

Advanced Energy Systems Ltd and Controlled Entities

A.B.N. 72 066 908 530

**Preliminary Financial Report
FOR THE YEAR ENDED
30 JUNE 2012
(Unaudited)**

ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

ABN 72 066 908 530

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

CONTENTS

CORPORATE DIRECTORY.....	4
APPENDIX 4E COMMENTARY.....	5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	9
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	10
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	11
CONSOLIDATED STATEMENT OF CASHFLOWS.....	12
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	13
INDEPENDENT AUDIT REPORT.....	33
AUDITOR INDEPENDENCE DECLARATION.....	34

ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530

AND CONTROLLED ENTITIES

CORPORATE DIRECTORY

Directors

Mr Chenghui XU
Chairman, CEO and Managing Director

Mr Gabriel ENRENFELD
Non-Executive Director

Ms. Chunying LENG
Non-Executive Director

Secretary

Mr Elias FARAH

Registered Office

Shop 1, 60 West Terrace,
Adelaide
SA 5000

Incorporation

Advanced Energy Systems Limited
was incorporated in Western Australia
ACN 066 908 530

Auditors

Grant Thornton Australia
Level 19
2 Market Street
Sydney NSW 2000

Share Register

Boardroom Pty Ltd
Level 7, 207 Kent Street
Sydney NSW 2000

Stock Exchange Listing

Advanced Energy System Limited shares are listed on the
Australian Securities Exchange (ASX: AES)

AND CONTROLLED ENTITIES

APPENDIX 4E COMMENTARY

Directors

The following persons were directors of Advanced Energy Systems Limited during the whole year up to the date of this report unless otherwise stated.

Executive Directors

Name	Position	Appointed	Ceased to be a director
Chenghui Xu	Chairman, CEO and Managing Director	17/08/2007	

Non Executive Directors

Name	Position	Appointed	Ceased to be a director
Gabriel Ehrenfeld	Director	17/08/2007	14/09/2012
Chunying Leng	Director	24/12/2010	

Principal Activities

The principal business activity of the company and its subsidiaries is the commercialisation of sustainable energy technologies in residential and commercial property developments. The Company is currently involved in four projects, with its most advanced one being *Aocheng Gardens*, a residential and commercial development in the Fushan District of Yantai, in the Shandong Province, China.

Operating Results

The consolidated loss of the consolidated entity after providing for income tax amounted to \$ 32,241 (2011: \$217,603).

Dividends – Advanced Energy Systems Limited

No dividends were paid or recommended for payment during or since the end of the financial year.

ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES

Results for announcement to the market **\$**

Other Income		78,314
Profit / (Loss) from ordinary activities after tax attributable to members		(32,241)
Net Profit / (Loss) for the period attributable to members		(32,241)
Net Tangible Assets per Share Period ended 30 JUNE 2012		0.0075

Overview

The Company is facing a principal change of Administration in this financial year and the following months.

On June 01, 2012, the Company announced that Mr. Ian Sanderson has offered his resignation as Company Secretary of the Company. The Company announced the appointment of Mr. Elias Farah as the new Company Secretary of the Company.

On June 01, 2012, the Company announced the appointment of Mr. Chenghui Xu as the new Managing Director in replacement of former Managing Director and Vice-Chairman, Mr. Gabriel Ehrenfeld. The Company also announced the departure of Mr. Gabriel Ehrenfeld from the position of Vice Chairman of AES.

On June 01, 2012, the Company announced that the registered office and principal place of business of AES has been changed to 1/60 West Terrace, Adelaide, SA 5000, Phone: 61 8 8410 9988, Fax: 61 8 8410 0300.

The **JUSCO Project** is for the development of 188,085 square meters of commercial, residential and parking space, where all commercial and parking space will be purchased and managed by JUSCO, a chain of general merchandise stores, and the largest of its type in Japan.

This project is an old town redevelopment project; it has limited progress since 2011.

ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530

AND CONTROLLED ENTITIES

The expected turnover for the whole project is RMB 1,200 million, with an estimated pre-tax profit of RMB 420 million.

The **YANFENG Project** is for the development of 90,512 square meters of property.

This project is an old town redevelopment project; it has made limited progress since 2011.

The expected turnover for the whole project is RMB 600 million, with an estimated pre-tax profit of RMB 270 million.

Events Subsequent to Reporting Date

On August 21 2012, the Company announced that following the merger of BDO (NSW-VIC) Pty Ltd with Grant Thornton Audit Pty Ltd, the Company has appointed Grant Thornton Audit Pty Ltd to fill the casual vacancy in the office of company auditor until the next Annual General Meeting.

On September 07 2012, the Company announced the retirement of Director Mr Gabriel Ehrenfeld. His resignation took effect as of Friday, September 14 2012. And on September 21 2012, the Company enclosed the relevant Appendix 3Z for Mr Gabriel Ehrenfeld.

On September 24 2012, the Company announced appointment of Mr Chuanlong Mu as a new Director of the company.

FUSHAN PROJECT – *Aocheng Gardens*

The Company now confirms that the following works have been done as at the end of December 2012:

- The first phase of the project has started to be built 117,600 square meters (including aboveground building area of 88,000 square meters of residential, commercial and public areas).
- It is anticipated that:
 - 26,000 square meters of building area will be completed at the end of July 2013.
 - 19,000 square meters of building area will be completed at the end of December 2013.
 - 43,000 square meters of building area will be completed at the end of December 2014.
- Progress of the project is now on 6th floor of the aboveground area.
- As at the end of December 2012, accumulated investment of this project is 234 million Chinese currencies, 405 properties have been sold and achieved sales revenue of 117 million Chinese currencies.

ADELAIDE PROJECT – *Tangcheng*

The Company now confirms that the following works have been done as at the end of December 2012:

- Application of the Project has been lodged to the Department of Planning, Transport and

ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES

Infrastructure at the end of 2012. Tangcheng Group Pty Ltd is submitting additional information for the project to the Government and will get approval soon.

Likely Developments

There are no likely developments that will significantly affect the company other than those detailed under significant changes in the state of affairs.

Environmental Regulations

The Company and its controlled entities are not subject to any Environmental Regulation.

ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	30-Jun-12 \$	30-Jun-11 \$
Revenue	4	78,314	158,910
Accounting & audit fee		(70,500)	(30,550)
Depreciation		(173)	(277)
Employee expenses		-	-
Interest		(30,027)	(33,501)
Listing and share registry fees		(36,338)	(41,230)
Management fees		52,174	(72,120)
Other expenses		<u>(25,691)</u>	<u>(198,835)</u>
Loss before income tax		<u>(32,241)</u>	<u>(217,603)</u>
Income tax expense	5	<u>-</u>	<u>-</u>
Loss after income tax		(32,241)	(217,603)
Other comprehensive income			
Movement in foreign currency translation reserve		<u>194,254</u>	<u>(461,984)</u>
Total comprehensive income for the period		<u>162,013</u>	<u>(679,587)</u>
Basic loss per share (cents per share)	14	(0.007)	(0.048)
Diluted loss per share (cents per share)	14	(0.007)	(0.048)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	Note	30-Jun-12 \$	30-Jun-11 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	12,207	378,838
Trade and other receivables	7	3,832	933
Total current assets		16,039	379,771
Non-Current Assets			
Gouger Street Investment	8	889,751	830,342
Property development costs	9	19,794,893	18,482,807
Property, plant and equipment	10	476	648
Total non-current assets		20,685,120	19,313,796
Total Assets		20,701,158	19,693,567
LIABILITIES			
Current Liabilities			
Trade and other payables	11	17,345,846	16,523,178
Loans		22,913	
Total current liabilities		17,368,759	16,523,178
Total Liabilities		17,368,759	16,523,178
Net Assets		3,332,399	3,170,388
EQUITY			
Issued capital	15	18,083,940	18,083,940
Reserves	17	65,163	(129,091)
Accumulated (losses)	16	(14,816,703)	(14,784,461)
Total Equity		3,332,399	3,170,388

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

	Share Capital Ordinary \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Total \$
Balance as at 1 July 2010	18,008,940	(14,566,858)	332,893	3,849,975
Loss for the year	-	(217,603)	-	(217,603)
Movement in foreign currency translation reserve	-	-	(461,984)	(461,984)
Total comprehensive income for the year		(217,603)	(461,984)	(679,691)
Balance as at 30 June 2011	18,083,940	(14,784,461)	(129,091)	3,170,388

	Share Capital Ordinary \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Total \$
Balance as at 1 July 2011	18,083,940	(14,784,461)	(129,091)	3,170,388
Loss for the year	-	(32,241)	-	(32,241)
Movement in foreign currency translation reserve	-	-	194,254	194,254
Total comprehensive income for the year		(32,241)	194,254	162,013
Balance as at 30 June 2012	18,083,940	(14,816,703)	65,163	3,332,399

The above Consolidated Statement of changes in Equity should be read in conjunction with the accompanying notes.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	
	Note	30-Jun-12 \$	30-Jun-11 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		-	-
GST refund received		1,528	106,294
Payments to suppliers and employees		(7,434)	(259,763)
Interest received		78,314	138,689
Net cash provided by/(used in) operating activities	6	72,408	(14,780)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for loan to Tangcheng Group Pty Ltd		-	-
Loan from Yantai Yuancheng Material Co. Ltd		(364,975)	364,975
Net cash (used in) investing activities		(364,975)	364,975
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Proceeds from borrowings		-	15,000
Net cash provided by financing activities		-	15,000
Net increase/(decrease) in cash held		(292,567)	365,195
Net cash at beginning of period		378,838	15,764
Effects of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the period		(74,064)	(2,121)
Net cash at end of period		12,207	378,838

The above Consolidated Statement of Cashflows should be read in conjunction with the accompanying notes.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

Note 1 – Summary of significant accounting policies

The financial statements have been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and preparation and presentation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements comply with International Financial Reporting Standards (IRFS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accrual basis and are based on historical costs.

Adoption of New and Revised Accounting Standards

In the current year, the group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies, except as follows:

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is in conformity with the revised standard.

The Group has also applied AASB 8 *Operating Segments* which became effective on 1 January 2009. Segment information is provided using a 'management approach' i.e. segment information is provided on the same basis as information used for internal reporting purposes by the directors. Refer to note 22 for further details.

At the date of authorisation of the financial statements, certain new accounting standards and interpretations have been published that are mandatory for 30 June 2011 reporting periods. The directors have assessed the impact of these new standards and interpretations and they are not expected to compact the Group when adopted.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Note 1 – Summary of significant accounting policies (continued)

(b) Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal trading activities and realisation of assets and settlement of liabilities in the normal course of business. The company has \$12,207 of cash and no available financing facilities. The ability to continue as a going concern and to complete the 'Aocheng Gardens' project is dependent upon shareholder support, securing finance and/or raising equity.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

(c) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Advanced Energy Systems Limited ('parent entity') as at 30 June 2012 and the results of all subsidiaries for the year ended. Advanced Energy Systems Limited and its subsidiaries together are referred to in these financial statements as the consolidated entity ('Group'). A subsidiary is any entity over which the consolidated entity has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights.

All inter-company balances and transactions between entities in the consolidated entity including any unrealised gains on transactions between consolidated entities have been eliminated on consolidation.

(d) Income Tax

No income tax expense is charged for the year. The charge for income tax expense is based on the result for the year adjusted for any non-allowable or disallowable items. It is calculated using the tax rates that have been enacted or are substantially enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or liability is settled. Deferred tax assets and liabilities are credited in the profit or loss except where it related to items that may be credited directly to other comprehensive income or equity, in which case the deferred tax is adjusted directly against other comprehensive income or equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and unused tax losses can be utilised. As it is currently less than probable that the tax losses can be utilised in future periods for the Group, no deferred tax assets have been recognised for the year. As at the end of the reporting period the consolidated entity has not entered into Tax Consolidation.

Note 1 – Summary of significant accounting policies (continued)

(e) Impairment of 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 assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable of the cash generating unit to which the asset belongs.

(f) Property, Plant & Equipment

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

Property, plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all Property, Plant and Equipment (other than Leasehold Improvements which are based on the prime cost method) is based on the diminishing value method over their useful lives to the Company commencing from the time the assets are held ready for use. The depreciation rates used for plant and equipment vary between 2.5% and 40%.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Note 1 – Summary of significant accounting policies (continued)

(h) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing the profit/(loss) after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of 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.

(i) Contributed Equity

Ordinary shares are classified as equity.

Investments in subsidiaries are accounted for in the consolidated financial statements as described in note 1 (c) and in the parent entity financial statements at cost.

(j) Financial Instruments

Recognition

Financial instruments are initially measured at costs on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

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

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Note 1 – Summary of significant accounting policies (continued)

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(k) 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 that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation 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 re-translated at the year-end exchange rate. Non-monetary items measured at historical costs 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 the income statement, except where deferred in equity as qualifying cashflow or net investment hedge.

Exchange differences arising on the translation of non-momentary 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 the statement of financial performance.

The functional currency of the overseas subsidiary is Chinese Renminbi. At reporting date, the assets and liabilities of the overseas subsidiary are translated into the presentation currency of Advanced Energy Systems Limited at the closing rate at balance sheet date and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange differences are recognised as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in the income statement.

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances the 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 balance sheet are shown inclusive of GST.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

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

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

(n) Significant accounting judgements, estimates and assumptions

The directors evaluate estimates and judgements incorporated into the financial report based on the 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. There are no material amounts in the financial statements that are impacted by estimates or judgements.

Note 2 - Financial Risk Management

General objectives, policies and processes

In common with all other business, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The principal financial instruments from which financial instrument risk arises are receivables, other current assets, cash at bank, loans and trade and other payables. The directors have overall responsibility for the determination of the Group's risk management objectives. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The overall objectives of the Board are to set policies that seek to reduce risk as far as possible without any unduly affecting the Group's operation, Further details regarding these policies are set out below.

Credit Risk

The credit risk exposure on financial assets of the company which have been recognised on the Statement of Financial Position is generally the carrying amount, net of any provisions for doubtful debts, and the loan balance. In the case of cash deposits, credit risk is minimised by depositing with recognised financial intermediaries such as banks subject to Australian Prudential Regulation Authority supervision and reputable Chinese banks.

The geographic concentration of risk for cash at bank is shown under interest rate risk below.

Interest Rate Risk

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

The economic entity's exposure to interest rate risk is the risk that financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and liabilities.

To monitor the interest rate risk, the Group observes the market interest rate and analyses its interest rate exposure. Within the analysis consideration is given to potential renewals of existing positions, and the mix of fixed and variable interest rates.

Interest Rate Risk

Sensitivity Analysis

At the end of the reporting period the interest rate profile of the Consolidated group and the Company's interest bearing financial instrument was:

	CONSOLIDATED Carrying Amount	
	2012	2011
	\$	\$
Cash at Australian bank	92	2,061
Cash at Chinese bank	12,115	376,777

Financial Risk Management

Cash at bank is at floating interest rates.

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in interest rates.

At 30 June 2012, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group	
	2012	2011
Effect on Profit	\$	\$
Cash as Australian Bank		
-Increase in interest rate by 2%	2	50
-Decrease in interest rate by 2%	(2)	(50)
Cash at Chinese Bank		
-Increase in interest rate by 0.5%	60	18,832

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The financial obligation the Consolidated Entity has is trade creditors and other payables of \$909,021 (2011: \$1,014,277). There are no other contractual liabilities in place. The directors recognise that at the date of this report the cash balance is not sufficient to cover trade and other payables. Refer to note 1(b) Going Concern, on how the directors believe that the Group can continue to trade as a going concern.

Foreign Currency Risk

The Group is exposed to fluctuations in foreign currencies arising from the transfer of money between the Group and payments and receipts to and from overseas customers or suppliers.

The Group does not hedge to reduce the foreign exchange risk as the directors believe the risk is not significant. As at 30 June 2012 the Group did not have any financial assets and financial liabilities to foreign parties.

Fair Value of Financial Assets and Liabilities

The fair value of financial assets and financial liabilities of the company approximates their carrying value. The Group holds the following financial instruments:

	Consolidated Group	
	2012	2011
	\$	\$
Financial Assets		
Cash and cash equivalents	12,207	378,838
Loans	889,751	625,990
Financial Liabilities at amortised cost		
Trade and other payables	768,169	1,014,277
Development costs outstanding	16,600,590	15,563,320

Note 3 – Parent Entity Disclosure Note

	2012	2011
	\$	\$
FINANCIAL POSITION		
Assets		
Current Assets	3,924	2,994
Non current assets	3,459,570	3,458,932
Total Assets	3,463,494	3,461,926
Liabilities		
Current Liabilities	206,242	148,240

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Total Liabilities Equity	206,242	148,240
Issued Capital	18,083,940	18,083,940
Retained earnings	(14,826,688)	(14,770,254)
Total Equity	3,257,252	3,313,686
FINANCIAL PERFORMANCE		
Loss for the year	(56,434)	(137,897)
Other comprehensive income		
Total comprehensive income		

The parent entity did not enter into any guarantees in relation to the debts of its subsidiaries for 2011 or 2012.

The parent entity did not have any contingent liabilities for 2011 and 2012.

The parent entity did not enter into any commitments for the acquisition of property, plant and equipment for 2011 or 2012.

Note 4 – Revenue

	2012	2011
	\$	\$
Interest	78,314	138,689
Other Income	0	20,221
Total Other Income	78,314	158,910

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Note 5 – Income Tax Expense

	CONSOLIDATED	
	2012	2011
	\$	\$
(a) Income tax benefit		
Loss from ordinary activities before income tax expense	(32,241)	(217,603)
Prima face income tax benefit Calculated at 30% on the operating loss	(9,672)	(65,281)
Tax effect of current year profit/losses for which no deferred tax asset has been recognised	9,672	65,281
Income tax benefit	-	-
(b) Deferred tax assets/liabilities not recognised		
Deferred tax asset not recognised	422,459	412,787
Deferred tax liability not recognised	19,549	(38,727)

A deferred tax asset has not been brought into account as utilisation of these losses is not probable. The income tax losses can only be recovered by the companies deriving future assessable income, conditions for deductibility imposed by law being compiled with and no changes in tax legislation adversely affecting the realisation of the benefit from the deductions.

A deferred tax liability has not been recognised in respect of the temporary difference on the foreign currency translation reserve of \$65,281 (2011: \$(129,091) arising from translating the financial statements of Yantai Aocheng Investment Consulting Company Limited in China because the deferred tax liability will only arise on disposal of the subsidiary, which is not expected in the foreseeable future.

The directors have elected not to enter the tax consolidated system whereby the parent entity and all Australian resident wholly-owned entities are treated as a single entity for income tax purposes.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Note 6 – Cash and Cash Equivalents

	CONSOLIDATED	
	2012	2011
	\$	\$
Cash at bank	12,207	378,838
(a) Reconciliation of profit after income tax		
To net cash flow from operating activities		
Loss for the year	(32,241)	(217,603)
Depreciation	173	277
(Increase)/decrease in trade debtors	(274,816)	(164,128)
Increase/ (decrease) in trade and other creditors	(60,731)	141,435
Effect of foreign currency translation	440,023	225,239
Net cash flow from operating activities	72,408	(14,780)

Note 7 – Trade and Other Receivables

Insurance refund	194	194
GST input credit	617	(2,282)
Without prejudice payment	3,021	3,021
	3832	933

Note 8 – Gouger Street Investment

AES invested in 7% of the share capital of Tangcheng Group Pty Limited ('Tangcheng'); cash paid \$7.

As part of this investment arrangement AES executed an agreement with Tangcheng for the provision of sustainable energy technology in a proposed development in Gouger Street, Adelaide and the advanced \$455,000 to Tangcheng.

This investment is carried at cost because its fair value cannot be measured reliably.

Management will realise this investment on completion of the proposed development.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Note 9 - Property Development costs

(a) <u>Interest in Land Rights</u>	30-Jun-2012	30-Jun-2011
Opening balance	2,919,487	3,404,155
Purchase of interest in land rights	80,236	30,417
Foreign exchange movement	194,580	(515,085)
Closing balance	3,194,303	2,919,487
(b) <u>Work in Progress</u>		
Opening balance	15,563,320	15,244,547
Foreign exchange movement	1,037,270	(2,420,073)
Additions to work in progress		2,738,846
Closing balance	16,600,590	15,563,320
Total property development costs	19,794,893	18,482,807

All work completed to date on the project remain unpaid as at 30 June 2012, and the amount outstanding is \$16,600,590.

The arrangement is on normal commercial terms.

The amount is unsecured. No guarantees were given or received.

No provisions for bad or doubtful debts are made in relation to this amount.

The amount is to be repaid from sales proceeds from Aocheng Gardens, which are anticipated to be received during the next 12 months.

The amount was advanced in RMB (Chinese currency) in the amount of RMB106,975,664 (June 2011: RMB106,975,664). They are to be repaid in RMB.

2012	2011
\$	\$

Note 10 – Property, Plant and Equipment

Plant and equipment, at cost	2,831	2831
Less: accumulated depreciation	(2,355)	(2,183)
Total property, plant and equipment	476	649

Note 11 – Trade and other payables

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Trade creditors	100,929	82,612
Yantai Yuancheng Material Resources Co. Ltd		364,975
Tangcheng Group Payable (refer to note 8)	498,279	408,842
Accrued development costs (refer to note 9)	16,600,590	15,563,320
Other creditors and accruals	168,961	103,429
	17,368,759	16,523,178

Note 12 – Loans

Non-Executive Director Loan

During the year Ms Chunying Leng loaned the Company \$22,913. This loan is interest free and payable on demand.

Note 13 – Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.

Name of entity	Country of Incorporation	Class of shares	Equity holding	
			2012	2011
Yantai Aocheng				
Investment Consulting Co. Ltd	China	Ordinary	100%	100%
Powersearch Pty Ltd	Australia	Ordinary	100%	100%
Prime Power Systems Pty Ltd	Australia	Ordinary	100%	100%
Stobie Developments Pty Ltd	Australia	Ordinary	100%	100%

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

	2012	2011
	\$	\$
Note 14 – Loss Per Share		
Net loss for the year	(32,241)	(217,603)
Loss used in calculating basic earnings per share	(32,241)	(217,603)
(a) Basic loss per share	(0.007)	(0.048)
(b) Diluted loss per share	(0.007)	(0.048)
(c) Weighted average number of shares outstanding		
during the year used in the calculation of basic loss		
per share	446,426,277	446,426,277

Diluted loss per share calculated by taking into account 169,377,250 (2011; 169,377,250) A Class Options and 750,000 C Class Options (2011; 750,000) does not show an inferior view of the earnings performance of the Group than is shown by loss per share and is not disclosed for this reason.

Note 15 – Contributed Equity

	2012	2012	2011	2011
	\$	Shares	\$	\$
Share Capital				
Fully paid ordinary shares	18,083,940	446,426,277	18,083,940	446,426,277

Movement in ordinary share capital:

	2012	2012	2011	2011
	\$	No.	\$	No.
Fully Paid			Fully Paid	
Ordinary			Ordinary	

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

				Shares
Balance at start of year	18,083,940	446,426,277	18,083,940	446,426,277
Share issue costs	-	-	-	-
Balance at end of year	18,083,940	446,426,277	18,083,940	446,426,277

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

Options

At the end of the reporting period outstanding to subscribe for ordinary fully paid shares were:

- 169,377,250 A Class Options (2010: 169,377,250)
- 750,000 C Class Options (2010; 750,000)

Capital Risk Management

The Group considers its capital to comprise its ordinary share capital. The quantitative summary of share capital is disclosed as per the above table.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for the equity shareholders through a combination of capital growth and distributions. In order to achieve its objectives, the Group seeks to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

2012	2011
\$	\$

Note 16 – Accumulated Losses

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Movements in accumulated losses

Balance at start of year	(14,784,461)	(14,566,858)
Net loss for the year	(32,241)	(217,603)
Balance at the end of the year	(14,816,704)	(14,784,461)
Balance at end of year		

Note 17 – Foreign Exchange Reserve

Balance at start of year	(129,091)	332,893
Movement for the year	194,254	(461,984)
Balance at end of year	65,163	(129,091)

The foreign currency translation reserve is used to record exchange difference on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

Note 18 – Key Management Personnel Disclosure

There are no executives (other than directors) with authority for strategic decision and management.

(a) Compensation for Key Management Personnel

Short-term employee benefits	-	67,263
Post employment benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share based payment	-	-
	-	<u>67,263</u>

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

(b) Option holdings of key management personnel

The number of options over ordinary shares in the company held during the financial year by each director of Advanced Energy Systems Limited, including their personally-related entities, are set out below.

30 June 2012	Balance at begin of year	Granted as remuneration	Options exercised	Net change other	Balance at end of year	Total	Exercisable	Not ex
Chenghui Xu	90,000,000	-	-	-	90,000,000	-	-	-
	A Class				A Class			
Gabriel Ehrenfeld	60,000,000	-	-	-	60,000,000	-	-	-
	A Class				A Class			

Note 18 – Key Management Personnel Disclosure (continued)

(c) Shareholdings of key management personnel

The number of shares in the company held by each director of Advanced Energy Systems Limited (at reporting date), including their personally-related entities, are set out below:

	Balance at beginning of year	Granted as remuneration	On exercise of options	Net change other	Balance at end of year
30 June 2012					
Chenghui Xu	180,000,000	-	-	-	180,000,000
Gabriel Ehrenfeld	112,719,218	-	-	-	112,719,218

(d) Management fees

No management fees were paid during the period.

Note 19 – Related Party Transactions

(a) Tangcheng

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

Stobie Developments Pty Ltd, a wholly owned subsidiary of the Company has entered into agreements relating to the development of a mixed commercial and residential complex in Gouger Street, Adelaide. The chairman of the company, Mr Xu, is a related party of Tangcheng Group Pty Ltd, the project developer. The transaction is on normal commercial terms.

(b) Baocheng

Yantai Baocheng Real Estate Co. Ltd, a related company of the Chairman, Mr Xu, is funding and undertaking the development work for the 'Aocheng Gardens' project.

The arrangement is on normal commercial terms.

The amount is unsecured. No guarantees were given or received.

No provisions for bad or doubtful debts are made in relation to this amount.

The amount is to be repaid from sales proceeds from Aocheng Gardens, which are anticipated to be received during the next 12 months.

Note 20 – Remuneration of Auditors

During the year audit fees of \$0 (2011: \$20,930) were paid/payable to BDO Audit (NSW-VIC) Pty Ltd for auditing and reviewing the financial statements for the group.

Note 21 – Contingent Liabilities

The directors believe that there are no material contingent liabilities at the end of the reporting period.

Note 22 – Commitments

The Company currently has a \$2.0 million capital commitment for its investment in the residential real estate project to be constructed in the Fushan District in Yanti, Shandong Province, China.

No other commitments existed at the end of the reporting period

Note 23 – Segment information

The group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'managerial approach', i.e. segment information is provided

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

on the same basis as information used for internal reporting purposes by the chief operating decision maker (directors that makes strategic decisions). This has resulted in a decrease in the number of reportable segments because comparatives have been restated on this basis.

No segment information is disclosed because no discrete information is provided to the executive management team as activities are still in start-up phase. Activities are not generating any revenue and minimal expenses are being incurred.

\$476 of non-current assets (excluding financial instruments) are located in Australia (2011: \$649) and \$19,794,892 are located in China (2011: \$18,506,752).

Note 24 – Events Subsequent to the end of the Reporting period

On October 3, the securities of the company have been suspended from official quotation from the commencement of trading October 3 2012 following failure to lodge full year accounts for the period ended June 30 2012.

**ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES**

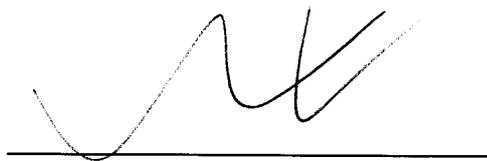
DIRECTORS' DECLARATION

FOR THE PERIOD ENDED 30 June 2012

The directors of the Company declare that:

1. The consolidated financial statements and notes set out on pages 8-14 are in accordance with the Corporations Act 2001 and:
 - (a) Comply with Accounting Standard AASB 134: – Interim Financial Reporting, and the Corporations Regulations 2001; and
 - (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the Period ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Chenghui XU

AES Managing Director

ADVANCED ENERGY SYSTEMS LIMITED ABN 72 066 908 530
AND CONTROLLED ENTITIES

INDEPENDENT AUDIT REPORT