Industrial Air Compressors Pty Ltd and controlled entities

ABN: 59 626 909 715

Consolidated Financial Report

For the year ended 31 March 2023

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DIRECTORS' REPORT

The directors present their report together with the financial report of the group, being the company and its controlled entities, for the year ended 31 March 2023 and auditor's report thereon.

Directors names

The names of the directors in office at any time during or since the end of the year are:

Ramesh Muthuswamy Ponnuswami

Ramchandran Jayakanthan

Thomas Benedict Fyfe *(resigned 30 June 2022)*

The directors have been in office since the start of the year to the date of this report unless otherwise stated.

Principal activities

The principal activity of the group during the year was the sale and service of industrial air compressors.

No significant change in the nature of these activities occurred during the year.

Review of operations

The group continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant changes in state of affairs

There were no significant changes in the group's state of affairs that occurred during the financial year, other than those referred to elsewhere in this report.

Likely developments

The group expects to maintain the present status and level of operations.

Results

The profit of the group for the year after providing for income tax amounted to $975,643 (2022: $274,479).

Dividends paid, recommended and declared

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

Environmental regulation

The group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Options

No options over unissued shares or interests in the group were granted during or since the end of the year and there were no options outstanding at the end of the year.

After balance date events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

Indemnification of officers

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an officer of the group.

Indemnification of auditors

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the group.

Proceedings on behalf of the group

No person has applied for leave of Court to bring proceedings on behalf of the group or intervene in any proceedings to which the group is a party for the purpose of taking responsibility on behalf of the group for all or any part of those proceedings.

Signed on behalf of the board of directors.

Director: ____________________

Ramesh Muthuswamy Ponnuswami

Director: R. Jay ____________________

Ramchandran Jayakanthan

Dated this 15TH day of May 2023

Level 38, 345 Queen Street
Brisbane, QLD 4000

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GPO Box 1144
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p. +61 7 3222 8444

The Directors
Industrial Air Compressors Pty Ltd
3 Squill Place
Arndell Park NSW 2148

Auditor's Independence Declaration

In relation to the independent audit for the year ended 31 March 2023, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards).*

This declaration is in respect of Industrial Air Compressors Pty Ltd and the entities it controlled during the year.

Pitcher Partners

PITCHER PARTNERS

DAN COLWELL
Partner

Brisbane, Queensland
15 May 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 $	2022 $
Revenue and other income			
Revenue from contracts with customers	3	**21,434,620**	17,725,347
Other revenue	4	**100,906**	121,418
Other income	4	**37,234**	94,521
		21,572,760	17,941,286
Less: expenses			
Cost of goods sold		**(9,835,567)**	(8,213,804)
Employee benefits expense	5	**(6,956,877)**	(5,990,906)
Depreciation and amortisation expense	5	**(1,304,379)**	(1,577,010)
Motor vehicle expenses		**(585,955)**	(509,217)
Finance costs	5	**(385,822)**	(485,583)
Lease expense		**(261,462)**	(287,227)
Travel and accommodation		**(179,683)**	(80,809)
Professional fees		**(139,338)**	(152,035)
Other expenses		**(519,397)**	(246,299)
		(20,168,480)	(17,542,890)
Profit before income tax expense		**1,404,280**	398,396
Income tax expense	6	**(428,637)**	(123,917)
Net profit from continuing operations		**975,643**	274,479
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Movement in fair value of cash flow hedges, net of income tax		**125,649**	338,377
Other comprehensive income for the year		**125,649**	338,377
Total comprehensive income		**1,101,292**	612,856

The accompanying notes form part of these financial statements.

INDUSTRIAL AIR COMPRESSORS PTY LTD AND CONTROLLED ENTITIES
ABN: 59 626 909 715

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023

	Note	2023 $	2022 $
Current assets			
Cash and cash equivalents	22	**833,144**	1,924,601
Receivables	7	**3,614,509**	2,376,378
Inventories	8	**2,225,140**	1,812,572
Financial assets at fair value	13	**20,069**	-
Contract assets		**22,770**	37,369
Other assets	9	**407,878**	373,893
Total current assets		**7,123,510**	6,524,813
Non-current assets			
Financial assets at fair value	13	**31,313**	1,138
Plant and equipment	10	**749,560**	751,980
Lease assets	11	**1,475,677**	1,459,838
Intangible assets	12	**6,680,464**	7,337,416
Other assets	9	**154,182**	135,330
Total non-current assets		**9,091,196**	9,685,702
Total assets		**16,214,706**	16,210,515
Current liabilities			
Payables	14	**3,690,497**	2,560,486
Lease liabilities	11	**456,381**	380,020
Borrowings	15	**2,300,000**	2,300,000
Provisions	16	**893,275**	928,130
Current tax liabilities	6	**550,706**	539,736
Contract liabilities	18	**683,617**	377,919
Financial liabilities at fair value	17	**-**	27,713
Total current liabilities		**8,574,476**	7,114,004
Non-current liabilities			
Lease liabilities	11	**1,176,979**	1,222,989
Borrowings	15	**3,450,000**	5,750,000
Provisions	16	**96,263**	106,940
Financial liabilities at fair value	17	**-**	101,613
Deferred tax liabilities (net)	6	**163,758**	263,031
Total non-current liabilities		**4,887,000**	7,444,573
Total liabilities		**13,461,476**	14,558,577
Net assets		**2,753,230**	1,651,938
Equity			
Share capital	23	**120**	120
Reserves	24	**35,120**	(90,529)
Retained earnings		**2,717,990**	1,742,347
Total equity		**2,753,230**	1,651,938

The accompanying notes form part of these financial statements.

INDUSTRIAL AIR COMPRESSORS PTY LTD AND CONTROLLED ENTITIES
ABN: 59 626 909 715

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

	Share capital $	Reserves $	Retained earnings $	Total equity $
Consolidated				
Balance as at 1 April 2021	120	(428,906)	1,467,868	1,039,082
Profit for the year	-	-	274,479	274,479
Movement in fair value of cash flow hedges, net of income tax	-	338,377	-	338,377
Total comprehensive income for the period	-	338,377	274,479	612,856
Balance as at 31 March 2022	120	(90,529)	1,742,347	1,651,938
Balance as at 1 April 2022	**120**	**(90,529)**	**1,742,347**	**1,651,938**
Profit for the year	**-**	-	**975,643**	**975,643**
Movement in fair value of cash flow hedges, net of income tax	**-**	**125,649**	**-**	**125,649**
Total comprehensive income for the year	**-**	**125,649**	**975,643**	**1,101,292**
Balance as at 31 March 2023	**120**	**35,120**	**2,717,990**	**2,753,230**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 $	2022 $
Cash flow from operating activities			
Receipts from customers		**21,628,143**	20,971,916
Payments to suppliers and employees		**(18,859,646)**	(17,159,883)
Income tax paid		**(570,789)**	(541,361)
Net cash provided by operating activities		**2,197,708**	3,270,672
Cash flow from investing activities			
Proceeds from sale of plant and equipment		**60,773**	66,909
Payment for plant and equipment		**(222,238)**	(356,909)
Payment for intangibles		**(632)**	-
Dividends received		**100**	453
Interest received		**593**	327
Net cash used in investing activities		**(161,404)**	(289,220)
Cash flow from financing activities			
Repayment of borrowings		**(2,300,000)**	(2,300,000)
Payment of lease liability		**(433,290)**	(414,021)
Finance costs		**(394,471)**	(503,670)
Net cash used in financing activities		**(3,127,761)**	(3,217,691)
Reconciliation of cash			
Cash at beginning of the financial year		**1,924,601**	2,160,840
Net decrease in cash held		**(1,091,457)**	(236,239)
Cash at end of financial year	22(a)	**833,144**	1,924,601

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards - Simplified Disclosures. This includes compliance with the recognition and measurement requirements of all Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the disclosure requirements of AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

This financial report is the first financial report of the group prepared in accordance with Australian Accounting Standards - Simplified Disclosures. The prior year financial report was a special purpose financial report that was prepared in accordance with the recognition and measurement requirements of all Australian Accounting Standards and the disclosure requirements of some, but not all, Australian Accounting Standards. The transition from the previous financial reporting framework to Australian Accounting Standards - Simplified Disclosures has not affected the group's reported financial position, financial performance and cash flows.

The financial report covers Industrial Air Compressors Pty Ltd and its consolidated entities. Industrial Air Compressors 31 Mar 2023 is a company limited by shares, incorporated and domiciled in Australia. Industrial Air Compressors 31 Mar 2023 is a for-profit entity for the purpose of preparing the financial statements.

The financial report was approved by the directors as at the date of the directors' report.

The following are the significant accounting policies adopted by the group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities acquired as part of a business combination, as described in the accounting policies.

Significant accounting estimates and judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the group's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2 to the financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The group earned a profit from ordinary activities of $975,643 during the year ended 31 March 2023, while generating $2,194,956 of cash from operating activities. As at 31 March 2023, the group's balance sheet discloses:

- a net current deficiency of $1,450,966; and
- a net asset position of $2,753,230.

The total liabilities of the group includes borrowings with external financiers of $5,750,000, of which $2,300,000 is classified as a current liability with the remaining $3,450,000 classified as a non-current liability. The borrowings are secured by a corporate guarantee provided by the group's ultimate parent entity, Elgi Equipments Limited.

In conjunction with the corporate guarantee provided by the ultimate parent entity, the directors believe that the group will have sufficient cash resources for the 12 month period commencing on the date that this financial report has been signed. Accordingly, the directors are of the opinion that the group is a going concern and will be able to pay its debts as and when they become due and payable.

No adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity ("the group"), comprising the financial statements of the parent entity and all of the entities the parent controls. The group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entity to affect the amount of its returns.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is obtained by the group and are de-recognised from the date that control ceases.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency transactions and balances

Functional and presentation currency

The financial statements of each entity within the consolidated entity is measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are restated to the spot rate at the reporting date.

All exchange gains or losses are recognised in profit or loss for the period in which they arise.

(e) Revenue from contracts with customers

The group derives revenue from the sale and service of industrial air compressors.

Sale of industrial air compressors:

The revenue is earned at a point in time, which is generally when the goods have been delivered to the customer.

Service of industrial air compressors:

The revenue is earned over time, which is generally as the services are provided to the customer.

Revenue is recognised as, or when, goods or services are transferred to the customer, and is measured at an amount that reflects the consideration to which the group expects to be entitled in exchange for the goods or services.

Consideration included in the measurement of revenue

The consideration to be received from customers may include fixed amounts, variable amounts, or both. Where the contract includes a right to variable consideration, the group estimates the amount of variable consideration using the most likely amount approach on a contract-by-contract basis. Variable consideration is included in the measurement of revenue only to the extent that it is highly probable, based on historical experience, that a significant reversal of the cumulative amount recognised will not occur when the uncertainty associated with the variability is subsequently resolved.

Receivables from contracts with customers

A receivable from a contract with a customer represents the group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment.

Contract assets

A contract asset represents the group's right to consideration (not being an unconditional right recognised as a receivable) in exchange for goods or services transferred to the customer. Contract assets are measured at the amount of consideration that the group expects to be entitled in exchange for goods or services transferred to the customer.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities

A contract liability represents the group's obligation to transfer goods or services to the customer for which the group has received consideration (or an amount of consideration is due) from the customer. Amounts recorded as contract liabilities are subsequently recognised as revenue when the group transfers the contracted goods or services to the customer.

Warranty obligations

The group provides a general warranty for all goods sold, as required by law. The group does not provide customers with the option to purchase an additional or extended warranty. Warranty obligations are recognised as a provision, and are measured at the group's estimate of the expenditure required to fulfil its warranty obligations at the reporting date. The group updates the measurement of the warranty provision at the end of each reporting period for changes in expectations.

(f) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave and other employee benefits (other than termination benefits) expected to be settled wholly before twelve months after the end of the reporting period are measured at the (undiscounted) amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the consolidated statement of financial position.

(ii) Long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For currencies in which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency are used. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

Other long-term employee benefit obligations are presented as current liabilities in the consolidated statement of financial position if the group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the consolidated statement of financial position.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Employee benefits (Continued)

(iii) Retirement benefit obligations

Defined contribution superannuation plan

The group makes superannuation contributions to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the consolidated statement of financial position.

(iv) Bonus plan

The group recognises a provision when a bonus is payable in accordance with the employee’s contract of employment, and the amount can be reliably measured.

(g) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

The parent entity and its subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group. This means that:

- each entity recognises their own current and deferred tax amounts in respect of the transactions, events and balances of the entity.
- the parent entity assumes the current tax liability and any deferred tax assets relating to tax losses, arising in the subsidiary, and recognises a contribution to (or distribution from) the subsidiaries.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Any bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are valued at FIFO.

(j) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Classification of financial assets

Financial assets recognised by the group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

(a) the group’s business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the group are subsequently measured at amortised cost.

Trade and other receivables

Trade and other receivables arise from the group’s transactions with its customers and are normally settled within 30 days.

Consistent with both the group’s business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (Continued)

Impairment of financial assets

The following financial assets are tested for impairment by applying the 'expected credit loss' impairment model:

(a) debt instruments measured at amortised cost;

(b) debt instruments classified at fair value through other comprehensive income; and

(c) receivables from contracts with customers, contract assets and lease receivables.

The group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for receivables from contracts with customers, contract assets and lease receivables. Under the AASB 9 simplified approach, the group determines the allowance for credit losses for receivables from contracts with customers, contract assets and lease receivables on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

For all other financial assets subject to impairment testing, when there has been a significant increase in credit risk since the initial recognition of the financial asset, the allowance for credit losses is recognised on the basis of the lifetime expected credit losses. When there has not been an increase in credit risk since initial recognition, the allowance for credit losses is recognised on the basis of 12-month expected credit losses. '12-month expected credit losses' is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The group consider a range of information when assessing whether the credit risk has increased significantly since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The group assumes that the credit risk on a financial asset has not increased significantly since initial recognition when the financial asset is determined to have a low credit risk at the reporting date. The group considers a financial asset to have a low credit risk when the counterparty has an external 'investment grade'' credit rating (if available) of BBB or higher, or otherwise is assessed by the group to have a strong financial position and no history of past due amounts from previous transactions with the group.

The group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The group determines expected credit losses using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The group has identified contractual payments more than 90 days past due as default events for the purpose of measuring expected credit losses. These default events have been selected based on the group's historical experience. Because contract assets are directly related to unbilled work in progress, contract assets have a similar credit risk profile to receivables from contracts with customers. Accordingly, the group applies the same approach to measuring expected credit losses of receivables from contracts with customers as it does to measuring impairment losses on contract assets.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial instruments (Continued)

The measurement of expected credit losses reflects the group's 'expected rate of loss', which is a product of the probability of default and the loss given default, and its 'exposure at default', which is typically the carrying amount of the relevant asset. Expected credit losses are measured as the difference between all contractual cash flows due and all contractual cash flows expected based on the group's exposure at default, discounted at the financial asset's original effective interest rate.

Financial assets are regarded as 'credit-impaired' when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the financial asset. Indicators that a financial asset is 'credit-impaired' include observable data about the following:

(a) significant financial difficulty of the issuer or the borrower;

(b) breach of contract;

(c) the lender, for economic or contractual reasons relating to the borrower's financial difficulty, has granted concessions to the borrower that the lender would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The gross carrying amount of a financial asset is written off (i.e., reduced directly) when the counterparty is in severe financial difficulty and the group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the group. Recoveries, if any, are recognised in profit or loss.

Hedge accounting

At the inception of each hedging arrangement, the group documents the relationship between the hedging instrument and the hedged item, the group's risk management objectives and its strategy for undertaking hedging transactions. The group also documents its assessment, both at hedge inception and during the term of the arrangement, of the effectiveness of the hedging instrument in offsetting changes in fair values or cash flows (as applicable) of the hedged risk.

A hedge arrangement is effective when:

(a) there is an economic relationship between the hedged item and the hedging instrument;

(b) the effect of credit risk does not dominate the value changes that result from that economic relationship; and

(c) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge the quantity of the hedged item.

For cash flow hedges that qualify for hedge accounting under AASB 9, the group designates the full change in the fair value of a forward contract as a hedging instrument (including the forward element of the contract). The effective portion of the change in the fair value of a hedging instrument is recognised in other comprehensive income and accumulated in the cash flow hedge reserve, and any ineffective portion of the change in fair value is recognised in profit or loss.

Gains or losses previously recognised in other comprehensive income and accumulated in the cash flow hedge reserve are reclassified to profit or loss in the same period that the hedged item affects profit or loss (for hedged forecast transactions that affect profit or loss), or are transferred from the reserve and included in the measurement of the initial cost of a non-financial asset or liability (for hedged forecast transactions that result in the recognition of a non-financial asset or liability).

When a hedging instrument expires, is sold, terminated or no longer qualifies for hedge accounting under AASB 9, the group discontinues hedge accounting, and any gains or losses accumulated in the cash flow hedge reserve remain in the reserve until such time as hedged forecast transaction occurs. If the hedged forecast transaction is no longer expected to occur, any gains or losses accumulated in the cash flow hedge reserve are reclassified to profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Plant and equipment

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

Plant and equipment

Plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciable amount of all other property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of fixed asset	Depreciation rates	Depreciation basis
Plant and equipment at cost	8-38%	Straight line
Improvements at cost	13-25%	Straight line
Motor vehicles at cost	13-25%	Straight line
Office equipment at cost	13-50%	Straight line
Furniture, fixtures and fittings at cost	14%	Straight line
Other capital assets at cost	20-33%	Straight line

(l) Intangible assets

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised. Goodwill is initially recognised at an amount equal to the excess of: (a) the aggregate of the consideration transferred, the amount of any non controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in the case of a step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed. For accounting purposes, such measurement is treated as the cost of goodwill at that date.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets acquired in a business combination

Intangibles acquired in a business combination are initially recognised at fair value (which, for accounting purposes, is treated as the cost of the intangible asset), and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost, less accumulated amortisation and any accumulated impairment losses.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Intangible assets (Continued)

Software costs

Costs incurred in for software are initially recognised as an asset, and are subsequently amortised over their estimated useful lives commencing from the time the asset is available for use. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, software costs recognised as an intangible asset are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(m) Impairment of non-financial assets

Goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use (where 'value in use' is determined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit).

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is measured at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for the same asset. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

A reversal of an impairment loss for an asset measured at cost is recognised in profit or loss. A reversal of an impairment loss for an asset measured at a revalued amount is treated as a revaluation increase and is recognised in other comprehensive income, except to the extent that an impairment loss on the same asset was previously recognised in profit or loss, in which case a reversal of that impairment loss is also recognised in profit or loss.

(n) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Leases

At the commencement date of a lease (other than leases of 12-months or less and leases of low value assets), the group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the group, and an estimate of costs to be incurred by the group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments (i.e., the lease payments that are unpaid at the commencement date of the lease). These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the group’s incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments (i.e., the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12-months or less and leases of low value assets

Lease payments made in relation to leases of 12-months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense on a straight-line basis over the lease term.

(p) Goods and services tax (GST)

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

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

(q) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosure.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial report is authorised for issue.

The amounts recognised in the financial statements reflect events after the reporting period that provide evidence of conditions that existed at the reporting date. Whereas, events after the reporting period that are indicative of conditions that arose after the reporting period (i.e., which did not exist at the reporting date) are excluded from the determination of the amounts recognised in the financial statements.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the group's accounting policies, management makes various judgements that can significantly affect the amounts recognised in the financial statements. In addition, the determination of carrying amounts of some assets and liabilities require estimation of the effects of uncertain future events. Outcomes within the next financial year that are different from the assumptions made could require a material adjustment to the carrying amounts of those assets and liabilities affected by the assumption.

The following outlines the major judgements made by management in applying the group's accounting policies and/or the major sources of estimation uncertainty, that have the most significant effect on the amounts recognised in the financial statements and/or have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

Impairment of goodwill and other intangible assets

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other indefinite useful life intangible assets are not amortised but are tested annually for impairment.

Goodwill is allocated to a cash generating unit or units (CGU's) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a minimum period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

During the year, management made an assessment that the carrying value of the intangible asset was not impaired and therefore did not recognise an impairment expense for the goodwill or other intangible assets.

	2023 $	2022 $

NOTE 3: REVENUE FROM CONTRACTS WITH CUSTOMERS

	2023 $	2022 $
Sales revenue (recognised at a point in time)		
- Sale of goods	**10,925,532**	8,698,228
- Contract revenue	**190,890**	167,068
	11,116,422	8,865,296
Rendering of services (recognised over time)	**10,318,198**	8,860,051
	21,434,620	17,725,347

NOTE 4: OTHER REVENUE AND OTHER INCOME

	2023 $	2022 $
Other revenue		
Dividend income	**100**	453
Interest income	**593**	327
Other revenue	**100,213**	120,638
	100,906	121,418
Other income		
Profit on sale of property, plant and equipment	**35,108**	66,909
Foreign currency transaction gains	**-**	26,727
Other income	**2,126**	885
	37,234	94,521

NOTE 5: OPERATING PROFIT

Profit before income tax has been determined after:

	2023 $	2022 $
Finance costs:		
- Lease liabliities - finance charges	**72,195**	79,478
- Other	**313,627**	406,105
	385,822	485,583
Depreciation:		
- improvements	**6,461**	7,104
- motor vehicles	**119,933**	117,488
- office equipment	**20,876**	12,419
- furniture and fittings	**3,831**	3,831
- plant & equipment	**47,892**	66,146
	198,993	206,988

	2023	2022
	$	$
NOTE 5: OPERATING PROFIT (CONTINUED)		
Amortisation:		
- customer relationships	**149,788**	149,788
- brands	**502,430**	502,430
- non-compete	**-**	264,188
- right-of-use assets	**447,802**	443,776
- computer software	**5,366**	9,840
	1,105,386	1,370,022
Bad and doubtful debts:	**13,774**	1,275
Employee benefits:		
- Short term benefits	**5,981,570**	5,168,605
- Superannuation guarantee contributions	**539,795**	458,988
- Payroll tax	**263,646**	197,654
- Other employee benefits	**171,866**	165,659
	6,956,877	5,990,906

NOTE 6: INCOME TAX

(a) Components of tax expense

	2023	2022
Current tax	**581,759**	302,380
Deferred tax	**(153,122)**	(178,463)
	428,637	123,917

(b) Income tax reconciliation

The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:

	2023	2022
Prima facie income tax payable on profit before income tax at 30.0% (2020: 30.0%)	**421,284**	119,519
Add/(less) tax effect of:		
- Entertainment expenses	**7,353**	4,398
	7,353	4,398
Income tax benefit attributable to profit/(loss)	**428,637**	123,917

(c) Current tax

	2023	2022
Current tax liabilities		
Opening balance	**539,736**	778,717
Income tax	**581,759**	302,380
Tax payments	**(570,789)**	(541,361)
Current tax liabilities	**550,706**	539,736

	2023 $	2022 $
NOTE 6: INCOME TAX (CONTINUED)		
(d) Deferred tax		
Deferred tax assets		
Provision for doubtful debts	**2,732**	-
Provision for obsolete stock	**79,837**	81,464
Lease liability	**490,008**	480,903
Cashflow hedge	**-**	38,798
Accrued expenses	**103,265**	86,044
Provisions	**296,864**	310,521
Inventory	**-**	9,264
Other	**-**	1,051
	972,706	1,008,045
Deferred tax liabilities		
Plant & Equipment	**164,121**	122,872
Intangible assets	**442,703**	710,253
Right-of-use assets	**514,588**	437,951
Cashflow hedge	**15,052**	-
	1,136,464	1,271,076
Net deferred tax liabilities	**163,758**	263,031
(e) Deferred income tax (revenue)/expense included in income tax benefit comprises		
Decrease / (increase) in deferred tax assets	**(18,510)**	132,563
(Decrease) / increase in deferred tax liabilities	**(134,612)**	(311,028)
	(153,122)	(178,465)
(f) Deferred income tax related to items charged or credited directly to equity		
Decrease / (increase) in deferred tax assets	**53,849**	145,019
Reconciliation of deferred income tax related amounts charged or credited directly to equity		
Tax expense in relation to components of comprehensive income		
Cashflow hedge	**53,849**	145,019

NOTE 7: RECEIVABLES

	2023 $	2022 $
CURRENT		
Receivables from contracts with customers	**3,614,444**	2,372,210
Allowance for credit losses	**(9,107)**	-
	3,605,337	2,372,210
Other receivables	**9,172**	4,168
	3,614,509	2,376,378

	2023	2022
	$	$

NOTE 8: INVENTORIES

CURRENT		
At cost		
Finished goods	**2,491,263**	2,084,117
Provision for obsolete stock	**(266,123)**	(271,545)
	2,225,140	1,812,572

NOTE 9: OTHER ASSETS

CURRENT		
Prepayments	**236,282**	210,547
Deposits	**171,596**	163,346
	407,878	373,893
NON CURRENT		
Deposits	**154,182**	135,330

NOTE 10: PLANT AND EQUIPMENT

Plant and equipment at cost	**464,106**	474,937
Accumulated depreciation	**(326,301)**	(301,889)
	137,805	173,048
Improvements at cost	**90,194**	90,607
Accumulated depreciation	**(65,979)**	(63,667)
	24,215	26,940
Motor vehicles at cost	**1,042,292**	949,470
Accumulated depreciation	**(507,359)**	(445,232)
	534,933	504,238
Office equipment at cost	**121,818**	92,258
Accumulated depreciation	**(78,145)**	(57,268)
	43,673	34,990
Furniture, fixtures and fittings at cost	**27,438**	27,438
Accumulated depreciation	**(18,504)**	(14,674)
	8,934	12,764
Other capital assets at cost	**67**	67
Accumulated depreciation	**(67)**	(67)
	-	-
Total plant and equipment	**749,560**	751,980

NOTE 10: PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year

	2023 $	2022 $
Plant and equipment		
Opening carrying amount	**173,048**	152,714
Additions	**14,115**	86,480
Disposals	**(1,466)**	-
Depreciation expense	**(47,892)**	(66,146)
Closing carrying amount	**137,805**	173,048
Improvements		
Opening carrying amount	**26,940**	34,044
Additions	**6,514**	-
Disposals	**(2,778)**	-
Depreciation expense	**(6,461)**	(7,104)
Closing carrying amount	**24,215**	26,940
Motor vehicles		
Opening carrying amount	**504,238**	379,853
Additions	**172,047**	241,872
Disposals	**(21,419)**	-
Depreciation expense	**(119,933)**	(117,487)
Closing carrying amount	**534,933**	504,238
Office equipment		
Opening carrying amount	**34,990**	22,002
Additions	**29,559**	25,407
Depreciation expense	**(20,876)**	(12,419)
Closing carrying amount	**43,673**	34,990
Furniture, fixtures and fittings		
Opening carrying amount	**12,764**	16,595
Disposals	**1**	-
Depreciation expense	**(3,831)**	(3,831)
Closing carrying amount	**8,934**	12,764

	2023 $	2022 $

NOTE 11: LEASE ASSETS AND LEASE LIABILITIES

(a) Lease assets

	2023 $	2022 $
Buildings under lease	**3,057,000**	2,634,594
Accumulated depreciation	**(1,627,448)**	(1,192,029)
	1,429,552	1,442,565
Computer equipment under lease	**49,859**	72,341
Accumulated depreciation	**(3,734)**	(55,068)
	46,125	17,273
Total carrying amount of lease assets	**1,475,677**	1,459,838

Reconciliations

Reconciliation of the carry amount of lease assets at the beginning and end of the financial year:

	2023 $	2022 $
Land and buildings		
Opening carrying amount	**1,442,565**	1,867,719
Additions	**422,406**	-
Depreciation	**(435,419)**	(425,154)
Closing carrying amount	**1,429,552**	1,442,565
Computer equipment		
Opening carrying amount	**17,273**	27,271
Additions	**41,235**	8,625
Depreciation	**(12,383)**	(18,623)
Closing carrying amount	**46,125**	17,273

(b) Lease liabilities

	2023 $	2022 $
CURRENT		
Lease liability	**456,381**	380,020
NON CURRENT		
Lease liability	**1,176,979**	1,222,989

(c) Future lease payments

	2023 $	2022 $
- Not later than 1 year	**518,144**	441,566
- Later than 1 year and not later than 5 years	**1,060,177**	1,059,327
- Later than 5 years	**217,087**	289,737
Total future lease payments at the reporting date	**1,795,408**	**1,790,630**

	2023 $	2022 $
NOTE 12: INTANGIBLE ASSETS		
Goodwill on consolidation	**4,962,682**	4,962,682
Provision for impairment loss	**-**	-
	4,962,682	4,962,682
Patents at cost	**330**	330
Accumulated amortisation	**-**	-
	330	330
Computer software at cost	**87,469**	86,838
Accumulated amortisation	**(85,310)**	(79,945)
	2,159	6,893
Customer relationships at cost	**2,246,829**	2,246,829
Accumulated amortisation	**(699,013)**	(549,225)
	1,547,816	1,697,604
Brand names at cost	**2,512,151**	2,512,151
Accumulated amortisation	**(2,344,674)**	(1,842,244)
	167,477	669,907
Non-compete at cost	**2,377,696**	2,377,696
Accumulated amortisation	**(2,377,696)**	(2,377,696)
	-	-
Total intangible assets	**6,680,464**	7,337,416

(a) Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year

	2023 $	2022 $
Goodwill on consolidation at cost		
Opening balance	**4,962,682**	4,962,682
Closing balance	**4,962,682**	4,962,682
Computer software		
Opening balance	**6,893**	13,582
Additions	**632**	3,151
Amortisation	**(5,366)**	(9,840)
Closing balance	**2,159**	6,893
Customer relationships		
Opening balance	**1,697,604**	1,847,393
Amortisation	**(149,788)**	(149,789)
Closing balance	**1,547,816**	1,697,604

	2023	2022
	$	$

NOTE 12: INTANGIBLE ASSETS (CONTINUED)

(a) Reconciliations (Continued)

	2023 $	2022 $
Brands		
Opening balance	**669,907**	1,172,337
Amortisation	**(502,430)**	(502,430)
Closing balance	**167,477**	669,907
Non-compete		
Opening balance	**-**	264,188
Amortisation	**-**	(264,188)
Closing balance	**-**	-

Amortisation expense in relation to intangible assets has been recognised in depreciation and amortisation expenses within profit or loss.

The remaining amortisation period of the carrying amounts for the individually material intangibles is 10-11 years for customer relationships and 1 year for brands.

(b) Indefinite life intangible assets

Goodwill is recognised at cost at the date of acquisition and are subsequently tested for impairment on an annual basis.
The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a minimum period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 9.3% (2022: 12.4%) for cash flows in year two to five and which is based on the historical average. A terminal value growth rate of 2.5% and (2022: 2.5%) a pre-tax discount rate of 12% (2022: 10%) is used to determine value-in-use.

NOTE 13: OTHER FINANCIAL ASSETS

	2023 $	2022 $
CURRENT		
Hedging instruments		
Cash flow hedge		
Interest rate hedging instrument	**20,069**	-
NON CURRENT		
Financial assets at fair value through profit or loss		
Shares in other corporations	**1,210**	1,138
Hedging instruments		
Cash flow hedge		
Interest rate hedging instrument	**30,103**	-
	31,313	1,138

	2023 $	2022 $
NOTE 14: PAYABLES		
CURRENT		
Unsecured liabilities		
Trade creditors	**1,226,613**	795,615
Amounts payable to:		
- Other related companies	**973,840**	547,954
GST payable	**243,660**	104,281
Other payables	**238,154**	167,305
Accrued expenses	**1,008,230**	945,331
	3,690,497	2,560,486

Refer to note 20 for information on related party balances.

	2023 $	2022 $
NOTE 15: BORROWINGS		
CURRENT		
Secured liabilities		
Bank loans	**2,300,000**	2,300,000
NON CURRENT		
Secured liabilities		
Bank loans	**3,450,000**	5,750,000

(a) Terms and conditions

Terms of the loan

The group's loans are secured against the assets of the group while a corporate guarantee is also provided by the group's ultimate parent entity, Elgi Equipments Limited, in the event that the group defaults on the terms and conditions of its major borrowing facilities.

Covenant compliance

Under the terms of the major borrowing facilities, Elgi Equipments Limited, is required to comply with the following financial covenants:

- The consolidated gearing shall not exceed 1.5 times;
- The consolidated leverage shall not exceed 3.3 times; and
- The consolidated debt service coverage ratio shall not fall below 1.5 times.

The group has complied with these covenants throughout the reporting period.

	2023 $	2022 $
NOTE 16: PROVISIONS		
CURRENT		
Employee benefits	**876,640**	911,495
Warranties	**16,635**	16,635
	893,275	928,130
NON CURRENT		
Employee benefits	**96,263**	106,940

NOTE 17: FINANCIAL LIABILITIES AT FAIR VALUE

	2023 $	2022 $
CURRENT		
Hedging instruments		
Cash flow hedge		
Interest rate hedging instrument	**-**	27,713
NON CURRENT		
Hedging instruments		
Cash flow hedge		
Interest rate hedging instrument	**-**	101,613

NOTE 18: CONTRACT LIABILITIES

	2023 $	2022 $
CURRENT		
Deferred income	**683,617**	377,919

A contract liability represents the group's obligation to transfer goods or services to the customer for which the group has received consideration (or an amount of consideration is due) from the customer. A contract liability arises in relation to the sale and service of industrial air compressors when consideration is received from the customer in advance of services being performed. Amounts recorded as contract liabilities are subsequently recognised as revenue when the group transfers the contracted goods or services to the customer.

NOTE 19: KEY MANAGEMENT PERSONNEL COMPENSATION

	2023 $	2022 $
Total compensation paid or payable to key management personnel	**245,186**	288,813

A proportion of the group's key management personnel compensation is paid by a related party, Elgi Equipments Australia Pty Ltd. The costs associated with key management personnel compensation is recharged by Elgi Equipments Australia Pty Ltd back to the group.

NOTE 20: RELATED PARTY TRANSACTIONS

(a) Outstanding balances and transactions arising from sales/purchases of goods and services

Related Party Payables:

- **Payable to Elgi Equipments Limited -** The group has a payable of $31,738 (2022: $21,347) due to the ultimate parent. The payable arises primarily for general expense recharges, for which recharges of $31,738 (2021: $21,347) was recognised during the period. The payable does not attract interest and is expected to be settled in the next 12 months.
- **Payable to Elgi Equipments Australia Pty Ltd -** The group has a payable of $942,102 (2022: $526,607) due to Elgi Equipments Australia Pty Ltd. The payable arises primarily for purchases of inventory, for which purchases of $3,455,663 (2022: $2,814,876) was recognised during the period. The payable does not attract interest and is expected to be settled in the next 12 months.

(b) Other transactions with related parties

- **Transactions with Elgi Equipments Australia Pty Ltd -** The group recorded sales revenue of $66,257 (2022: $58,260) with Elgi Equipments Australia Pty Ltd, a related party. The group incurred expenses of $401,844 (2022: $335,804) in relation to general expense recharges paid by Elgi Equipments Australia Pty Ltd on behalf of the group. Furthermore, general expenses paid by the group on behalf of Elgi Equipments Australia Pty Ltd of $535,577 (2022: $351,873) were recharged back to the related party. Included in the recharges was key management personnel remuneration paid by the group on behalf of the related party.

	2023 $	2022 $
NOTE 21: REMUNERATION OF AUDITORS		
Remuneration of auditors for:		
Pitcher Partners (Brisbane)		
- Audit of Industrial Air Compressors Pty Ltd and its controlled entities	**37,100**	31,000

NOTE 22: CASH FLOW INFORMATION

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	2023	2022
Cash on hand	**700**	700
Cash at bank	**832,444**	1,923,901
	833,144	1,924,601

	2023	2022
	$	$

NOTE 23: SHARE CAPITAL

Issued and paid-up capital		
120 (2022: 120) Ordinary shares	**120**	120

Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders 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.

At shareholders 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 24: RESERVES

Cashflow hedge reserve, net of taxes	**35,120**	(90,529)

NOTE 25: CONTINGENT LIABILITIES

No contingent liabilities have been identified as at 31 March 2023 (2022: $nil).

NOTE 26: INTERESTS IN SUBSIDIARIES

The following are the group's significant subsidiaries:

	Ownership interest held by the group	
	2023	2022
	%	%
F.R Pulford & Sons Pty Ltd	**100**	100
Advanced Air Compressors Pty Ltd	**100**	100

	2023	2022
	$	$

NOTE 27: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Industrial Air Compressors Pty Ltd, financial statements:

(a) Summarised consolidated statement of financial position

	2023 $	2022 $
Assets		
Current assets	**21,469**	1,135
Non-current assets	**14,368,860**	14,386,854
Total assets	**14,390,329**	14,387,989
Liabilities		
Current liabilities	**12,631,539**	10,098,622
Non-current liabilities	**3,454,470**	5,851,613
Total liabilities	**16,086,009**	15,950,235
Net liabilities	**(1,695,680)**	(1,562,246)
Equity		
Share capital	**120**	120
Accumulated losses	**(1,730,920)**	(1,471,837)
Cashflow hedge reserve	**35,120**	(90,529)
Total equity	**(1,695,680)**	(1,562,246)

(b) Summarised consolidated statement of profit or loss and other comprehensive income

	2023 $	2022 $
Loss for the year	**(259,083)**	(331,074)
Other comprehensive income for the year	**125,649**	338,377
Total comprehensive income/(loss) for the year	**(133,434)**	7,303

(c) Parent entity guarantees

The parent entity is not party to any guarantees (2022: $nil).

(d) Parent entity contingent liabilities

The parent entity has no contingent liabilities at balance date (2022: $nil).

(e) Parent entity contractual commitments

The parent entity has no contractual commitments at balance date (2022: $nil).

NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE

There has been no matter or circumstance, which has arisen since 31 March 2023 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 31 March 2023, of the group, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 31 March 2023, of the group.

NOTE 29: ENTITY DETAILS

The registered office of the group is:

Industrial Air Compressors 31 Mar 2023
3 Squill Place
Arndell Park
NSW 2148

INDUSTRIAL AIR COMPRESSORS PTY LTD AND CONTROLLED ENTITIES
ABN: 59 626 909 715

DIRECTORS' DECLARATION

The directors of the company declare that:

1. In the directors opinion, the financial statements and notes thereto, as set out on pages 4 - 33, are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Australian Accounting Standards - Simplified Disclosures and the *Corporations Regulations 2001*; and

   (b) giving a true and fair view of the financial position of the consolidated entity as at 31 March 2023 and its performance for the year ended on that date.

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

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

Director: ______________________

Ramesh Muthuswamy Ponnuswami

Director: ______________________

Ramchandran Jayakanthan

Dated this 15TH day of May 2023

PITCHER PARTNERS

Level 38, 345 Queen Street
Brisbane, QLD 4000

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GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

Independent Auditor's Report to the Members of Industrial Air Compressors Pty Ltd
Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Industrial Air Compressors Pty Ltd ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 March 2023, 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, 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:

(a) giving a true and fair view of the Group's financial position as at 31 March 2023 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the 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 (including Independence Standards)* "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.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the company's directors report for the year ended 31 March 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* 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 has 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Pitcher Partners

PITCHER PARTNERS

DAN COLWELL
Partner

Brisbane, Queensland
15 May 2023