

Advanced Energy Systems Ltd And Controlled Entities

A.B.N. 72 066 908 530

**Consolidated Financial Statements
For the Period ended 31 December 2011**

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ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

ABN 72 066 908 530

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Advanced Energy Systems Limited ("AES") and its controlled entities, at the end of or during, the period ended 31 December 2011.

Directors

The following persons were directors of AES during the period and up to the date of this report unless otherwise stated.

Executive Directors

| Name | Position | Appointed | Ceased to be a director |
|-------------------|--------------------------------------|------------|-------------------------|
| Chenghui Xu | Chairman and Chief Executive officer | 17/08/2007 | |
| Gabriel Ehrenfeld | Vice Chairman and Managing Director | 17/08/2007 | 14/09/2012 |

Non-Executive Directors

| Name | Position | Appointed | Ceased to be a director |
|---------------|----------|------------|-------------------------|
| Chunying Leng | Director | 24/12/2010 | |
| Chuanlong Mu | Director | 21/09/2012 | |

Operating Results

The consolidated profit of the entity after providing for income tax amounted to \$(96,700).

Dividends

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

Review of Operations

The Company is continuing with the development of its current projects.

FUSHAN PROJECT (Aocheng Gardens)

Underground excavation work and the water extraction process from the site has now been completed and the next step is the construction of foundations. During the next two quarters, the buildings will be at a stage sufficient to facilitate the commencement of pre-sales.

ADELAIDE PROJECT (Gouger Street)

The proposal for the Adelaide Gouger Street Project has been amended, and the current plan is to build the complex up to 14 levels high. As this is over the height restrictions in that area it will require approvals beyond the limited power of both the Adelaide City Council and Development Assessment Commission. As such, the project needs to be subjected to the major project process and will require ministerial approval. The company's chairman, Mr. Xu met with the Planning Minister the Hon Paul Holloway in January 2011 regarding the Gouger Street Project.

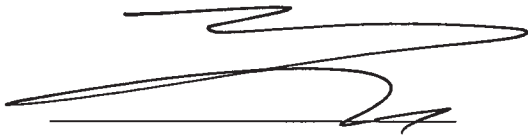
ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

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Auditor's Independence Declaration

A copy of the independence declaration by lead auditor under section 307C is included on page 13 to these period financial statements.

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



Ms Chunying Leng

Director

Date: 26th August 2015

ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

ABN 72 066 908 530

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2011**

| | Note | 31-Dec-11 \$ | 31-Dec-10 \$ |
|---|------|-----------------|------------------|
| Revenue | | 26,504 | 3,259 |
| Accounting & audit fee | | (15,442) | (13,160) |
| Depreciation | | (94) | (145) |
| Listing and share registry fees | | (32,076) | (34,061) |
| Management fees | | (60,274) | (30,000) |
| Other expenses | | (15,318) | (3,025) |
| Profit before income tax | | <u>(96,700)</u> | <u>(77,132)</u> |
| Income tax expense | | <u>-</u> | <u>-</u> |
| Profit after income tax | | (96,700) | (77,132) |
| Other comprehensive income | | | |
| Movement in foreign currency translation reserve | | <u>169,997</u> | <u>(448,527)</u> |
| Total comprehensive income for the period | | <u>73,297</u> | <u>(525,659)</u> |
| Basic profit/(loss) per share (cents per share) | | (0.021) | (0.017) |
| Diluted profit/(loss) per share (cents per share) | | (0.021) | (0.017) |

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

ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

| | Note | 31-Dec-11 \$ | 30-Jun-11 \$ |
|--------------------------------------|------|------------------|------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 13,328 | 378,838 |
| Trade and other receivables | | 84,201 | 51,937 |
| Total current assets | | <u>97,529</u> | <u>430,775</u> |
| Non-Current Assets | | | |
| Available for sale - Tangcheng | 7 | 455,000 | 455,000 |
| Available for sale - Aocheng Gardens | 8 | 3,057,052 | 2,889,070 |
| Property, plant and equipment | | 555 | 647 |
| Total non-current assets | | <u>3,512,607</u> | <u>3,344,717</u> |
| Total Assets | | <u>3,610,136</u> | <u>3,775,492</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 9 | 300,813 | 539,466 |
| Total current liabilities | | <u>300,813</u> | <u>539,466</u> |
| Total Liabilities | | <u>300,813</u> | <u>539,466</u> |
| Net Assets | | <u>3,309,323</u> | <u>3,236,026</u> |
| EQUITY | | | |
| Issued capital | | 18,083,940 | 18,083,940 |
| Reserves | | 40,906 | (129,091) |
| Accumulated (losses) | | (14,815,523) | (14,718,823) |
| Total Equity | | <u>3,309,323</u> | <u>3,236,026</u> |

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

ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

ABN 72 066 908 530

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2011

| | Share Capital Ordinary \$ | Accumulated Losses \$ | Foreign Currency Translation Reserve \$ | Total \$ |
|--|---------------------------------|-----------------------------|---|-------------|
| Balance as at 1 July 2010 | 18,083,940 | (14,566,858) | 332,893 | 3,849,975 |
| Loss for the period | - | (77,132) | - | (77,132) |
| Movement in foreign currency translation reserve | - | - | (448,527) | (448,527) |
| Total comprehensive income for the period | - | (77,132) | (448,527) | (525,659) |
| Balance as at 31 December 2010 | 18,083,940 | (14,643,990) | (115,634) | 3,324,316 |
| | Share Capital Ordinary \$ | Accumulated Losses \$ | Foreign Currency Translation Reserve \$ | Total \$ |
| Balance as at 1 July 2011 | 18,083,940 | (14,718,823) | (129,091) | 3,236,026 |
| Profit for the period | - | (96,700) | - | (96,700) |
| Movement in foreign currency translation reserve | - | - | 169,997 | 169,997 |
| Total comprehensive income for the period | - | (96,700) | 169,997 | 73,297 |
| Balance as at 31 December 2011 | 18,083,940 | (14,815,523) | 40,906 | 3,309,323 |

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

ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

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**CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2011**

| | Note | 31-Dec-11 \$ | Consolidated 31-Dec-10 \$ |
|--|------|------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | - | - |
| GST refund received | | 1,173 | 93,995 |
| Payments to suppliers and employees | | (2,439) | (87,466) |
| Interest received | | - | 238 |
| Net cash provided by/(used in) operating activities | | <u>(1,266)</u> | <u>6,767</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payment to Yantai Yuancheng Material Co. Ltd | | (364,975) | - |
| Net cash (used in) investing activities | | <u>(364,975)</u> | <u>-</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | - | 25,000 |
| Net cash provided by financing activities | | <u>-</u> | <u>25,000</u> |
| Net increase/(decrease) in cash held | | (366,241) | 31,767 |
| 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 | | 731 | (1,528) |
| Net cash at end of period | | <u>13,328</u> | <u>46,003</u> |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2011**

1. BASIS OF PREPARATION OF PERIOD FINANCIAL STATEMENTS

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2. KEY ACCOUNTING JUDGEMENTS

The 'Aocheng Gardens' project has been recorded as an Available for Sale Asset in accordance with AASB 139 (refer note 8). The transaction has been accounted for as an investment by AES in the development entity.

3. 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 \$13,328 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 Non-Executive Director who has provide a loan to the company has agreed not to call for repayment of the loan until the company has sufficient funds to meet its other obligations and excess funds to repay the loan without prejudicing other creditors. The Majority Shareholder has also provided a letter of support to continue funding the company's ongoing operations while the projects remain in development phase.

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.

4. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

There have been no subsequent events to the date of these financial statements.

5. CONTINGENT LIABILITIES

There have been no changes in contingent liabilities since the end of the previous annual reporting period, 30 June 2011.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2011**

6. SEGMENT INFORMATION

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.

7. AVAILABLE FOR SALE - TANGCHENG

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 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.

8. AVAILABLE FOR SALE - AOCHENG GARDENS

| | 31-Dec-2011 | 30-Jun-2011 |
|---------------------------|-------------|-------------|
| Opening balance | 2,889,070 | 3,404,155 |
| Foreign exchange movement | 167,982 | (515,085) |
| Closing balance | 3,057,052 | 2,889,070 |

In the 2009 financial year the Company entered into an agreement with Yantai Baocheng Real Estate Company ("Baocheng") to provide funds for the purchase of Land to be used in the Fushan Land Development Project.

As announced on the ASX on the 26th of November 2008 pursuant to provisions within legal agreements entered into AES exercised their right to assume control over the Fushan Project and ultimately the land, however, the concept of control has been taken into detailed consideration in light of actual events leading up to and including an agreement entered into on the 20th of January 2013, which in the opinion of management indicated that the consolidated group did not control the residential land development in the Fushan District in Yantai, Shandong Province, China. Accordingly, management has determined that the consolidated group record its investment in the project as an available for sale asset under AASB 139.

On the 20th of January 2013 AES entered into an additional agreement, a "investment cooperation agreement" with Shan Dong Dalong Investment Consulting Ltd and Yantai Huiyi Investment Ltd, whereby the Group's interest in the project was confirmed at 12.05%. Going forward the project will be operated via the establishment of a project investment entity "Yantai Baocheng Development Ltd" of which AES holds 12.05% and is reported as an Available for Sale Asset.

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 AND CONTROLLED ENTITIES

ABN 72 066 908 530

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2011

9. TRADE AND OTHER PAYABLES

| | 31-Dec-2011 | 30-Jun-2011 |
|-----------------|-------------|-------------|
| Trade creditors | 300,813 | 539,466 |
| | <hr/> | <hr/> |
| | 300,813 | 539,466 |

10. SEASONALITY AND IRREGULAR TRENDS

No seasonal or irregular trends were noted during the review period.

ADVANCED ENERGY SYSTEMS LIMITED AND CONTROLLED ENTITIES

ABN 72 066 908 530

DIRECTORS' DECLARATION
FOR THE PERIOD ENDED 31 December 2011

The directors of the Company declare that:

1. The consolidated financial statements and notes set out on pages 5-11 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 31 December 2011 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:



Ms Chunying Leng

Director

Date: 26th August 2015

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67 Greenhill Rd
Wayville SA 5034

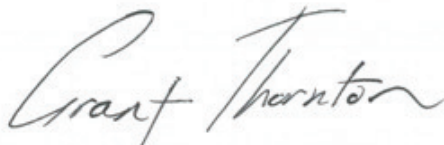
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**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ADVANCED ENERGY SYSTEMS LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Advanced Energy Systems Limited for the half-year ended 31 December 2011, 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 review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



I S Kemp
Partner – Audit & Assurance

Adelaide, 26 August 2015

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ADVANCED ENERGY SYSTEMS LIMITED

We have reviewed the accompanying half-year financial report of Advanced Energy Systems Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Advanced Energy Systems Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Advanced Energy Systems Limited consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Advanced Energy Systems Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Energy Systems Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of Matter: Available for Sale Investments

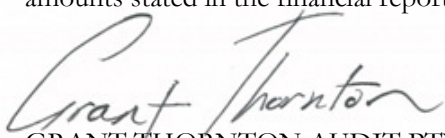
Without qualification to the conclusion expressed above, we draw attention to Notes 7 and 8 in the financial report which discloses the consolidated entity's available for sale asset for \$455,000 pertaining to the consolidated entity's investment in Tancheng Group Pty Limited related to a proposed development in Gouger Street, Adelaide and \$3,057,052 pertaining to the consolidated entity's investment in the 'Aocheng Gardens' project in Yantai, China. The recoverability of these investments is contingent upon the successful completion of the projects and as the holder of 7% and 12.05% equity in the projects respectively, the consolidated entity is not in a position to influence the outcome and determine the timeline for completion of the projects.

If the projects are not completed there will be a material uncertainty about the consolidated entity's ability to realise these assets at their or above their recorded values.

Emphasis of Matter: Material Uncertainty regarding Going Concern

Without qualification to the conclusion expressed above, we draw attention to Note 3 in the financial report which indicates that the consolidated entity has \$13,328 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.

These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



I S Kemp
Partner – Audit & Assurance

Adelaide, 26 August 2015