aobo Environmental Technology (HK) Limited passed to the shareholders of Aobo Environmental Technology Limited. The transaction is the one referred to in AASB 3 *Business Combinations* as common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure Aobo Environmental Technology Limited took control of Aobo Environmental Technology (HK) Limited with no change in underlying control.

The fair value of the equity instruments issued has been estimated by reference to the value of historical net assets as of 31 December 2019 of the Aobo Environmental Technology (HK) Limited group.

The following has been extracted from the consolidated financial information of Aobo Environmental Technology (HK) Limited as at 31 December 2019.The assets and liabilities of Aobo Environmental Technology (HK) Limited as at 31 December 2019 were:

	December 2019 AUD
Cash and cash equivalents	1,198,634
Trade and other receivables	10,509,332
Inventories	1,620,305
Right of use asset	86,547
Other current assets	7,657,209
Property, plant and equipment	3,100,029
Intangible Assets	55,785
Deferred tax assets	85,299
Land use rights	1,928,502
Trade and other payables	(7,018,761)
Other financial liabilities	(7,429,443)
Contract liabilities	(411,986)
Lease liability	(90,843)
Total net assets acquired	**11,290,609**

Accounted for as:	
Issued capital	209,367
Reserves	(120,308)
Retained earnings	11,201,550
Total	**11,290,609**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

Transaction between Aobo Environmental Technology Limited and Aobo New Energy Pty Ltd
Pursuant to a Share Sale Deed dated 15 November 2019, Aobo New Energy Pty Ltd was acquired from Zhang Jiangang (Executive Director), sole shareholder of Aobo New Energy Pty Ltd prior to the acquisition by Aobo Environmental Technology Limited.

At the time of the transaction, Zhang Jiangang *(Executive Director)* was both the controlling shareholder of Aobo Environmental Technology Limited and Aobo New Energy Pty Ltd. Through this transaction effective control of Aobo Environmental New Energy Pty Ltd passed to the shareholders of Aobo Environmental Technology Limited. The transaction is the one referred to in AASB 3 *Business Combinations* as common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure Aobo Environmental Technology Limited took control of Aobo New Energy Pty Ltd with no change in underlying control.

The fair value of the equity instruments issued has been estimated by reference to the value of historical net assets as of 31 December 2019 of Aobo New Energy Pty Ltd.

The following has been extracted from the financial information of Aobo New Energy Pty Ltd as at 31 December 2019.The assets and liabilities of Aobo New Energy Pty Ltd as at 31 December 2019 were:

	December 2019 AUD
Cash and cash equivalents	34,270
Trade and other receivables	21,737
Inventories	68,760
Trade and other payables	(121,683)
Contract liabilities	(10,000)
Total net liabilities acquired	**(6,916)**

Accounted for as:	
Issued capital	100
Retained earnings	(7,016)
Total	**(6,916)**

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

Transaction between Aobo Environmental Technology (Hong Kong) Limited and Aobo Environmental New Energy (Wuxi) Co., Limited and Aobo Environmental Technology (Wuxi) Co., Limited

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 AASB 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 **AUD**
Cash and cash equivalents	424,649
Trade and other receivables	7,466,661
Inventories	1,341,214
Other current assets	337,320
Property, plant and equipment	1,043,625
Deferred tax assets	27,733
Trade and other payables	(3,752,999)
Current tax liabilities	(893,159)
Total net assets acquired	**5,995,044**

Accounted for as:	
Issued capital	209,367
Reserves	(258,880)
Retained earnings	6,044,557
Total	**5,995,044**

29 Earnings per share

Both the basic earnings per share have been calculated using the profit attributable to shareholders of the Company as a numerator, i.e. no adjustments to profits were necessary during the year ended 31 December 2019:

	31 December 2019	**31 December 2018**
Profit used to calculate basic EPS	457,922	4,667,765
Weighted average number of shares used in basic and diluted EPS	32,307,775	32,307,775

Aobo Environmental Technology Limited was incorporated on 29 April 2019 with 100 ordinary shares. Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

30 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

31 Parent information

Statement of Financial Position	2019 AUD	2018 AUD
Assets		
Current assets	100	-
Non-current assets	-	-
Total assets	**100**	**-**
Liabilities		
Current liabilities	-	-
Non-current liabilities	-	-
Total liabilities	**-**	**-**
Net assets	**-**	**-**
Equity		
Issued capital	100	-
Reserves	-	-
Retained earnings	-	-
Total equity	**100**	**-**
Statement of Profit or Loss and Other Comprehensive Income		
Total profit/(loss)	-	-
Total comprehensive income	-	-

The parent entity had no contingent liabilities as at 31 December 2019.

The parent entity had no commitments as at 31 December 2019.

32 Group details

The registered office and principle place of business of the Group is:
Suite 511, 434 St Kilda Road
Melbourne VIC 3004

Director’s declaration

1. In the opinion of the Directors of Aobo Environmental Technology Limited:

    a The consolidated financial statements and notes of Aobo Environmental Technology Limited are in accordance with the *Corporations Act 2001*, including

      (a) Giving a true and fair view of its financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

      (b) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

    b There are reasonable grounds to believe that Aobo Environmental Technology Limited will be able to pay its debts as and when they become due and payable.

2. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors

Zhang Jiangang
Executive Director
Dated this 8th day of October 2020

Grant Thornton

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Independent Auditor's Report

To the Members of Aobo Environmental Technology Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Aobo Environmental Technology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 *Corporations Act 2001* and 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 2019, 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 accordingly 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 gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view 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/ar3.pdf. This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

D Chau
Partner – Audit & Assurance

Adelaide, 8 October 2020