AuMake International Limited

Annual Report
30 June 2019

Contents

2019 AuMake International Limited Annual Report

Company information

AuMake International Limited (AuMake) is an Australian multi-channel brand building platform for the Chinese market.

ACN
ACN 150 110 017

Directors
Keong Chan (Executive Chairman)
Jiahua (Joshua) Zhou (Managing Director)
Gang Xu (Non-Executive Director)
Quentin Flannery (Non-Executive Director)
Lingye (Lyn) Zheng (Non-Executive Director)

Company secretary
Peter Zhao

Registered office
42 Percy Street, Auburn NSW 2144

Principal place of business
42 Percy Street, Auburn NSW 2144

Share register
Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace, Perth WA 6000
Telephone: +61 (08) 9323 2000

Auditor
RSM Australia Partners
Level 32 Exchange Tower, 2 The Esplanade,
Perth WA 6000

Solicitors
Steinepreis Paganin Lawyers and Consultants
Level 4, 16 Milligan Street, Perth WA 6000

Stock exchange listing
AuMake International Limited shares are listed on the Australian Securities Exchange (ASX code: AU8)

Website
aumake.com.au

AuMake International Limited

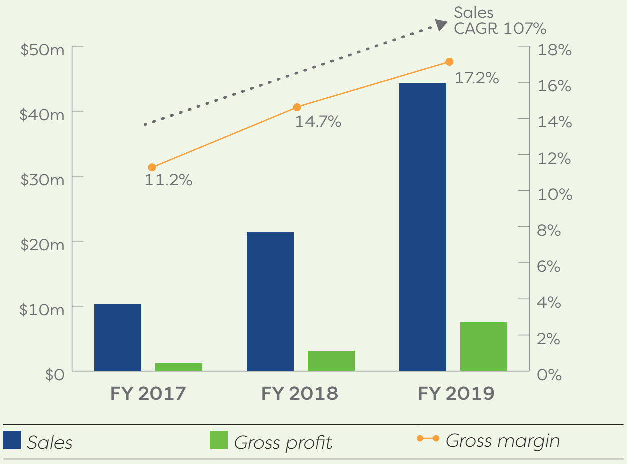
Financial highlights

Sales, gross profit and margin

Significant year on year (YoY) growth in sales, gross profit and margin

Total sales were up 107% YoY to $44.3 million with 107% compound annual growth (CAGR) from FY17.

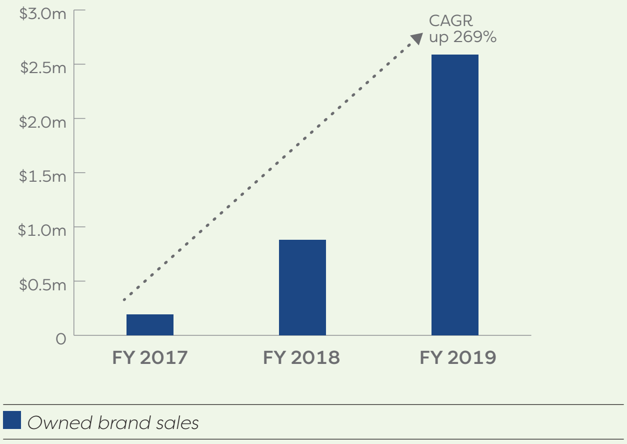
Gross profit increased by 143% YoY to $7.6 million with gross margin of 17.2%, up from 14.7% in FY18.



Owned brand product sales

Strong owned brand product sales

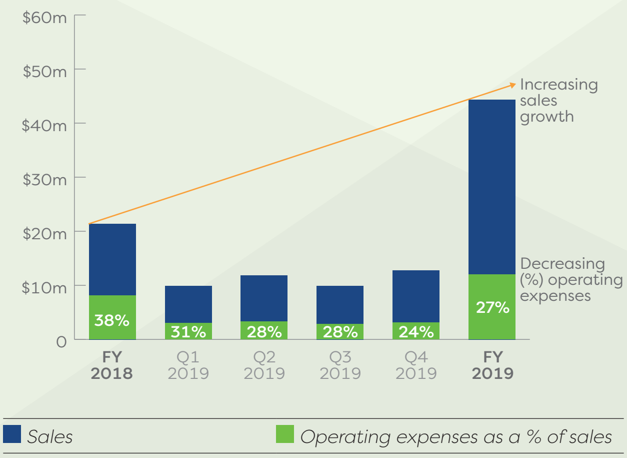
Significant consistent growth of owned brand products, with a CAGR of 269% from FY17, demonstrates AuMake's ability to promote and sell new high margin brands.



Operating expenses

Normalised operating expenses as a percentage of sales

Decreasing normalised operating expenses as a percentage of sales indicates a trend towards profitability.



2019 financial year overview

During FY19 AuMake continued to invest in the business, setting the foundation for new brand growth and material positive earnings for FY20.

Proforma profit and loss statement

	FY 2019	FY 2018
Income Statement as per Financials:	**$000'**	**$000'**
Revenue	44,347	21,383
Cost of sales	(36,720)	(18,240)
Gross profit	7,627	3,143
Gross margin	17.2%	14.7%
Other income	165	187
Administrative expenses	(1,130)	(2,062)
Employee benefits expense	(7,340)	(3,797)
Rent and outgoings expenses	(2,305)	(1,163)
Marketing expenses	(1,173)	(967)
Travel and accommodation expenses	(241)	(197)
Total operating costs	(12,190)	(8,186)
Operating costs to sales %	27%	38%
Normalised EBITDA	(4,397)	(4,856)
One off expenses and non cash expense	(3,346)	(6,360)
Loss before income tax expenses	(7,743)	(11,216)
Income tax	(14)	(16)
Loss after income tax expense for the year	(7,757)	(11,232)
Exchange difference on translation of foreign operations	(287)	110
Statutory NPAT	(8,044)	(11,122)

Sales and gross profit up by 107% and 139% compared to FY18

Gross margin up by 2.5% demonstrating capability to promote new brands and products

Operating costs as a percentage of sales decreased from 38% in FY18 to 27% of sales in FY19, indicating sales growth outpacing operating expenses with a view towards profitability

FY19 EBITDA broadly consistent with FY18 reflecting increased investment in people and marketing, setting the foundation for material financial growth in FY20

Non-recurring project related expenses and non-cash expenses such as depreciation and management equity incentives

Chairman's message

Dear Shareholders,

The 2019 Financial Year (FY19) has been a period of significant growth and dynamic change for the Company; and we have made very strong progress towards our goal of becoming a highly profitable, high growth, Australian multi-channel brand building platform for the Chinese market.

We reach and service our customers in China through a number of integrated channels, both offline and online, with the main focus of connecting Australian and New Zealand (ANZ) brands with the lucrative Chinese market. This includes AuMake's owned brand products, as well as high margin, new, innovative or unknown ANZ brands that we can incubate and build the profile of within our customer base.

Driving momentum across all metrics

FY19 was an important year in the Company's evolution, highlighted by the acquisition of Broadway, a Chinese tourist focused business with over 20 years' experience and in forming an exclusive strategic partnership with JD Worldwide, one of China's largest e-commerce platforms.

Broadway is an important addition to our business in a number of ways. Its eight stores in key locations along Australia's eastern seaboard and New Zealand ensures that AuMake is now represented in all strategically relevant locations. Broadway's incredible existing relationships with Chinese travel agencies and in turn Chinese tour groups, presents us with an amazing opportunity to broaden the reach of AuMake owned brand and high margin, low profile ANZ products. And we will realise Broadway's untapped potential for repeat customer purchasing by introducing online capability into Broadway stores.

Our partnership with JD Worldwide allows us to leverage JD's online and logistics capability in China, with AuMake's retail store capability in ANZ providing a seamless channel for us to raise the profile of our owned brands and high margin ANZ brands with Chinese consumers.

Increasing new customers and transaction conversion is a priority and we employed a number of tactics to drive both, particularly in the last quarter of the year. Tactics included increasing the supply of popular products (infant formula and health supplements) which resulted in a significant uplift in total sales, owned brand sales and gross profit, while also driving online traffic.

Significantly growing the percentage of online sales as a percent of overall sales is a key strategic focus for the Company, with products sold online leveraging net profitability by up to three times in comparison to offline sales. This is a result of efficiencies stemming from online product orders being picked, packed and dispatched directly from the AuMake distribution centre. The migration of offline sales to the online platform also allows for sales growth and the promotion of new brands to a wider audience, beyond the borders of traditional offline stores.

“We have made very strong progress towards our goal of becoming a highly profitable, high growth, Australian multi-channel brand building platform for the Chinese market.”

AuMake primarily uses WeChat and web-based channels as integrated components of its online platform. The Company has been trialling and assessing new technologies (including social ecommerce technology) during the last quarter of the financial year to improve customer experience and drive greater brand awareness and repeat sales.

Outlook

AuMake's evolution in FY19 has set the path for another significant period of growth for the Company in FY20, as we continue to increase our share of the daigou market, which continues to rationalise and consolidate. We anticipate significant growth from the Broadway acquisition with substantial benefits to be gained from expanding Broadway's product mix (including AuMake's owned brands), providing online services to allow for repeat purchases and increasing the number of tour groups that visit the Broadway and AuMake offline stores.

The acquisition of Broadway exemplifies one of AuMake's key strengths in the industry, which is our ability to identify brand building businesses and to capitalise on their growth potential by providing access to our operational resources and growing brand equity. We will continue to look for further acquisition opportunities where they make sense for our business, are aligned to our core competencies and add shareholder value.

Our team is continuing to work with JD Worldwide to further expand AuMake's reach on the JD platform and build on the existing strong growth. New initiatives planned over the company year will further leverage the incredible opportunity for AuMake and our suppliers to take advantage of JD.com's substantial resources, which would otherwise be unavailable to individual suppliers, to mutually incubate and build brands with a view towards significant volume and profitability.

The initiatives delivered in FY19 have accelerated financial momentum across all metrics and we expect a materially positive EBITDA for FY20.

As a board we are very proud of the significant progress we have made and look forward to delivering increased value for all our stakeholders now and into the future.

On behalf of the board and management, I thank shareholders, customers and all our staff for their continued support and trust in the Company.

Keong Chan,
Executive Chairman

AuMake's brand building platform

Asian markets

AuMake platform

Primary customers: Daigou and Chinese tourists

Products delivered via parcels and bonded warehouses

Bricks and mortar stores

AuMake[1]
16 Australia, 1 New Zealand
(50% Daigou and
50% Chinese Tourists)

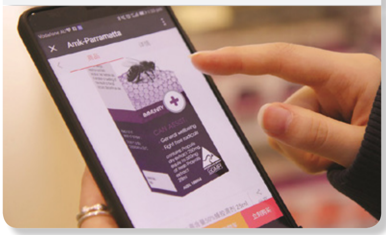
Broadway
6 Australia, 2 New Zealand
(100% Chinese Tourists)

Online

30% of total sales and growing[2]

EBITDA % of online sales 3x bricks and mortar stores

Grows sales without the need for physical infrastructure



China Partners

Exclusive strategic partnership with JD.com

300 million active user database

1000+ Australian and New Zealand Brands

1. Existing and planned
2. As at year end 30 June 2019

Year in review 2018 – 2019

"Significant progress was made during the year towards our goal of becoming a highly profitable, high growth, Australian multi-channel brand building platform for the Chinese market."

Executive Chairman, Keong Chan

Owned brands continue to be a priority

Providing high margins for the Company and differentiated products for customers.

AuMake acquired a 50% interest in Herbsmart during the year, including all brands and associated trademarks, with an option to acquire a further 40%.

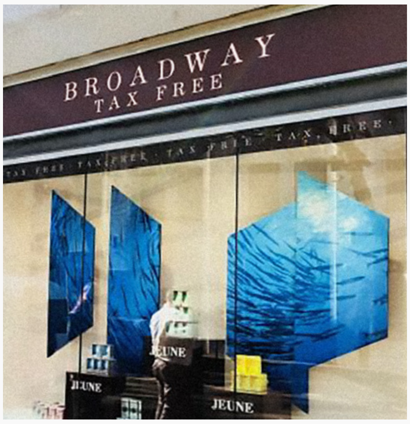
Herbsmart will develop innovative products for China's ageing population, which combine the health benefits of natural supplements and milk.

An integrated multi-channel approach

Connecting Chinese consumers to Australian and New Zealand brands is the foundation of AuMake's platform.

In December, AuMake forged a relationship with JD Worldwide as the exclusive retailer partner for Australia and New Zealand (ANZ).

Leveraging JD's online and logistics capability in China, with AuMake's retail store capability in ANZ, provides a seamless channel for ANZ brands to develop and mature their profile with Chinese consumers.



Strategically located store footprint

High traffic Australian and New Zealand store locations for daigou and Chinese tourists complements the multi-channel brand building connection to mainland China.

The acquisition in April of tourist focused retailer Broadway, provides AuMake suppliers with a unique opportunity to promote their products to the lucrative Chinese market via Chinese tourists visiting the region in tour groups.

The addition of Broadway has expanded the Company's footprint beyond Sydney to include stores in key locations in Queensland, Victoria and New Zealand.

Board of directors

AuMake's board was formally appointed on 29 September 2017

Keong Chan

Executive Chairman

Bachelor of Commerce and Master of International Customs Law and Administration

Mr Chan spent his early career working with PwC Australia and Deloitte in Canberra, Sydney and Perth and has significant corporate experience in capital raisings, initial public offerings, mergers and acquisitions, and takeovers and divestments.

Mr Chan has also been a director on the boards of a number of ASX listed companies and has accumulated a vast network of relationships across a number of industries, bringing these connections and his expertise to his role as Executive Chairman of AuMake.

Jiahua (Joshua) Zhou

Managing Director

Bachelor of Management and Master of International Business

Mr Zhou is the co-founder of AuMake Australia. Prior to establishing the business, Mr Zhou worked in the Australian tourism industry for 10 years in roles which included the coordination of business and government delegations from China. His retail business acumen was honed working in duty free retail and sales management. This direct experience with both Chinese and Australian culture has provided Mr Zhou with a sound understanding of how to maximise the opportunities for Australian/Chinese retailing, which he now brings to AuMake.

Ms Lingye (Lyn) Zheng

Non-Executive Director

Ms Zheng is the co-founder of AuMake Australia. She has over 10 years of retail experience, particularly in the areas of product design, development and procurement, quality assurance and retail price modelling. Prior to coming to Australia, Ms Zheng studied and worked in Spain, Germany and Austria for 20 years. Ms Zheng's retail experience and knowledge of the Australian daigou and broader consumer markets in China is invaluable in her roles as AuMake Purchasing Manager and on the board as Non-Executive Director.

Quentin Flannery

Non-Executive Director

Bachelor of International Business with a minor in Mandarin

Mr Flannery brings a wealth of commercial and Chinese marketing experience to his position at AuMake, having worked for more than 10 years exporting into Asia in his previous role at a large Australian based, Chinese owned coal mining company and from his current position as a Director of the Flannery family business. In his role, Mr Flannery is involved in a wide range of companies across a number of industries including energy production, emerging and mature technologies, commercial and residential property development and resources.

Gang Xu

Non-Executive Director

Bachelor of Science, Master of Business Administration and Master of Science Engineering

Mr Xu has more than 20 years of senior management experience in Australian ASX listed companies in both executive and Non-Executive Director roles, including KTL Technologies Limited, UraniamSA Ltd and Hylea Metals Limited. Mr Xu is also co-founder of ITM Corporation Limited. He has previously served as Finance and Marketing Manager for Sino Gold Limited and was Marketing Manager for LG Household Chemicals in Beijing, marketing FMCGs in China. Mr Xu brings this valuable experience and familiarity with the dynamic cross-border business environment between Australia and China.

Directors' report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of AuMake International Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of AuMake International Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Keong Chan
Jiahua (Joshua) Zhou
Gang Xu
Quentin Flannery
Lingye (Lyn) Zheng

Principal activities

During the financial year the principal activities of the consolidated entity was sale of Australian products via its online e-commerce store and retail stores located in Sydney, New South Wales.

Dividends

The consolidated entity has not declared any dividend during the period.

Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $7,757,237 (30 June 2018: $11,232,861).

Note: All currency is Australian dollars unless otherwise stated

Significant changes in the state of affairs

On 17 April 2019, Aumake International Limited executed a binding agreement to acquire 100% of the business assets of affiliated inbound Chinese tourist retail network ("Broadway") for a total consideration of $14.2 million. The Company completed a heavily oversubscribed placement to Institutional and Sophisticated Investors to raise $7 million to fund the acquisition and provide additional working capital.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 23 July 2019, AuMake International Limited completed the acquisition of the Broadway business. As detailed in the acquisition announcement on 17 April 2019, AuMake issued 17.2m ordinary shares at $0.151 per share (voluntary escrowed for two years) and paid $2.8 million in cash, as the first tranche of consideration for the Broadway business.

Likely developments and expected results of operations

The parent entity will increase its market share in a daigou market that continues to rationalise and consolidate. The company anticipates significant growth from the Broadway acquisition with substantial benefits to be gained from expanding Broadway's product mix (including AuMake's owned brands), providing online services to allow for repeat purchases and increasing the number of tour groups that visit the Broadway and AuMake offline stores.

The acquisition of Broadway exemplifies one of AuMake's key strengths in the industry, which is our ability to identify brand building businesses and to capitalise on their growth potential by providing access to our operational resources and growing brand equity. We will continue to look for further acquisition opportunities where it makes sense for our business, is aligned to our core competencies and adds shareholder value.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	**Keong Chan (Appointed on 29 September 2017)**
Title:	Executive Chairman
Qualifications:	Bachelor of Commerce and Master of International Customs Law and Administration
Experience and expertise:	Mr. Chan has provided advice to a number of companies on corporate matters in relation to capital raisings, initial public offerings, back door listings, mergers and acquisitions, takeovers/divestments and has sat on or acted as an advisor to a number of ASX listed boards.
Other current directorships:	Non-Executive Chairman of Superior Lake Resources Limited
Former directorships (last 3 years):	Non-Executive director of Hylea Metals Ltd
Special responsibilities:	Member of the Audit and Risk Committee
Interests in shares:	12,316,709 ordinary shares
Interests in options:	None
Contractual rights to shares:	12,500,000 performance shares

Name:	**Jiahua (Joshua) Zhou (Appointed 29 September 2017)**
Title:	Managing Director
Qualifications:	Bachelor of Management and Master of International Business
Experience and expertise:	Mr Zhou is the co-founder of AuMake Australia. Mr Zhou has worked in the Australian tourism industry for over 10 years in roles which have included the coordination of business and government delegations from China. From this experience, Mr Zhou has worked with a range of Chinese visitors which has given him a deep understanding of how Chinese and Australian cultures combine. From working with formal duty free stores in Sydney Australia, Mr Zhou has gained extensive Australian retail sales and management experience which has helped him understand how to successfully run retail stores and sell Australian products to both local and visiting Chinese customers.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	40,410,339 ordinary shares
Interests in options:	None
Contractual rights to shares:	21,250,000 performance shares

Name:	Gang Xu (Appointed 29 September 2017)
Title:	Non-Executive Director
Qualifications:	Bachelor of Science, Masters of Business Administration and Master of Science Engineering
Experience and expertise:	Mr Xu is one of the founders of ITM Corporation Ltd. Mr Xu has more than 25 years in senior management experience serving Australian public and ASX listed companies in both Executive Director and Non-Executive Director capacities for companies including KTL Technologies Limited, UraniumSA Ltd and Riva Resources Limited. Mr Xu is particularly familiar with the dynamic cross-border business environment between Australia and China. Mr Xu served as the Finance and Marketing Manager for Sino Gold Limited and was Marketing Manager for LG Household Chemicals Beijing, marketing fast moving consumer goods in China.
Other current directorships:	Non-Executive Director of Dynasty Resources Limited
Former directorships (last 3 years):	Non-Executive Director of Hylea Metals Limited and RMA Energy Limited
Special responsibilities:	None
Interests in shares:	17,169,490 ordinary shares
Interests in options:	None
Contractual rights to shares:	12,500,000 performance shares

Name:	Quentin Flannery (Appointed 29 September 2017)
Title:	Non-Executive Director
Qualifications:	Bachelor of International Business with a minor in Mandarin
Experience and expertise:	Mr Flannery is currently working as a Director in his family office which is involved in a range of different industries. Those industries include energy production, emerging and mature technology companies, commercial and residential property development and resources. Mr Flannery has more than 10 years' experience working with exports into Asia having previously worked in the marketing department of a large Australian based, Chinese owned coal mining company. As Marketing Manager, he was responsible for the thermal coal sales and marketing for the company into Asia.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Committee
Interests in shares:	16,623,333 ordinary shares
Interests in options:	5,000,000 options
Contractual rights to shares:	None

Name:	**Lingye (Lyn) Zheng (Appointed 29 September 2017)**
Title:	Non-Executive Director
Qualifications:	None
Experience and expertise:	Lyn Zheng is a co-founder of AuMake Australia. Ms Zheng is responsible for product selection and procurement across all stores. With over 10 years of practical retail procurement experience in the local daigou market and broader consumer market in China, she has a proven record in the areas of brand and product design and development, product pricing and quality assurance.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

'Other current directorships' and 'former directorships (last 3 years)' are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Remuneration report (audited)

Company secretary

Mr Peter Zhao was appointed as the company secretary on 29 September 2017. Peter is a member of CPA Australia and has comprehensive experience in Australian reporting requirements especially AASB Accounting, current auditing and tax legislation and *Corporations Act 2001*, ASIC and ASX listing rules.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full board		Audit and Risk Committee	
	Attended	**Held**	**Attended**	**Held**
Keong Chan	7	7	1	1
Jiahua (Joshua) Zhou	7	7	–	1
Gang Xu	7	7	–	1
Quentin Flannery	7	7	1	1
Lingye (Lyn) Zheng	7	7	–	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The maximum aggregate remuneration payable to non-executive directors currently stands at $300,000 per annum.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board of Directors based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of AuMake International Limited:

- Keong Chan (Executive Chairman)
- Jiahua (Joshua) Zhou (Managing Director)
- Gang Xu (Non-Executive Director)
- Quentin Flannery (Non-Executive Director)
- Lingye (Lyn) Zheng (Non-Executive Director)

2019	Short-term benefits		Post-employment benefits	Share-based payments		
	Cash salary and fees* $	Other $	Superannuation $	Equity-settled options $	Total $	Fixed remuneration %
Non-Executive Directors:						
Gang Xu	48,000	–	–	–	48,000	100
Quentin Flannery	48,000	–	–	–	48,000	100
Lingye Zheng	145,628	–	9,275	–	154,903	100
Executive Directors:						
Keong Chan	241,154	–	20,900	–	262,054	100
Jiahua Zhou	274,038	–	23,750	–	297,788	100
	756,820	**–**	**53,925**	**–**	**810,745**	

** Cash salary and fees includes fees paid or due to be paid and movement in annual leave entitlements for the period.*

2018	Short-term benefits		Post-employment benefits	Share-based payments		
	Cash salary and fees* $	Other ** $	Superannuation $	Equity-settled options $	Total $	Fixed remuneration %
Non-Executive Directors:						
Gang Xu	93,000	–	–	–	93,000	100
Quentin Flannery[1]	32,000	–	–	–	32,000	100
Lingye Zheng	32,000	–	–	–	32,000	100
Executive Directors:						
Keong Chan	160,139	–	12,508	–	172,647	100
Jiahua Zhou	178,681	24,363	13,696	–	216,740	100
	495,820	**24,363**	**26,204**	**–**	**546,387**	

** Cash salary and fees includes fees paid or due to be paid and movement in annual leave entitlements for the period.*

*** This includes non-cash monetary benefits for the motor vehicle under finance lease and the running costs of the motor vehicle.*

1 Mr Quentin Flannery also received 5,000,000 options with a total fair value of $246,816 during the period he was a director, however these were not in consideration for his role as a Director.

There were no long-term incentives ('LTI') and short-term incentives ("STI") paid to the directors during the year ended 30 June 2019 (30 June 2018: Nil).

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	**Keong Chan**
Title:	Executive Chairman
Agreement commenced:	29 September 2017
Term of agreement:	Permanent without specific term.
Details:	Base salary of $220,000 per year plus superannuation of 9.5%. Payment of termination benefit on termination by employer, other than for gross misconduct, is equal to three (3) months base salary and superannuation.

Name:	**Jiahua (Joshua) Zhou**
Title:	Managing Director
Agreement commenced:	29 September 2017
Term of agreement:	Permanent without specific term.
Details:	Base salary of $250,000 per year plus superannuation of 9.5%. Payment of termination benefit on termination by employer, other than for gross misconduct, is equal to three (3) months base salary and superannuation.

Name:	**Gang Xu**
Title:	Non-Executive Director
Agreement commenced:	29 September 2017
Term of agreement:	Permanent without specific term.
Details:	Base fee of $48,000 per year.

Name:	**Quentin Flannery**
Title:	Non-Executive Director
Agreement commenced:	29 September 2017
Term of agreement:	Permanent without specific term.
Details:	Base fee of $48,000 per year.

Name:	**Lingye (Lyn) Zheng**
Title:	Non-Executive Director
Agreement commenced:	29 September 2017
Term of agreement:	Permanent without specific term.
Details:	Base fee of $48,000 per year.

Share-based compensation

There were no shares, options or performance rights issued to the key management personnel as part of their compensation during the year ended 30 June 2019 (30 June 2018: Nil).

Additional information

The losses of the consolidated entity for the three years to 30 June 2019 are summarised below:

	2019	2018	2017(*)
Sales revenue	44,346,500	21,382,822	1,194,452
EBITDA	(7,165,415)	(11,058,686)	(862,156)
EBIT	(7,743,317)	(11,216,760)	(862,156)
Loss after income tax	(7,757,237)	(11,232,861)	(862,156)

(*) 30 June 2017 financial information is that of ITM Corporation Limited as a result of the reverse acquisition accounting. The three years prior to 30 June 2017 are deemed not to be relevant for comparison as the reverse acquisition occurred during the year ended 30 June 2018 and therefore the consolidated entity was engaged in a different business prior to this.

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2019	2018	2017(*)
Share price at financial year end ($)	0.14	0.23	N/A
Total dividends declared (cents per share)	Nil	Nil	Nil
Basic earnings per share (cents per share)	(2.79)	(5.81)	(1.81)

(*) 30 June 2017 financial information is that of ITM Corporation Limited as a result of the reverse acquisition accounting. The three years prior to 30 June 2017 are deemed not to be relevant for comparison as the reverse acquisition occurred during the year ended 30 June 2018 and therefore the consolidated entity was engaged in a different business prior to this.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Additions*	Disposals/ other	Balance at the end of the year
Ordinary shares				
Keong Chan	12,316,709	–	–	12,316,709
Jiahua (Joshua) Zhou	40,410,339	–	–	40,410,339
Gang Xu	17,177,572	–	(8,082)	17,169,490
Quentin Flannery	10,833,333	5,790,000	–	16,623,333
Lingye (Lyn) Zheng	–	–	–	–
	80,737,953	5,790,000	(8,082)	86,519,871

** 5,470,500 shares are associated shares related to the 2018 financial year.*

Option holding

The number of options over ordinary shares in the company held during the financial year by each key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start and end of the year
Options over ordinary shares	
Quentin Flannery	5,000,000
	5,000,000

Performance shares

The number of performance shares in the company held during the financial year by each key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start and end of the year
Ordinary shares	
Keong Chan	12,500,000
Jiahua (Joshua) Zhou	21,250,000
Gang Xu	12,500,000
Quentin Flannery	–
Lingye (Lyn) Zheng	–
	46,250,000

Other transactions with key management personnel and their related parties

i. Transactions with related parties

	2019	2018
Duret Holdings Pty Ltd – related party to Keong Chan	**$**	**$**
Consultants fees	–	(22,000)
Marketing expenses	–	(22,300)
Total paid during the year	–	(44,300)

	2019	2018
Maximus Flannery Pty Ltd – related party to Quentin Flannery	**$**	**$**
Options received (*)	–	246,816
Total during the period	–	246,816

Key management personnel	Number options granted during the year	Grant date	Fair value per Option	Exercise price per option	Expiry date	Number options vested during the year
Quentin Flannery	5,000,000	12 September 2017	$0.049	$0.20	12 September 2022	5,000,000

ii. Loans with key management personnel and their related parties

There were no further transactions with directors including their related parties, not disclosed above or in Note 23.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Voting and comments made at the Company's 2018 Annual General Meeting (AGM)

At the 2018 AGM, 98.48% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of AuMake International Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
12 September 2017	12 September 2022	$0.20	5,000,000
22 January 2018	22 January 2023	$0.20	5,150,000
22 January 2018	22 January 2023	$0.20	2,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Performance shares

50,000,000 Performance Shares, comprising 25,000,000 Class A Performance Shares and 25,000,000 Class B Performance Shares to founding shareholders (including directors mentioned above) of AuMake Subsidiary. The fair value of these performance rights has been included as part of the consideration for the transaction in accordance with the relevant accounting standard.

- **Class A Performance Share:** each Class A Performance Shares will vest into one Share upon AuMake International Limited achieving total sales revenue of $25,000,000 at an average of 13% gross profit margin over a 12 month period based on AuMake International Limited's audited accounts (Class A Milestone); and
- **Class B Performance Share:** each Class B Performance Shares will vest into one Share upon AuMake International Limited achieving total sales revenue of $60,000,000 at an average of 13% gross profit margin over a 12-month period based on AuMake International Limited's audited accounts (Class B Milestone).

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 24 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of RSM Australia Partners

There are no officers of the company who are former partners of RSM Australia Partners.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

Auditor

RSM Australia Partners continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

Keong Chan
Director

30 August 2019
Sydney

Auditor's independence declaration

RSM

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of AuMake International Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 30 August 2018

TUTU PHONG
Partner

Financial statements

General information

The financial statements cover AuMake International Limited as a consolidated entity consisting of AuMake International Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is AuMake International Limited's functional and presentation currency.

AuMake International Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

42 Percy Street
Auburn NSW 2144

Principal place of business

42 Percy Street
Auburn NSW 2144

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019. The directors have the power to amend and reissue the financial statements.

Statement of profit or loss and other comprehensive income for the year ended 30 June 2019

	Note	Consolidated 2019 $	2018 $
Revenue			
Sales revenue	4	44,346,500	21,382,822
Other income	5	165,120	187,382
Expenses			
Cost of sales		(36,720,197)	(18,239,827)
Administrative expenses		(1,179,719)	(2,062,409)
Employee benefits expense		(7,340,456)	(3,797,386)
Rent and outgoings expenses		(2,305,134)	(1,162,915)
Marketing expenses		(1,372,904)	(966,677)
Travel and accommodation expenses		(301,494)	(197,134)
Restructuring/relisting expenses	28	–	(1,595,722)
Share based payment expense (facilitator shares)	18	–	(470,000)
Share based payment expense (options and performance shares)	21	(2,333,884)	(3,127,327)
Depreciation and amortisation	11	(577,902)	(158,074)
Loss on disposal of assets		(1,481)	(26,839)
Impairment of intangible assets		–	(544,461)
Inventory write down		121,766	(438,193)
Loss before income tax expense		(7,743,317)	(11,216,760)
Income tax expense	6	(13,920)	(16,101)
Loss after income tax expense for the year		**(7,757,237)**	**(11,232,861)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	19	(286,725)	110,362
Total comprehensive loss attributable to owners of AuMake International Limited		**(8,043,962)**	**(11,122,499)**
		Cents	**Cents**
Loss per share for loss from continuing operations attributable to the owners of AuMake International Limited			
Basic and dilutive earnings per share	33	(2.79)	(5.81)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position as at 30 June 2019

	Note	Consolidated 2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents	7	10,015,853	10,737,214
Trade and other receivables	8	734,021	539,272
Inventories	9	5,088,130	3,357,612
Other assets	10	281,974	570,952
Total current assets		16,119,978	15,205,050
Non-current assets			
Plant and equipment	11	2,665,492	2,602,639
Intangibles	12	2,373,059	2,073,059
Other assets	13	1,264,237	657,656
Total non-current assets		6,302,788	5,333,354
Total assets		22,422,766	20,538,404
Liabilities			
Current liabilities			
Trade and other payables	14	3,671,720	3,014,496
Borrowings	15	50,229	62,800
Provisions	16	788,552	144,271
Total current liabilities		4,510,501	3,221,567
Non-current liabilities			
Borrowings	17	78,762	127,469
Total non-current liabilities		78,762	127,469
Total liabilities		4,589,263	3,349,036
Net assets		17,833,503	17,189,368
Equity			
Issued capital	18	32,873,815	26,519,602
Reserves	19	5,284,848	3,237,689
Accumulated losses	20	(20,325,160)	(12,567,923)
Total equity		17,833,503	17,189,368

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity for the year ended 30 June 2019

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2017	2,841,777	–	(1,335,062)	1,506,715
Total comprehensive income/(loss) for the year	–	110,362	(11,232,861)	(11,122,499)
Transactions with owners in their capacity as owners:				
Allotment of shares following conversion of convertible notes	2,290,000	–	–	2,290,000
Allotment of shares following conversion of convertible loan	200,000	–	–	200,000
Issue of share for acquisition of subsidiary	1,200,598	–	–	1,200,598
Share-based payments – Facilitator shares	470,000	–	–	470,000
Share issued	20,100,000	–	–	20,100,000
Share issue costs (Note 18)	(582,773)	–	–	(582,773)
Share-based payments – Options and performance shares (Note 21)	–	3,127,327	–	3,127,327
Balance at 30 June 2018	26,519,602	3,237,689	(12,567,923)	17,189,368

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2018	26,519,602	3,237,689	(12,567,923)	17,189,368
Total comprehensive loss for the year	–	(286,725)	(7,757,237)	(8,043,962)
Transactions with owners in their capacity as owners:				
Issue of share for acquisition of subsidiary	6,771,908	–	–	6,771,908
Share issue costs (Note 18)	(417,695)	–	–	(417,695)
Share-based payments – Options and performance shares (Note 21)	–	2,333,884	–	2,333,884
Balance at 30 June 2019	32,873,815	5,284,848	(20,325,160)	17,833,503

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of cash flows
for the year ended 30 June 2019

	Note	Consolidated 2019 $	2018 $
Cash flows related to operating activities			
Receipts from product sales and related debtors		45,588,740	21,540,850
Payments to suppliers and employees		(51,689,625)	(29,643,538)
Other income		22,256	95,270
Interest received		142,864	(92,112)
Income tax paid		(13,920)	(16,101)
Net cash outflow used in operating activities	32	**(5,949,685)**	**(7,331,407)**
Cash flows related to investing activities			
Cash obtained from acquisition of subsidiaries		–	18,979
Payments for plant and equipment	11	(674,221)	(2,416,251)
Secured deposits paid		(606,581)	–
Net cash outflow used in investing activities		**(1,280,802)**	**(2,397,272)**
Cash flows related to financing activities			
Proceeds from issue of shares		7,000,000	20,000,000
Share issue costs		(417,695)	(582,773)
Interest paid		(4,127)	(7,809)
Repayment of the borrowings		(61,278)	(33,975)
Net cash inflow from financing activities		**6,516,900**	**19,375,443**
Net (decrease) increase in cash held		(713,587)	9,646,764
Cash and cash equivalents at the beginning of the financial year		10,737,214	1,129,430
Effects of exchange rate changes on cash and cash equivalents		(7,774)	(38,980)
Cash and cash equivalents at the end of the financial year	7	**10,015,853**	**10,737,214**

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. The impact of adoption of this standard is insignificant to the consolidated entity.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period. The impact of adoption of this standard is insignificant to the consolidated entity.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the 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').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Reverse acquisition accounting

On 4 October 2017, AuMake International Limited (formerly Augend Ltd), the legal parent and legal acquirer, completed the acquisition of ITM Corporation Limited ("AuMake Subsidiary"). The acquisition did not meet the definition of a business combination in accordance with AASB 3 Business Combinations. Instead the acquisition has been treated as a group recapitalisation, using the principles of reverse acquisition accounting in AASB 3 Business Combinations given the substance of the transaction is that AuMake Subsidiary has effectively been recapitalised. Accordingly, the consolidated financial statements have been prepared as if AuMake Subsidiary has acquired AuMake International Limited, not vice versa as represented by the legal position. The recapitalisation is measured at the fair value of the equity instruments that would have been given by AuMake Subsidiary to have exactly the same percentage holding in the new structure at the date of the transaction.

The impact of the group restructure on each of the primary statements is as follows:

Statement of profit or loss and other comprehensive income

- The 30 June 2019 statement of profit or loss and other comprehensive income comprise 12 months of both AuMake Subsidiary and AuMake International Limited.
- The 30 June 2018 statement of profit or loss and other comprehensive income comprise 12 months of AuMake Subsidiary and 268 days of AuMake International Limited.

Statement of financial position

- The statement of financial position as at 30 June 2019 and 30 June 2018 represents both AuMake International Limited and AuMake Subsidiary.

Statement of changes in equity

- The 30 June 2019 comparative statement of changes in equity comprises 12 months of both AuMake International Limited and AuMake Subsidiary.
- The 30 June 2018 statement of changes in equity comprises AuMake Subsidiary's equity balance at 1 July 2017, its loss for the period and transactions with equity holders for the 12 months. It also comprises AuMake International Limited's transactions with equity holders in the past 268 days from the acquisition date and the equity balances of AuMake International Limited and AuMake Subsidiary as at 30 June 2018.

Statement of cash flows

- The 30 June 2019 comparative statement of cash flows comprise 12 months of both AuMake International Limited and AuMake Subsidiary.
- The 30 June 2018 statement of cash flows comprise 12 months of AuMake Subsidiary and 268 days of AuMake International Limited.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 27.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AuMake International Limited ('company' or 'parent entity') as at 30 June 2019 and 30 June 2018 and the results of all subsidiaries for the year then ended. AuMake International Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is 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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is AuMake International Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Interest

Interest revenue is recognised as interest accrues using the effective interest method.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

AuMake International Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime subsequent to 30 June 2018. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a weighted average cost basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at fair value through profit or loss
Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Impairment of investments
The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment (excluding land) over their expected useful lives as follows:

Leasehold improvements	3–10 years
Plant and equipment	3–10 years
Motor vehicle	5–8 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of AuMake International Limited, 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 financial 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.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 and its impact on adoption is expected to result in total assets increasing by $10,387,306 and total liabilities increasing by $10,387,306.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees, directors and external consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Goodwill

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Note 3. Operating segments

The directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the Board in allocating resources and have concluded that at this time there are no separately identifiable segments.

Following the adoption of AASB 8, the identification of the consolidated entity's reportable segments has not changed. During the period, the consolidated entity considers that it has only operated in one segment, being operating a multi-brand, omni-channel retail business.

The consolidated entity is domiciled in Australia. Revenue from external customers is generated from Australia and China. Segment revenues are allocated based on the country in which the customer is located. Assets are located in Australia and China. As the contribution from China are insignificant to the Group, no separate disclosure is necessary.

Note 4. Revenue

	Consolidated	
	2019 $	**2018 $**
Sale of goods	44,346,500	21,382,822

Note 5. Other income

	Consolidated	
	2019 $	**2018 $**
Other income	22,256	95,270
Interest income	142,864	92,112
	165,120	187,382

Note 6. Income tax expense

a) Income tax recognised in profit/loss

No income tax is payable by the Company entities as it recorded a loss for income tax purposes for the year.

b) Numerical reconciliation between income tax expense and the loss before income tax

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated	
	2019 $	**2018 $**
Accounting loss before tax	(7,743,317)	(11,216,760)
Income tax benefit at 27.5% (2018: 27.5%)	(2,129,412)	(3,084,609)
Tax effect of non-allowable items and temporary differences	775,753	1,736,063
Unrecognised tax losses	1,367,579	1,364,647
Income tax expense/(benefit) attributable to loss from ordinary activities	13,920	16,101

c) Unrecognised deferred tax balances

Previous year deferred tax asset	2,316,433	378,169
Tax losses at 27.5% (2018: 27.5%)	1,367,579	1,938,264
Net unrecognised deferred tax asset at 27.5% (2018: 27.5%)	3,684,012	2,316,433

A deferred tax asset attributable to income tax losses has not been recognised at the reporting date as the probability criteria disclosed in Note 1 is not satisfied and such benefit will only be available if the consolidated entity can satisfy the tax loss recoupment test as defined in each taxation jurisdiction.

Note 7. Current assets – cash and cash equivalents

	Consolidated	
	2019 $	**2018 $**
Cash at bank	7,868,775	3,646,072
Term deposits	2,042,766	7,040,621
Cash on hand	104,312	50,521
	10,015,853	10,737,214

The weighted-average interest rate on cash and cash equivalents at 30 June 2019 was 3.3% (2018: 2.5%).

Note 8. Current assets – trade and other receivables

	Consolidated	
	2019 $	**2018 $**
Trade receivables	571,036	325,976
	571,036	325,976
Other receivables	161,775	182,700
Interest receivable	1,210	30,596
	162,985	213,296
	734,021	539,272

All trade receivables are non-interest bearing. Refer to Note 22 for further information on financial instruments.

Allowance for expected credit losses

There is no allowance for expected credit losses recognised as at 30 June 2019.

Note 9. Current assets – inventories

	Consolidated	
	2019 $	**2018 $**
Finished goods	5,339,221	3,569,972
Less: provision for impairment	(251,091)	(212,360)
	5,088,130	3,357,612

Note 10. Current assets – other assets

	Consolidated	
	2019 $	**2018 $**
Prepayments	281,974	570,952

Note 11. Non-current assets – plant and equipment

	Consolidated	
	2019 $	2018 $
Leasehold improvements – at cost	2,445,196	2,106,709
Less: Accumulated depreciation	(457,455)	(73,546)
	1,987,741	2,033,163
Plant and equipment – at cost	580,266	420,728
Less: Accumulated depreciation	(195,454)	(61,150)
	384,812	359,578
Motor vehicles – at cost	292,721	292,721
Less: Accumulated depreciation	(128,121)	(82,823)
	164,600	209,898
Capital work in progress	128,339	–
	2,665,492	2,602,639

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements $	Plant and equipment $	Motor vehicles $	Capital work in progress $	Total $
Balance at 1 July 2017	–	–	118,612	–	118,612
Additions	2,098,751	277,978	103,857	–	2,480,586
Additions through business combinations	6,314	134,689	57,523	–	198,526
Disposals	–	–	(44,111)	–	(44,111)
Depreciation expense	(79,439)	(52,652)	(25,983)	–	(158,074)
Foreign exchange differences	7,537	(437)	–	–	7,100
Balance at 30 June 2018	2,033,163	359,578	209,898	–	2,602,639
Additions	355,802	190,980	–	127,439	674,221
Disposals	(15,306)	(8,138)	–	–	(23,444)
Depreciation expense	(371,507)	(172,751)	(33,644)	–	(577,902)
Foreign exchange differences	(14,411)	15,143	(11,654)	900	(10,022)
Balance at 30 June 2019	1,987,741	384,812	164,600	128,339	2,665,492

Note 12. Non-current assets – intangibles

	Consolidated	
	2019 $	**2018 $**
Goodwill	2,373,059	2,073,059

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	**Goodwill $**
Balance at 1 July 2017	1,901,012
Additions through business combinations	172,047
Balance at 30 June 2018	2,073,059
Additions through business combinations (Note 29)	300,000
Balance at 30 June 2019	2,373,059

Impairment testing

Goodwill acquired through business combinations has been allocated to one cash-generating unit, being the consolidated entity.

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a one-year projection period approved by the Board and extrapolated for a further 4 years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive. The following key assumptions were used in the discounted cash flow model:

a) 12.5% pre-tax discount rate;

b) 10% per annum projected revenue growth rate;

c) Gross margin increased by 1% from the current average; and

d) Employee benefits, operating costs and overheads to increase 1.70% from the current average.

The discount rate of 12.5% pre-tax reflects management's estimate of the time value of money, the consolidated entity's weighted average cost of capital adjusted for the business and the risk-free rate.

Management believes the projected 10% revenue growth rate is conservative and justified, based on the marketing efforts.

There were no other key assumptions.

Sensitivity

As disclosed in Note 1, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The key sensitivity is as follows:

a) Discount rate to increase by 0.20% per year before goodwill would need to be impaired, with all other assumptions remaining constant; or

b) Terminal growth rate to reduce by 0.4% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's recoverable amount to be less than the carrying amount. If there are any significant negative changes in the key assumptions on which the goodwill is based, this may result in an impairment charge for the goodwill.

Note 13. Non-current assets – other assets

	Consolidated	
	2019 $	**2018 $**
Security deposits	1,264,237	657,656

Note 14. Current liabilities – trade and other payables

	Consolidated	
	2019 $	**2018 $**
Trade payables	2,810,330	1,590,620
Other payables	500,000	668,617
Payment in advance	3,408	208,982
Accrued expenses	357,982	546,277
	3,671,720	3,014,496

Refer to Note 22 for further information on financial instruments.

Note 15. Current liabilities – borrowings

	Consolidated	
	2019 $	**2018 $**
Finance lease liability – motor vehicles (*)	50,229	62,800

(*) Refer to Note 17 for further details.

Note 16. Current liabilities – provisions

	Consolidated	
	2019 $	**2018 $**
Employee benefits provision	788,552	144,271

Amounts not expected to be settled within the next 12 months
The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. The consolidated entity expects all employees to take the full amount of accrued leave or require payment within the next 12 months.

Note 17. Non-current liabilities – borrowings

	Consolidated	
	2019 $	**2018 $**
Finance lease liability – motor vehicles	78,762	127,469

The financial lease liability is payable as follows:

30 June 2018	**Future minimum lease payments $**	**Interest $**	**Present value of minimum lease payments $**
Less than one year	67,787	(4,987)	62,800
Between one and five years	131,889	(4,420)	127,469
	199,676	**(9,407)**	**190,269**

30 June 2019	**Future minimum lease payments $**	**Interest $**	**Present value of minimum lease payments $**
Less than one year	53,171	(2,942)	50,229
Between one and five years	80,153	(1,391)	78,762
	133,324	**(4,333)**	**128,991**

The finance lease liability is secured by a charge over the underlying finance leased asset.

Note 18. Equity – issued capital

	Consolidated			
	2019 Shares	**2018 Shares**	**2019 $**	**2018 $**
Ordinary shares – fully paid	312,079,202	270,366,572	32,873,815	26,519,602

Movements in ordinary share capital

Consolidated	**2019 No. of shares**	**$**	**2018 No. of shares**	**$**
At the beginning of the reporting period	270,366,572	26,519,602	427,874,178	2,841,777
Less:				
Elimination of existing AuMake Subsidiary shares	–	–	(427,874,178)	–
Add:				
Existing AuMake International Limited on acquisition (post 6 for 1 basis on consolidation)	–	–	15,007,480	–
Allotment of shares following conversion of convertible notes	–	–	42,937,500	2,290,000
Allotment of shares following conversion of convertible loan	–	–	5,000,000	200,000
Issue of share for acquisition of subsidiary	–	–	95,083,151	1,200,598
Facilitator shares	–	–	5,875,000	470,000
Share issued at acquisition of subsidiary – Jumbuck Australia Pty Ltd	–	–	350,877	100,000
Share issued at acquisition of subsidiary – Kiwibuy Australia Pty Ltd	1,087,630	271,908	–	–
Share issued at capital raising	40,625,000	6,500,000	106,112,564	20,000,000
Share issue costs	–	(417,695)	–	(582,773)
At the end of the reporting period	312,079,202	32,873,815	270,366,572	26,519,602

Ordinary shares participate in dividends and the proceeds on winding up of the consolidated entity in proportion to the number of and amounts paid on the shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Note 19. Equity – reserves

	Consolidated	
	2019 **$**	**2018** **$**
Options reserve (a)	1,461,211	727,327
Performance shares reserve (b)	4,000,000	2,400,000
Foreign currency translation reserve (c)	(176,363)	110,362
	5,284,848	3,237,689

a) Options reserve

Movements in option reserve

Consolidated	**2019 No. of securities**	**$**	**2018 No. of securities**	**$**
At the beginning of the reporting period	12,150,000	727,327	–	–
Issue of options to director, Quentin Flannery as part of the acquisition with an exercise price of $0.20	–	–	5,000,000	246,816
Issue/(forfeited) of options to employees in pursuant to Employee Share Option Plan ('ESOP') with an exercise price of $0.20	(1,900,000)	–	7,150,000	480,511
Amortisation of expense on options issued in prior year [1]	–	733,884	–	–
At the end of the reporting period	10,250,000	1,461,211	12,150,000	727,327

[1] *The value disclosed above is the portion of the fair value of the options recognised as an expense in each reporting period in accordance with the requirements of AASB 2. Remaining amount will be recognised in future reporting periods over the vesting period.*

b) Performance shares reserve

The performance share reserve is related to the 50,000,000 Performance Shares, comprising 25,000,000 Class A Performance Shares and 25,000,000 Class B Performance Shares to founding shareholders of AuMake Subsidiary – refer to Note 21 and Note 28 for further information relating to these performance shares.

c) Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Movements in foreign currency translation reserve

	Consolidated	
	2019 $	**2018 $**
At the beginning of the reporting period	110,362	–
Exchange difference on translation of foreign operations	(286,725)	110,362
At the end of the reporting period	(176,363)	110,362

Note 20. Equity – accumulated losses

	Consolidated	
	2019 $	**2018 $**
Accumulated losses at the beginning of the financial year	(12,567,923)	(1,335,062)
Loss after income tax expense for the year	(7,757,237)	(11,232,861)
Accumulated losses at the end of the financial year	(20,325,160)	(12,567,923)

Note 21. Share-based payments

Total expenses arising from share-based payment transactions recognised during the year were as follows:

		Consolidated	
	Note	**2019 $**	**2018 $**
Director options issued as part of the acquisition	21(a)	–	246,816
Employee options issued as per Employee Share Option Plan (ESOP)	21(a)	–	480,511
Amortisation of expense on directors and employee options (Note 19)	21(a)	733,884	–
Performance shares	21(b)	1,600,000	2,400,000
		2,333,884	3,127,327

a) Options

All options granted to key employees, consultants and advisors of the Company are for ordinary shares in AuMake International Limited which confer a right of one ordinary share for every option held.

2019

Grant date	Expiry date	Exercise price	Balance at start of year	Exercised during the period	Forfeited during the period	Balance at end of the period	Vested & exercisable at end of the period
			Number	Number	Number	Number	Number
12/09/2017	12/09/2022	$0.20	5,000,000	–	–	5,000,000	5,000,000
22/01/2018	22/01/2023	$0.20	5,150,000	–	(1,900,000)	3,250,000	–
22/01/2018	22/01/2023	$0.20	2,000,000	–	–	2,000,000	–
			12,150,000	–	(1,900,000)	10,250,000	5,000,000

2018

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the period	Exercised during the period	Balance at end of the period	Vested & exercisable at end of the period
			Number	Number	Number	Number	Number
12/09/2017	12/09/2022	$0.20	–	5,000,000	–	5,000,000	5,000,000
22/01/2018	22/01/2023	$0.20	–	5,150,000	–	5,150,000	–
22/01/2018	22/01/2023	$0.20	–	2,000,000	–	2,000,000	–
			–	12,150,000	–	12,150,000	5,000,000

The following table sets out the assumptions made in determining the fair value of the options granted during the financial year using the Black-Scholes option pricing model:

2018	Options granted 12 September 2017	Options granted 22 January 2018	Options granted 22 January 2018
Expected volatility (%)	100	100	100
Risk free interest rate (%)	1.86	1.86	1.86
Weighted average expected life of options (years)	5	5	5
Expected dividends	Nil	Nil	Nil
Option exercise price (cents)	20	20	20
Share price at grant date (cents)	8	48	48
Fair value of option (cents)	4.9	40.6	40.6
Number of options	5,000,000	5,150,000	2,000,000
Expiry date	12 September 2022	22 January 2023	22 January 2023
Vesting date	12 September 2017	22 January 2021	22 January 2020
Value recognised as of 30 June 2018 ($)	246,816	303,636	176,875

2019	Options granted 12 September 2017	Options granted 22 January 2018	Options granted 22 January 2018
Expected volatility (%)	100	100	100
Risk free interest rate (%)	1.86	1.86	1.86
Weighted average expected life of options (years)	5	5	5
Expected dividends	Nil	Nil	Nil
Option exercise price (cents)	20	20	20
Share price at grant date (cents)	8	48	48
Fair value of option (cents)	4.9	40.6	40.6
Number of options	5,000,000	3,250,000	2,000,000
Expiry date	12 September 2022	22 January 2023	22 January 2023
Vesting date	12 September 2017	22 January 2021	22 January 2020
Value recognised as of 30 June 2019 ($)	246,816	631,485	582,910

b) Performance shares

Grant date	Expiry date	Balance at start of year	Granted during the period	Exercised during the period	Exercised during the period	Vested & exercisable at end of the period
		Number	Number	Number	Number	Number
12 September 2017	12 September 2022	–	50,000,000	–	50,000,000	–
		–	50,000,000	–	50,000,000	–

The performance share reserve is related to the 50,000,000 Performance Shares, comprising 25,000,000 Class A Performance Shares and 25,000,000 Class B Performance Shares to founding shareholders of AuMake Subsidiary – refer to Note 28 for further information relating to these performance shares.

2019

Type	Shares/rights	Underlying share price	Probability % (*)	Value ($)
Class A	25,000,000	$0.08	100%	2,000,000
Class B	25,000,000	$0.08	100%	2,000,000
	50,000,000			4,000,000

2018

Type	Shares/rights	Underlying share price	Probability % (*)	Value ($)
Class A	25,000,000	$0.08	100%	2,000,000
Class B	25,000,000	$0.08	20%	400,000
	50,000,000			2,400,000

**The probability estimated by the management is over the expiry date of the performance shares.*

Note 22. Financial risk management

Financial risk management objectives

The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior management under direction of the Board. The Board provides principles for overall risk management, as well as policies covering specific areas.

The consolidated entity is not materially exposed to changes in interest rates in its activities.

The company's financial instruments comprise mainly of deposits with banks, trade receivables and trade payables.

The company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, and liquidity risk.

Foreign currency risk

The consolidated entity has transactional currency exposures. Such as exposure arose from sales or purchases by an operating entity in currencies other than the functional currency.

At the reporting date, the consolidated entity had the following exposures to foreign currency in Chinese Yuan Renminbi (CNY$) that are not designated in cash flow hedges:

	Consolidated	
	2019 $	**2018 $**
Financial assets		
Cash and cash equivalents	1,081,426	2,472,316
Trade and other receivables*	910,982	429,015
Total financial assets	1,992,408	2,901,331
Financial liabilities		
Trade and other payables*	3,457,796	3,413,317
Total financial liabilities	3,457,796	3,413,317

**Includes loans with parent entity and other entities within the consolidated entity.*

Credit risk

The maximum exposure to credit risk by class of recognised financial assets at reporting date is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Cash and security deposits are held with financial institutions with high credit ratings.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

Liquidity risk

Liquidity risk arises from the possibility that the consolidated entity might encounter difficulty in settling its debts or otherwise meeting its obligation related to financial liabilities. Management monitors the rolling forecasts of the consolidated entity's cash and financial assets on the basis of expected cashflows. This is generally carried out at a local level in the operating companies of the consolidated entity in accordance with the practice and limits set by the group. In addition, the consolidated entity's liquidity management policy involves preparing forwarding looking cash flow analysis in relation to its operational, investing and financial activities.

Note 23. Related party transactions

a) Parent entity

AuMake International Limited is the parent entity.

b) Subsidiary

Interests in subsidiaries are set out in Note 30.

c) Key management personal compensation

Disclosures relating to key management personnel are set out as below and in the remuneration report included in the Directors' Report.

The aggregate compensation made to key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019 $	**2018 $**
Short-term employee benefits	756,820	520,183
Post-employment benefits	53,925	26,204
	810,745	546,387

d) Other transactions with key management personnel and their related parties

i. Transactions with related parties

	2019 $	**2018 $**
Duret Holdings Pty Ltd – related party to Keong Chan		
Consultants fees	–	(22,000)
Marketing expenses	–	(22,300)
Total paid during the year	–	(44,300)

	2019 $	2018 $
Maximus Flannery Pty Ltd – related party to Quentin Flannery		
Options received (*)	–	246,816
Total during the period	–	246,816

Key management personnel	Number options granted during the year	Grant date	Fair value per option	Exercise price per option	Expiry date	Number options vested during the year
Quentin Flannery	5,000,000	12 September 2017	$0.049	$0.20	12 September 2022	5,000,000

ii. Loans with key management personnel and their related parties

There were no further transactions with Directors including their related parties, not disclosed above or in Note 23.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by RSM Australia partners:

	Consolidated	
	2019 $	2018 $
Audit service – RSM Australia partners		
Audit or review of the financial statements	105,000	110,000
Other services – RSM Australia partners		
Investigating Accountant's Report	–	10,000
	105,000	120,000

Note 25. Contingent assets and liabilities

Contingent assets

The Directors are not aware of any contingent assets as at 30 June 2019 and 30 June 2018.

Contingent liabilities

ITM Corporation Limited (CAN 605 374 570) (ITM) a 100% held subsidiary of the Company, currently owns 50% of the 'Health Essence' trademark.

From 1 November 2019, ITM has an option to acquire the remaining 50% of the Health Essence trademark from Aussia Australia Pty Ltd via the issue of AuMake fully paid ordinary shares. Should ITM choose to exercise this option, the methodology used to value the 50% interest in the Health Essence trademark is calculated as 30% of the average annual sales of Health Essence branded products.

The consolidated entity has given bank guarantees as at 30 June 2019 of $276,505 (2018: Nil) to various landlords.

Other than the above, there is no contingent liability as at 30 June 2019 and 30 June 2018.

Note 26. Commitments

	Consolidated	
	2019 $	**2018 $**
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,681,885	1,473,543
One to five years	8,705,421	4,348,418
	10,387,306	5,821,961
Capital commitments	153,711	–
Capital commitments on the acquisition of Jumbuck Australia Pty Ltd	400,000	400,000

Operating lease commitments includes contracted amounts for various retail outlets, warehouse and offices under non-cancellable operating leases expiring within three to six years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease liability commitments are as disclosed in Note 17.

There are no other material commitments as at 30 June 2019 (2018: Nil).

Note 27. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of financial position

	2019 $	2018 $
Assets		
Current assets	6,416,302	7,374,397
Non-current assets	16,575,058	9,997,657
Total assets	22,991,360	17,372,054
Liabilities		
Current liabilities	740,892	182,686
Non-current liabilities	65,962	–
Total liabilities	806,854	182,686
Net assets	22,184,507	17,189,368
Equity		
Issued capital	77,490,409	71,136,197
Reserve	5,461,211	3,127,327
Accumulated losses	(60,767,113)	(57,074,156)
Total equity	22,184,507	17,189,368

Statement of profit or loss and other comprehensive income

	2019 $	2018 $
Loss for the year	(3,692,957)	(5,704,447)
Total comprehensive loss	(3,692,957)	(5,704,447)

Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees as of 30 June 2019 and 30 June 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018 other than as disclosed in Note 25.

Commitments

The parent entity had no capital commitments as at 30 June 2019 and 30 June 2018.

Note 28. Reverse Acquisition Accounting

On 4 October 2017, AuMake International Limited (formerly Augend Ltd), the legal parent and legal acquirer, completed the acquisition of ITM Corporation Limited ("AuMake Subsidiary"). The acquisition did not meet the definition of a business combination in accordance with AASB 3 Business Combinations. Instead the acquisition has been treated as a group recapitalisation, using the principles of reverse acquisition accounting in AASB 3 Business Combinations given the substance of the transaction is that AuMake Subsidiary has effectively been recapitalised. Accordingly, the consolidated financial statements have been prepared as if AuMake Subsidiary has acquired AuMake International Limited, not vice versa as represented by the legal position. The recapitalisation is measured at the fair value of the equity instruments that would have been given by AuMake Subsidiary to have exactly the same percentage holding in the new structure at the date of the transaction.

As the activities of AuMake International Limited would not constitute a business based on the requirements of AASB 3, the transaction has been accounted for as a share-based payment under AASB 2. The excess of the deemed consideration over the fair value of AuMake International Limited, as calculated in accordance with the reverse acquisition accounting principles and with AASB 2, is considered to be a payment for a group restructure and has been expensed.

AuMake International Limited is the legal acquirer of AuMake Subsidiary in this transaction and the consideration for the acquisition was the issue by AuMake International Limited of:

- 95,083,151 fully paid ordinary shares in AuMake International Limited in accordance with reverse asset acquisition accounting principles the consideration is deemed to have been incurred by AuMake Subsidiary in the form of equity instruments issued to AuMake International Limited shareholders. The acquisition date fair value of this consideration has been determined with reference to the fair value of the issued shares of AuMake International Limited immediately prior to the acquisition and has been determined to be $1,200,598; and
- 50,000,000 Performance Shares, comprising 25,000,000 Class A Performance Shares and 25,000,000 Class B Performance Shares to founding shareholders of AuMake Subsidiary. The fair value of these performance rights has been included as part of the consideration for the transaction in accordance with the relevant accounting standard.
  - **Class A Performance Share:** each Class A Performance Shares will vest into one Share upon AuMake International Limited achieving total sales revenue of $25,000,000 at an average of 13% gross profit margin over a 12 month period based on AuMake International Limited's audited accounts (Class A Milestone); and
  - **Class B Performance Share:** each Class B Performance Shares will vest into one Share upon AuMake International Limited achieving total sales revenue of $60,000,000 at an average of 13% gross profit margin over a 12-month period based on AuMake International Limited's audited accounts (Class B Milestone).

As AuMake International Limited is deemed to be the acquiree for accounting purposes, the carrying values of its assets and liabilities are required to be recorded at fair value for the purposes of the acquisition. No adjustments were required to the historical values to effect this change.

Consideration

	2018 $
95,083,151 fully paid ordinary vendor shares	1,200,598
50,000,000 performances shares (*)	–
Total value of consideration	1,200,598
Fair Value of AuMake International Limited at acquisition:	
Cash	17,496
Trade and other receivables	164,732
Trade and other payables	(393,392)
Related party loan	(183,960)
Fair value of net liabilities	(395,124)
Excess of consideration provided over the fair value of net liabilities at the date of acquisition expensed, being group restructuring and relisting costs	1,595,722

** Performance shares were issued as additional consideration, valued at nil, as the probability of performance milestones being met was assessed as less than probable on the date of reverse acquisition.*

Note 29. Business combinations

On 28 February 2018, AuMake Australia Pty Limited, a subsidiary of AuMake International Limited, acquired 100% of the ordinary shares of Da Xue Li Health and Technology Ltd for nil consideration. This is a company registered in Xiamen, the People's Republic of China. It was acquired to operate the company's Xiamen Daigou Hub and provide customer services to online customers.

Management has since finalised the purchase price allocation exercise and identified the fair value of the identifiable assets, liabilities and contingent liabilities at date of acquisition.

Details of the acquisition are as follows:

	Fair value $
Cash and cash equivalents	3,136,823
Trade and other receivables	15,747
Plant and equipment	39,732
Trade and other payables	(3,332,737)
Employee benefits	(27,187)
Net liabilities acquired	(167,622)
Representing:	
Cash paid or payable to vendor	–
Goodwill recognised	167,622

On 3 September 2018, Kiwibuy Australia Pty Ltd, a subsidiary of AuMake International Limited completed the acquisition of the business assets held by One Shop International Pty Ltd, One Shop Australia Pty Ltd and Milan Station Pty Ltd (together known as 'Kiwi Buy') via the issue of 1,087,630 shares. This acquisition did not include the acquisition of the issued capital of 'Kiwi Buy'. This acquisition is deemed to be a business combination and the details of the acquisition are as follows:

	Fair value $
Net assets acquired	–
Purchase consideration:	
Cash paid	28,093
Shares issued to the vendor (*)	271,907
Total consideration	300,000
Goodwill recognised	300,000

** Value of shares issued as part of the purchase consideration is based on fair value of the shares on acquisition date.*

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in Note 1:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**30 June 2019 %**	**30 Jun 2018 %**
Parent entity			
AuMake International Limited (formerly Augend Ltd)	Australia		
Name of controlled entity			
ITM Corporation Ltd	Australia	100%	100%
Aumake Australia Pty Ltd	Australia	100%	100%
Jumbuck Australia Pty Ltd	Australia	49%	49%
168 Express Pty Ltd	Australia	100%	100%
Newera Australia Pty Ltd	Australia	100%	100%
Kiwibuy Australia Pty Ltd	Australia	100%	100%
Medigum Honey Pty Ltd	Australia	50%	50%
AU8 Media Pty Ltd	Australia	–	100%
Da Xue Li Health and Technology Ltd	China	100%	100%

Note 31. Events after the reporting period

On 23 July 2019, AuMake International Limited completed the acquisition of the Broadway business. As detailed in the acquisition announcement on 17 April 2019, AuMake has reached an agreement to purchase the business assets of Broadway with a consideration of 17.2m ordinary shares at $0.151 per share (voluntary escrow for two years) and paid $2.8 million in cash, as the first tranche of consideration for the business, followed by deferred cash and equity paid subsequently.

Apart from the above, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 32. Reconciliation of profit before income tax to net cash from operating activities

	Consolidated	
	2019 $	**2018 $**
Loss for the year	(7,743,317)	(11,216,760)
Adjustments for:		
Share-based payment	2,333,884	3,597,327
Listing fee	–	1,595,722
Interest expenses	4,127	7,809
Depreciation	577,902	158,074
Net loss on disposal of non-current assets	1,481	26,839
Impairment of intangible assets	–	544,461
Changes in operating assets and liabilities		
Trade and other receivables	(194,749)	(788,713)
Trade and other payables	157,224	(232,937)
Inventories	(1,730,518)	(1,132,969)
Provisions	644,281	109,740
Net cash outflow from operating activities	(5,949,685)	(7,331,407)

Note 33. Loss per share

	Consolidated	
	2019 **$**	**2018** **$**
Basic and diluted loss per share (cents)	(2.79)	(5.81)
Net loss used in the calculation of basic loss per share and diluted loss per share	(7,757,237)	(11,232,861)
Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share and diluted loss per share	277,969,443	193,469,052

Options have not been included in the calculation of dilutive loss per shares as the options are anti-dilutive.

Note 34. Acquisition of Jumbuck Australia Pty Ltd

On 8 November 2017, ITM Corporation Limited, a subsidiary of AuMake International Limited, acquired 49% of the ordinary shares of Jumbuck Australia Pty Ltd, that is an Australian wool product manufacturer. The acquisition provides the company with the capacity to introduce wool products as a new core product category and direct exposure to the significant daigou and Chinese tourist demand for Australian wool products.

Details of the acquisition are as follows:

	Fair value **$**
Plant and equipment	65,474
Trade and other payables	(24,612)
Employee benefits	(48)
Net assets acquired	40,814
Representing:	
Purchase consideration paid and payable by AuMake International Limited:	
Ordinary shares issued at first completion date*	100,000
Ordinary shares to be issued at second completion date**	400,000
	500,000
Impairment of intangible asset	(459,186)
	40,814

The consideration for this acquisition is as follows:

* Tranche 1 – acquired 49% of Jumbuck Australia Pty Ltd immediately and issued $100,000 of AuMake fully paid ordinary shares (subject to a 12-month voluntary escrow).

** Tranche 2 – On and after 1 October 2020, the Company has the option to acquire the remaining 51% of Jumbuck Australia Pty Ltd for $400,000 of AuMake fully paid ordinary shares which will be subject to a 12-month voluntary escrow. The issue price of these fully paid ordinary shares will be based on a 5-day VWAP at the time of settlement of tranche 2.

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Keong Chan
Director

30 August 2019
Sydney

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
AUMAKE INTERNATIONAL LIMITED

Opinion

We have audited the financial report of AuMake International Limited. (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the 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:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) 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 auditor independence requirements of 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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

RSM

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Impairment of goodwill
Refer to Note 12 in the financial statements</td></tr>
<tr><td>The Group has consolidated goodwill of $2.37 million relating to its acquisition of the businesses in the prior year and the current year.

Management performs an annual impairment test on the recoverability of the goodwill as required by Australian Accounting Standards.

We determined this area to be a key audit matter due to the size of the goodwill balance and because the directors' assessment of the value-in-use of the cash generating unit (CGU) involves judgement about the future underlying cash flows of the business and the discount rate applied.</td><td>Our audit procedures in relation to management's impairment assessment included:
Assessing management's determination that the goodwill should be allocated to one CGU based on the nature of the Group's business;
Assessing the valuation methodology used;
Challenging the reasonableness of key assumptions, including the cash flow projections, expected revenue growth rates and the discount rate;
Reviewing management's sensitivity analysis over the key assumptions used in the model;
Checking the mathematical accuracy of the cash flow model and reconciling input data to supporting evidence, such as the approved budget and considering the reasonableness of the budget; and
Assessing the compliance of the financial presentation and disclosures with the requirements of Australian Accounting Standards.</td></tr>
</table>

Other Information

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 30 June 2019, but does not include the financial report and the 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 and for 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 ability of the Group 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/ar2.pdf.

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of AuMake International Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 30 August 2019

Shareholder information 30 June 2019

The shareholder information set out below was applicable as at 23 August 2019.

a) Distribution of holdings of fully paid ordinary shares

Range	Total holders	Units
1 – 1,000	1,393	155,114
1,001 – 5,000	935	2,668,971
5,001 – 10,000	514	4,195,203
10,001 – 100,000	1,140	42,516,776
100,001 Over	350	282,900,634
Rounding		
Total	**4,332**	**332,436,698**

1,905 shareholders hold less than a marketable parcel of shares, being a market value of less than $500.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

b) Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

Rank	Name	Units	% of Units
1.	JIAHUA ZHOU <ZHOUS AUSTRALIA HOLDING DISCRE>	40,410,339	12.16
2.	CHINA RISE FINANCIAL HOLDING INVESTMENT CO LTD	11,500,000	3.46
3.	MS LIESL CHAN <CHAN FAMILY A/C>	10,312,500	3.10
4.	ILWELLA PTY LTD	10,161,111	3.06
5.	CHEN & XING PTY LTD <THE GANG XU SUPER FUND A/C>	8,123,856	2.44
6.	CITICORP NOMINEES PTY LIMITED	7,205,381	2.17
7.	MR GUOXIAN ZHENG	7,131,236	2.15
8.	LC ALLIANCE PTY LTD	6,228,766	1.87
9.	NEW AGE GROUP CO LIMITED	6,105,527	1.84
10.	MR JIE CHEN	5,810,000	1.75
11.	MS NANCY ZHANG	5,737,826	1.73
12.	MS XUEFEN SHENG	5,419,408	1.63
13.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,187,087	1.56
14.	WONG KING MAN	4,444,444	1.34
15.	MR PETER VASSILEFF <PITCH INVESTMENTS A/C>	3,975,000	1.20
16.	GUOPING YAO	3,063,431	0.92
17.	MR BRIAN JOSEPH FLANNERY	2,737,500	0.82
18.	MRS PEGGY ANN FLANNERY	2,737,500	0.82
19.	QIANG CHEN	2,222,222	0.67
20.	YING CHEN	2,222,222	0.67
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		**150,735,356**	**45.34**
Total Remaining Holders Balance		**181,701,342**	**54.66**

c) Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	10,250,000	11
Performance Rights issued as part of the consideration for reverse acquisition	50,000,000	4

d) Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	**% of total shares issued**
Jiahua Zhou	40,410,339	12.16
Gang Xu	17,169,490	5.16
Quentin Flannery	19,748,333	5.94

e) Restricted securities

There are no restricted shares on issue.

f) Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Ordinary shares	5 October 2019	74,196,952
Ordinary shares	23 July 2021	17,232,496
		91,429,448

AuMake International Limited
Appendix 4E – Preliminary final report

1. Company details

Name of entity:	AuMake International Limited
ACN:	150 110 017
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

	30 June 2019	30 June 2018
Revenues from ordinary activities up 107%	$44,346,500	$21,382,822
Loss from ordinary activities after tax attributable to the owners of AuMake International Limited down 31%	$7,757,237	$11,232,861
Loss for the year attributable to the owners of AuMake International Limited down 31%	$7,757,237	$11,232,861

Comments

Please refer to page 2 "Financial Highlights" section of the Company's annual report for the year ended 30 June 2019 for further detail in relation to the normalisation of results through the isolation of one-off and non-cash expenses.

Dividends

No dividends have been paid or declared by the Company since the beginning of the current reporting period. No dividends were paid for the previous reporting period.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	5.0	5.6

4. Control gained or lost over entities having material effect

During the period the Company completed the acquisition of Kiwibuy store network on 3 September 2018.

5. Details of associates and joint venture entities

There are no associates or joint venture entities.

6. Audit qualification or review

The financial statements have been audited and an unqualified opinion has been issued.

7. Attachments

The Annual Report of AuMake International Limited for the year ended 30 June 2019 is attached.

8. Signed

Keong Chan
Director

Date: 30 August 2019
Sydney

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AuMake International Limited