Phoslock Environment Technologies Limited (ASX:PET)

Half year results – 30 June 2021

Friday, 1 October 2021

Phoslock Environment Technologies Limited release the final audited results for the half year (interim) ended 30 June 2021, today.

The prior announcement and Appendix 4D released on 31 August 2021, included unreviewed interim financial report.

Subsequent to the release of the Appendix 4D, the Group continued to undertake a review of its financial position and financial performance in order to identify, quantify and account for transactions connected with previously disclosed accounting irregularities. The process also included a review of prior period accounting transactions and judgments dating back to 2017. Consequently, the Company identified accounting errors made in prior periods and amended previous accounting estimates and judgements

The outcome of the changes to the half year ended 30 June 2021 is detailed below:

	30 June 2021 Interim Report	**30 June 2021 Unaudited** (Prior Reported)
	$000's	$000's
Revenue	1,326	1,326
Net Profit/(Loss) after Tax ('NPAT')	(1,207)	(755)
Add: Finance costs	11	11
Add: Impairment of receivables/(reversals)	(536)	(536)
Add: Impairment of assets/(reversals)	(2,405)	(2,558)
Add: Foreign exchange losses/(gains)	79	79
Less: Interest revenue	(12)	(12)
Less: Gain on lease modifications	(115)	(115)
Underlying EBIT*	**(4,185)**	**(3,886)**

*Underlying EBIT is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for the add back of income tax, finance costs and certain non-cash income and expense items that are deemed to not have an ongoing affect to the underlying performance of the business. The Company believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Phoslock Environmental Technologies Limited

ABN 88 099 555 290

Interim Report - 30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Phoslock Environmental Technologies Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2021. The Board took the decision that, given the various matters which have recently impacted the accounts, it would be in the interests of shareholders for these half year accounts to be subject to an audit, rather than a review which is typically undertaken at the half year period.

Directors
The following persons were directors of Phoslock Environmental Technologies Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

David Krasnostein AM - Chairman (appointed on 25 May 2021) and Non-Executive Director (appointed on 5 April 2021)
Brenda Shanahan
Lachlan McKinnon
Barry Sechos (appointed on 1 February 2021)
Bob Prosser (appointed on 5 April 2021)
Laurence Freedman AM (retired on 25 May 2021)

Principal activities
The principal activities of the Group during the period were selling and marketing of the patented product 'Phoslock®' and providing design, engineering and project implementation solutions for water related projects and water treatment products to clean up lakes, rivers, canals, wetlands and drinking water reservoirs. The Group devotes significant resources on the evaluation and development of new water treatment products and technologies through in-house development, licensing arrangements or acquisition.

Review of operations
The loss for the Group after providing for income tax amounted to $1,207,000 (30 June 2020: $21,617,000).

The reconciliation of statutory Net Profit/(Loss) after Tax ('NPAT') to Underlying Earnings Before Interest and Taxes adjusted for other items ('Underlying EBIT') is outlined below:

	Consolidated	
	30 Jun 2021 $'000	30 Jun 2020 Restated $'000
Revenue	1,326	2,090
Net Profit/(Loss) after Tax ('NPAT')	(1,207)	(21,617)
Add: income tax expense/(benefit)	-	(36)
Add: Finance costs	11	105
Add: Impairment of receivables/(reversals)	(536)	9,804
Add: Impairment of assets/(reversals)	(2,405)	7,536
Add: Share-based expense expense/(reversals)	-	(30)
Add: Foreign exchange losses/(gains)	79	(79)
Less: Interest revenue	(12)	-
Less: Gain on lease modifications	(115)	-
Underlying EBIT*	(4,185)	(4,317)

* Underlying EBIT is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit or loss under AAS adjusted for the add back of income tax, finance costs and certain non-cash income and expense items that are deemed to not have an ongoing affect to the underlying performance of the business. The Company believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Operating results

Revenue for the period was $1,326,000, which was down 37% on the $2,090,000 generated in the prior corresponding period. The business continued to face headwinds during the first half of 2021 as a result of COVID-related impacts which contributed to project delays and the continued priority given by government authorities to manage COVID related health initiatives. The Company continued to execute on its diversification strategy and generated sales across North and South America, Europe and China.

Gross profit was $684,000 for the six months (6 months to 30 June 2020: $1,120,000). The gross profit margin was 52%, slightly down on the prior period's 54% as a result of higher freight costs in the period which was partially offset with lower settlement discounts provided to customers to stimulate early payment in the prior period and slightly lower project application costs.

Underlying EBIT for the period was a loss of $(4,185,000) compared to a restated loss of $(4,317,000) in the prior corresponding period. Lower sales revenue and gross margin was offset with lower operating expenses in the period. Whilst operating expenses were lower in the reporting period, they remained relatively high as a result of expenditure on interim management and restructuring costs in China, ongoing legal expenses as a result of the fraud and mismanagement investigations and consultancy costs relating to reviews of the R&D program and the Company's manufacturing/supply chain strategy. These reviews are expected to be completed within the 2021 financial year.

NPAT for the six months amounted to a loss of $(1,207,000). This compared to an restated NPAT loss of $(21,617,000) in the prior corresponding period. As foreshadowed in Subsequent Events in the 2020 full year accounts, the reporting period included non-cash adjustments to the right-of-use asset (leases) as a result of the Group signing a lease modification with its landlord in relation to the Zheijang Phoslock Environmental Technologies Ltd (China)('PETZ') factory. The modification reduced the lease term, square footage and overall cost and is part of the ongoing effort to right-size the business. The value of this adjustment was $3,125,000.

The period also included the receipt of the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake in China. Given circumstances and uncertainties at the time, the receivable relating to the full payment for this work was impaired in the first half of the 2020 financial year. Although the part-payment was a positive outcome, payment for the balance of the project remains outstanding and the Company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect. Within the period, the business added to existing tax losses in Australia that will be utilised against profits in future periods.

Following the investigation of the Company's previously disclosed activities in China, the Company has launched legal actions to recover payment of outstanding amounts owing by a former substantial customer and related party, Beijing BHZQ Environmental Engineering Technology Co., Ltd (BHZQ). The outstanding amounts are for goods and services supplied by the Company's Chinese subsidiaries to BHZQ up until 2020. BHZQ has responded by making various counterclaims based on the quality of the goods and services. All of these matters have been listed for arbitration, except one which is to be adjudicated in the courts. A final determination is expected to be made by the end of 2021.

Cash Flows

Operating Cash Flow for the six months period was a cash outflow of $(3,848,000) (6 months to 30 June 2020: outflow of $8,387,000), representing an improvement of $4,539,000 over the prior period.

Cash payments from customers for the six month period were $2,822,000 (6 months to 30 June 2020: $3,674,000). Cash payments to suppliers, consultants and employees for the six month period was $6,275,000 (6 months to 30 June 2020: $12,306,000). The decrease in cash outflow relates primarily to lower employee payments and lower manufacturing related activity. The prior period included higher spending in inventory levels as a result of the manufacturing plant building safety stocks as insurance against possible COVID-related shutdowns. The period also included higher tax payments as the Company continued to resolve legacy tax issues identified in the accounting investigations.

Spending on new plant, equipment, and intangibles for the six months to 30 June 2021 totalled $45,000. This was mainly for the Chinese manufacturing facilities and R&D related activity, primarily patent applications.

Financial position

Current assets of the Group as at 30 June 2021 were $32,409,000, made up of cash ($26,299,000); trade and other receivables ($1,735,000) and inventories ($3,882,000) and other assets ($493,000).

Current liabilities of the Group as at 30 June 2021 were $4,153,000 made up of trade / other payables, lease liabilities and employee liabilities.

The net assets of the Group were $28,506,000 as of 30 June 2021, relatively unchanged from 31 December 2020 $29,647,000 (restated). The operating cash outflow of $3,848,000 over the period was largely offset by the revised lease adjustments.

The half-year financial statements have been prepared on the going concern basis of accounting, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, supported by the Group's cash position (as above) and net current asset position of $28,256,000 as at 30 June 2021. At balance date, the Group had no external loan facilities.

Whilst the Group expects to utilise some of its available cash reserves to support its operating activities in the short term, and settle amounts relating to external advisor costs arising from the ongoing Board investigation, the Group's current cashflow forecasts indicate that the cash held by the Group will be sufficient to support its operating activities and pay creditors as and when they fall due for no less than 12 months from the date of this directors' report.

Impairment of receivables

Following the investigation of the Company's previously disclosed activities in China, the Company has launched legal actions to recover payment of outstanding amounts owing by a former substantial customer and related party, Beijing BHZQ Environmental Engineering Technology Co., Ltd ('BHZQ'). The outstanding amounts are for goods and services supplied by the Company's Chinese subsidiaries to BHZQ up until 2020. BHZQ has responded by making various counterclaims based on the quality of the goods and services. All of these matters have been listed for arbitration, except one which is to be adjudicated in the courts. A final determination is expected to be made by the end of 2021. The Group continues to recognise an impairment provision of $2,121,000 for the half year ended 30 June 2021 for the amount outstanding from BHZQ. This amount constitutes the full balance owing.

As noted in the 31 December 2020 financial statements, the Group identified an amount of $398,000 in accounts payable, which related to a contractual obligation to pay a third party connected with transactions under investigation. The contract was characterised as labour services connected to the Xingyun Lake Project. Due to concerns regarding the interdependency of the contracts related to the Xingyun Lake Project, management concluded that the recoverability of outstanding accounts receivable in relation to this contract was uncertain, notwithstanding that the terms of the Xingyun Lake contract did not require payment until 31 March 2021. Management therefore concluded to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

Within the current period, the Company received the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake. The part payment resulted in a partial write back of the impairment provision maintained at 31 December 2020. Although this recent part-payment is a positive outcome, it is for initial work, not the bulk of the project application. The company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

At around the same time, the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an accounts payable provision of $349,000 as a credit to the profit and loss account "other income", in accordance with accounting standards.

Notwithstanding the release of the contractual obligation, it remains management judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remain.

The Company remains in constant contact with Xingyun Lake officials to secure payment. Recently, officials of the lake have made preliminary overtures to reach agreement on a payment plan. These types of overtures in the past have borne little fruit. Should the Lake agree to a payment plan and demonstrate a consistency of payment to the plan, management will asses its judgement on the balance of that receivable in line with the Group policy.

Both of these transactions have been treated as other income items as they are deemed to not have an ongoing affect to the underlying performance of the business. Management believes that presenting Underlying EBIT provides a better understanding of its financial performance by facilitating a more representative comparison of financial performance between financial periods.

Significant changes in the state of affairs

On 17 September 2020 the Group requested a trading halt on the Australia Securities Exchange ('ASX'). On 21 September 2020 the Group was suspended from quotation under Listing Rule 27.2, pending the outcome of investigations associated with the Group's operations. The details of these matters are detailed in the 'Board Investigation' section of the Annual report for 2020. This can be found at https://www.phoslock.com.au/site/Investors/reports1/Annual-Reports. As at the date of this Report the Group remains suspended from quotation.

The financial statements included within this half-year report reflect the outcome of relevant investigations as they relate to the half-year ended 30 June 2021 and comparative period.

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Environmental Issues

The Group's operations are subject to environmental regulation of the territories in which it operates. Details of the Group's performance in relation to environmental regulations are as follows:

The Group commits to comply with all regulations governing the use and application of its water technology products both in Australia and internationally.

Phoslock® has been awarded the North American Drinking Water certification (NSF/ANSI 60) since 2011. The certification is renewed annually.

In January 2019, the Company's existing Changxing factory received the following accreditation from TÜV Rheinland, a German engineering accreditation agency:

- ISO 9001 – certification stating that the Company's Quality Control and Documentation of all procedures meets international standards set by ISO – International Standards Organisation for Quality Management Systems;
- ISO 14000 – Environmental Management Standards Certification; and
- OSHA 18000 - Health and Safety Management Systems.

Phoslock® has been tested by the Chinese Research Academy of Environmental Sciences (CRAES) who has issued test certificates of compliance. Phoslock® is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. Phoslock® has low risk to the hydro-ecological system.

In July 2019, Phoslock® was accredited by the Chinese Ministry of Water Resources (MWR) as an approved phosphorus absorption technology in the Ministry's official gazette. MWR administers over 100,000 lakes and drinking water reservoirs in China.

In Europe, the product is legally imported and sold under REACH regulation for the region.

Phoslock® has been certified by IBAMA (the Brazilian Ministry for the Environment) for import, sale and use in Brazil. Internationally, the Group is committed to comply with all local regulatory authority requirements.

The Group is continuing to assess certain regulatory compliance and operational matters associated with excess wastewater discharge connected with its Chinese manufacturing operations which may result in penalties or the Group incurring additional costs associated with rectification activities from regulatory bodies such as environmental authorities. As at the date of this financial report it is not possible to measure the contingent obligation with sufficient reliability as it remains subject to the outcome of future events not wholly within the control of the entity. The Group will recognise a liability for these amounts if and when the contingent obligations are confirmed and can be reliably measured.

Other than in respect to the Group's Chinese operations, the Directors are not aware of any breaches of environmental regulations by the Group in any of the other regions in which the Group operates.

Extended reporting and lodgement deadlines

Phoslock Environmental Technologies Limited ('PET') is relying on the reporting relief granted by ASIC under ASIC Corporations (Extended Reporting and Lodgement Deadlines—Listed Entities) Instrument 2020/451, as amended by ASIC Corporations (Amendment) Instrument 2020/1080 and ASIC Corporations (Amendment) Instrument 2021/315), to extend the lodgement date for its audited half-year accounts, and other documents required to be lodged under section 320 of the Corporations Act 2001, for the half-year ending 30 June 2021 ('HY21').

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 thousand dollars, or in certain cases, 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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Lachlan McKinnon
Managing Director

David Krasnostein
Chairman

1 October 2021
Melbourne

Accountants & Advisors

Take the lead

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

As lead auditor, I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2021 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and

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

ShineWing Australia

ShineWing Australia
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 1 October 2021

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Phoslock Environmental Technologies Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2021

	Note	Consolidated 30 Jun 2021 $'000	30 Jun 2020 Restated $'000
Revenue			
Sales revenue		1,326	2,090
Cost of sales		(642)	(970)
Gross profit		684	1,120
Other income	7	624	150
Interest revenue calculated using the effective interest method		12	44
Expenses			
Distribution		(49)	(64)
Marketing		(75)	(217)
Occupancy		(44)	(93)
Director, listing and professional fees		(3,028)	(1,025)
Administration		(2,261)	(4,153)
Reversals/(impairment) of receivables	9	536	(9,804)
Reversals/(impairment) of assets	8	2,405	(7,536)
Share-based expense reversal		-	30
Finance costs	8	(11)	(105)
Loss before income tax benefit		(1,207)	(21,653)
Income tax benefit		-	36
Loss after income tax benefit for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(1,207)	(21,617)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		66	1,145
Other comprehensive income for the half-year, net of tax		66	1,145
Total comprehensive loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(1,141)	(20,472)
		Cents	Cents
Basic earnings per share	18	(0.19)	(3.70)
Diluted earnings per share	18	(0.19)	(3.70)

Refer to note 4 for detailed information on Restatement of comparatives.

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

Phoslock Environmental Technologies Limited
Consolidated statement of financial position
As at 30 June 2021

	Note	Consolidated 30 Jun 2021 $'000	Consolidated 31 Dec 2020 Restated $'000
Assets			
Current assets			
Cash and cash equivalents		26,299	30,441
Trade and other receivables	9	1,735	2,726
Inventories	10	3,882	3,959
Other assets		493	331
Total current assets		32,409	37,457
Non-current assets			
Property, plant and equipment	11	36	73
Right-of-use assets	12	134	165
Intangibles		215	187
Total non-current assets		385	425
Total assets		32,794	37,882
Liabilities			
Current liabilities			
Trade and other payables		3,671	3,659
Lease liabilities	13	261	544
Income tax		-	444
Employee benefits		221	296
Total current liabilities		4,153	4,943
Non-current liabilities			
Lease liabilities	13	135	3,292
Total non-current liabilities		135	3,292
Total liabilities		4,288	8,235
Net assets		28,506	29,647
Equity			
Issued capital	14	92,398	92,398
Reserves		1,051	985
Accumulated losses		(64,943)	(63,736)
Total equity		28,506	29,647

Refer to note 4 for detailed information on Restatement of comparatives.

Phoslock Environmental Technologies Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2021

Consolidated	Issued capital $'000	Option reserves $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2020	63,387	30	577	(38,237)	25,757
Restatement of comparatives (note 4)	(61)	-	-	(7)	(68)
Balance at 1 January 2020 - restated	63,326	30	577	(38,244)	25,689
Loss after income tax benefit for the half-year	-	-	-	(21,617)	(21,617)
Other comprehensive income for the half-year, net of tax	-	-	1,145	-	1,145
Total comprehensive income/(loss) for the half-year	-	-	1,145	(21,617)	(20,472)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	29,162	-	-	-	29,162
Lapsed option reversal	-	(30)	-	-	(30)
Balance at 30 June 2020	92,488	-	1,722	(59,861)	34,349

Consolidated	Issued capital $'000	Option reserves $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2021	92,459	-	985	(63,971)	29,473
Restatement of comparatives (note 4)	(61)	-	-	235	174
Balance at 1 January 2021 - restated	92,398	-	985	(63,736)	29,647
Loss after income tax expense for the half-year	-	-	-	(1,207)	(1,207)
Other comprehensive income for the half-year, net of tax	-	-	66	-	66
Total comprehensive income/(loss) for the half-year	-	-	66	(1,207)	(1,141)
Balance at 30 June 2021	92,398	-	1,051	(64,943)	28,506

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

	Consolidated	
	30 Jun 2021 $'000	30 Jun 2020 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	2,822	3,674
Payments to suppliers and employees (inclusive of GST)	(6,275)	(12,306)
Government grants and incentives received	129	489
Interest received	12	30
Interest and other finance costs paid	(11)	-
Income taxes paid	(525)	(274)
Net cash used in operating activities	(3,848)	(8,387)
Cash flows from investing activities		
Payments for property, plant and equipment	(3)	(21)
Payments for intangibles	(44)	(10)
Proceeds from disposal of property, plant and equipment	2	-
Net cash used in investing activities	(45)	(31)
Cash flows from financing activities		
Proceeds from issue of shares	-	30,004
Share issue transaction costs	-	(842)
Repayment of lease liabilities	(315)	(904)
Net cash from/(used in) financing activities	(315)	28,258
Net increase/(decrease) in cash and cash equivalents	(4,208)	19,840
Cash and cash equivalents at the beginning of the financial half-year	30,441	14,959
Effects of exchange rate changes on cash and cash equivalents	66	446
Cash and cash equivalents at the end of the financial half-year	26,299	35,245

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

Note 1. General information

The financial statements cover Phoslock Environmental Technologies Limited as a Group consisting of Phoslock Environmental Technologies Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Phoslock Environmental Technologies Limited's functional and presentation currency.

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

Level 16
1 Collins St
Melbourne, VIC 3000

A description of the nature of the Group'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 1 October 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

The Group 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.

Going concern

The directors have formed the view that the financial statements should be prepared on the going concern basis of accounting, which assumes, the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. This is supported by the Group's strong cash position and net current asset position of $28,256,000 as at 30 June 2021 (31 December 2020 restated: $32,514,000), and the Group having no external loan facilities and no litigation matters currently against it.

Note 3. 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.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

COVID-19 pandemic
Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Coronavirus (COVID-19) impacted the business through the reporting period via restrictions imposed in key markets to slow the spread of the virus. Restrictions in Beijing caused challenges in business development as key personnel could not visit strategically important clients and sites. China sales were delayed through the period as government officials reprioritised short term emergency resources away from projects such as lake restoration towards immediate health resources. In Europe, several projects were impacted by COVID-19 related delays. In those instances, authorities with which PET has contracted remediation works have cited more pressing expenditure priorities associated with supporting local communities during the pandemic. While these projects have been delayed, none has been cancelled. Other than the above, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

Allowance for expected credit losses
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the COVID-19 pandemic and forward-looking information that is available. The allowance for expected credit losses, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower. See note 9 for further information.

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. See note 10 for further information.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Uncertain tax positions
The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement and estimates are required in recognising and measuring current and deferred tax amounts. For any uncertain tax treatment adopted relating to transactions or events, the Group recognises and measures tax related amounts having regard to both the probability that such amounts may be challenged by a tax authority and the expected resolution of such uncertainties. In such circumstances, tax balances are determined based on either most-likely amount or expected-value probability based outcomes. Where final tax outcomes vary from what is estimated, such differences will impact the current and deferred tax provisions recognised in the financial statements.

Note 4. Restatement of comparatives

During the period, the Group continued to undertake a review of its financial position and financial performance in order to identify, quantify and account for transactions connected with previously disclosed accounting irregularities. The process also included a review of prior period accounting transactions and judgments dating back to 2017. Consequently, the Company identified accounting errors made in prior periods and amended previous accounting estimates and judgements, which are detailed below.

Where appropriate, the Group has restated prior period comparatives in relation to these matters.

In respect to prior periods, the Group has made the following adjustments which impact:
- the comparative statement of financial position as at 31 December 2019 and 31 December 2020;
- the opening statement of financial position of the comparative period as at 31 December 2019; and
- the comparative statement of profit or loss and other comprehensive income of the Group for the half year ended 30 June 2020 and for the year ended 31 December 2020.

Note 4. Restatement of comparatives (continued)

The following adjustments were made:

(1) An error was found in the initial estimate arising from the finalisation of analysis by the Group's tax advisors with respect to payroll tax associated with the vesting of options issued to employees for 31 December 2019 and prior. The initial estimate was made in 31 December 2020 and has been corrected in the same period.
(2) De-recognition of a liability for the opening balance 31 December 2019 to correct for a duplicate intercompany invoice input in error. The transaction related to an intercompany transaction between the Company's UK subsidiary and parent made in 2016.
(3) To record amortisation expense for Patents to be in line with the Company's Intangible Assets (Patents) Accounting policy for transactions dating back to 2017.
(4) De-recognition of a prepayment held as at 31 December 2019 and recognition of an expense for the period ended 31 December 2019 related to the registration of the Phoslock product under the EU's REACH program. REACH is the European system for the registration of chemical substances without which substances such as Phoslock can't be manufactured, imported or sold in the EU.
(5) The Company has become aware that 610,000 ordinary shares in the Company were invalidly issued to one of its wholly-owned subsidiaries in 2017 and 2019. These transactions have been accounted for and adjusted accordingly to reflect that the purported issue was void. Refer to note 14 for further details
(6) De-recognition of an overprovision for income tax in China tax at 31 December 2020 which should have been written back in that year.

The effects of these adjustments and the impact on the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income for the 31 December 2020 comparative period and 31 December 2019 opening statement of financial position were as follows:

	As at 31 December 2020				As at 31 December 2019			
	Assets increase / (decrease) $'000	Liabilities (increase) / decrease $'000	Equity (increase) / decrease $'000	Profit increase / (decrease) $'000	Assets increase / (decrease) $'000	Liabilities (increase) / decrease $'000	Equity (increase) / decrease $'000	Retained earnings increase / (decrease) $'000
Adjustment 1	-	87	(87)	87	-	-	-	-
Adjustment 2	-	69	(69)	-	-	69	(69)	69
Adjustment 3	(22)	-	22	(10)	(12)	-	12	(12)
Adjustment 4	(58)	-	58	6	(64)	-	64	(64)
Adjustment 5	(61)	-	61	-	(61)	-	61	-
Adjustment 6	-	159	(159)	159	-	-	-	-
	(141)	315	(174)	242	(137)	69	68	(7)

Note 4. Restatement of comparatives (continued)

The effects of these adjustments on the statement of profit or loss on the comparative period 30 June 2020 and year ended 31 December 2020 were as follows:

	Half year ended 30 June 2020				Year ended 31 December 2020			
	Revenue increase / (decrease $'000	Gross profit increase) / (decrease) $'000	Operating profit increase / (decrease) $'000	Profit after tax increase / (decrease) $'000	Revenue increase / (decrease) $'000	Gross profit increase / (decrease) $'000	Operating profit increase / (decrease) $'000	Profit after tax increase / (decrease) $'000
Adjustment 1	-	-	-	-	-	-	87	87
Adjustment 2	-	-	-	-	-	-	-	-
Adjustment 3	-	-	(5)	(5)	-	-	(10)	(10)
Adjustment 4	-	-	-	-	-	-	6	6
Adjustment 5	-	-	-	-	-	-	-	-
Adjustment 6	-	-	-	-	-	-	-	159
	-	-	(5)	(5)	-	-	83	242

These transactions have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Consolidated statement of financial position	31-Dec-20 Reported $'000	Increase/ (decrease) $'000	31-Dec-20 Restated $'000	31-Dec-19 Reported $'000	Increase/ (decrease) $'000	31-Dec-19 Restated $'000
Assets						
Current assets						
Cash and cash equivalents	30,441	-	30,441	14,959	-	14,959
Trade and other receivables	2,726	-	2,726	12,443	-	12,443
Inventories	3,959	-	3,959	4,726	-	4,726
Other assets	450	(119)	331	848	(125)	723
Non-current assets						
Property, plant and equipment	73	-	73	1,566	-	1,566
Right-of-use assets	165	-	165	699	-	699
Intangibles	209	(22)	187	196	(12)	184
Total assets	38,023	(141)	37,882	35,437	(137)	35,300
Liabilities						
Current liabilities						
Trade and other payables	3,815	(156)	3,659	7,726	(69)	7,657
Lease liabilities	544	-	544	352	-	352
Income tax	603	(159)	444	708	-	708
Employee benefits	296	-	296	549	-	549
Non-current liabilities						
Lease liabilities	3,292	-	3,292	326	-	326
Other liabilities	-	-	-	19	-	19
Total liabilities	8,550	(315)	8,235	9,680	(69)	9,611
Equity						
Issued capital	92,459	(61)	92,398	63,387	(61)	63,326
Reserves	985	-	985	607	-	607
Accumulated losses	(63,971)	235	(63,736)	(38,237)	(7)	(38,244)
Total equity	29,473	174	29,647	25,757	(68)	25,689

Note 4. Restatement of comparatives (continued)

Consolidated statement of profit or loss	Half-year ended 30 June 2020 Reported $'000	Increase/ (decrease) $'000	Half-year ended 30 June 2020 Restated $'000	Year ended 31 Dec 2020 Reported $'000	Increase/ (decrease) $'000	Year ended 31 Dec 2020 Restated $'000
Sales revenue	2,090	-	2,090	6,878	-	6,878
Cost of sales	(970)	-	(970)	(2,775)	-	(2,775)
Gross profit	1,120	-	1,120	4,103	-	4,103
Other income	150	-	150	298	-	298
Interest revenue calculated using the effective interest method	44	-	44	106	-	106
Distribution	(64)	-	(64)	(98)	-	(98)
Marketing	(217)	-	(217)	(336)	6	(330)
Occupancy	(93)	-	(93)	(342)	-	(342)
Director, listing and professional fees	(1,025)	-	(1,025)	(4,124)	-	(4,124)
Administration	(4,148)	(5)	(4,153)	(6,964)	77	(6,887)
Impairment of receivables	(9,804)	-	(9,804)	(10,935)	-	(10,935)
Impairment of assets/(reversals of impairment)	(7,536)	-	(7,536)	(7,381)	-	(7,381)
Share-based expense reversal	30	-	30	30	-	30
Finance costs	(105)	-	(105)	(204)	-	(204)
	(22,768)	(5)	(22,773)	(29,950)	83	(29,867)
Income tax expense	36	-	36	113	159	272
Profit after income tax	(21,612)	(5)	(21,617)	(25,734)	242	(25,492)
	Cents Reported	Cents Adjustment	Cents Restated	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	(3.69)	(0.01)	(3.70)	(4.25)	0.17	(4.08)
Diluted earnings per share	(3.69)	(0.01)	(3.70)	(4.25)	0.17	(4.08)

Note 5. Operating segments

Identification of reportable operating segments
The Group is organised into four operating segments based on geographical areas: Australia/NZ, Europe/UK, US/Canada/Brazil and China. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews earnings before interest and taxes ('EBIT'). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Intersegment transactions
Intersegment sales were made at an internally determined transfer price. The price is based on what would be realised in the event the sale was made to an external party at arm's-length. Intersegment sales are eliminated on consolidation.

Corporate charges are allocated to reporting segment based on the segment's overall proportion of revenue generation within the Group. The Board believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Note 5. Operating segments (continued)

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Major customers
During the half-year ended 30 June 2021, approximately 82% of the Group's external revenue was derived from sales to 3 customers (30 June 2020: approximately 46% of the Group's external revenue was derived from sales to 3 customers).

Operating segment information

Consolidated - 30 Jun 2021	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	14	177	710	425	-	1,326
Intersegment sales	82	10	102	993	(1,187)	-
Total revenue	96	187	812	1,418	(1,187)	1,326
EBIT	(3,891)	(47)	172	(71)	(348)	(4,185)
Interest revenue						12
Foreign exchange loss						(79)
Gain on lease modifications						115
Reversal of impairment of receivables						536
Reversal of impairment of assets						2,405
Finance costs						(11)
Loss before income tax expense						(1,207)
Income tax expense						-
Loss after income tax expense						(1,207)
Assets						
Segment assets	46,436	602	126	8,743	(23,113)	32,794
Total assets						32,794
Liabilities						
Segment liabilities	4,918	47	74	3,002	(3,753)	4,288
Total liabilities						4,288

Note 5. Operating segments (continued)

Consolidated - 30 Jun 2020	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	-	74	500	1,516	-	2,090
Intersegment sales	176	96	17	-	(289)	-
Total revenue	176	170	517	1,516	(289)	2,090
EBIT	(3,162)	(114)	282	(1,425)	102	(4,317)
Foreign exchange gain						79
Share-based expense reversal						30
Impairment of receivables						(9,804)
Impairment of assets						(7,536)
Finance costs						(105)
Loss before income tax benefit						(21,653)
Income tax benefit						36
Loss after income tax benefit						(21,617)
Consolidated - 31 Dec 2020						
Assets						
Segment assets	79,810	815	-	8,976	(51,719)	37,882
Total assets						37,882
Liabilities						
Segment liabilities	34,560	1,486	-	6,424	(34,235)	8,235
Total liabilities						8,235

Note 6. Revenue

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated 30 Jun 2021 $'000	Consolidated 30 Jun 2020 $'000
Geographical regions		
Australia/NZ	14	-
Europe/UK	177	74
US/Canada/Brazil	710	500
China	425	1,516
	1,326	2,090
Timing of revenue recognition		
Goods transferred at a point in time	1,279	2,090
Services transferred at a point in time	47	-
	1,326	2,090

Seasonality of operations
The Group’s sale of goods segment is subject to seasonal fluctuations as a result of weather conditions. In particular, the sales and application of Phoslock® in northern China and European regions are affected by the winter weather conditions, which occur primarily from November to February.

Note 7. Other income

	Consolidated 30 Jun 2021 $'000	Consolidated 30 Jun 2020 $'000
Net foreign exchange gain	-	79
Net gain on disposal of property, plant and equipment	-	1
Gain on lease modifications	115	-
Research and development grants	(16)	-
Government grants (COVID-19)	-	43
Other	525	27
Other income	624	150

Gain on lease modifications
Refer to note 13 for more information.

Other
During the period the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an accounts payable provision of $349,000 as a credit to the profit or loss in accordance with accounting standards. Other also includes rental income as a result of the sub lease in Lime Street Sydney.

Government grants (COVID-19)
During the COVID-19 pandemic, the Group has received JobKeeper support payments from the Australian Government which are passed on to eligible employees. These have been recognised as government grants in the financial statements and recorded as other income over the periods in which the related employee benefits are recognised as an expense.

Note 8. Expenses

	Consolidated 30 Jun 2021 $'000	Consolidated 30 Jun 2020 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Office equipment	38	126
Land and buildings right-of-use assets	76	426
Office equipment right-of-use assets	-	4
Total depreciation	114	556
Amortisation		
Patents and trademarks	6	3
Total depreciation and amortisation	120	559
Impairment of assets/(reversals)		
Inventories	694	2,067
Plant and equipment	-	1,417
Rights-of-use assets**	(3,125)	4,052
Other receivables	26	-
Total impairment	(2,405)	7,536
Finance costs		
Interest and finance charges paid/payable on lease liabilities	11	105
Net foreign exchange loss		
Net foreign exchange loss	79	-
Leases		
Short-term lease payments	6	100
Superannuation expense		
Defined contribution superannuation expense	65	132
Payroll tax expense		
Reversal of payroll tax expense*	(562)	-

* At 31 December 2020, the Group recognised an estimate for the Australian payroll tax liability expected to arise in connection with the vesting of options issued to employees. During the current period, the Group received additional information which clarified the tax status of relevant individuals and resulted in a reduction in the expected liability of $649,000, $562,000 of which has been recognised within profit or loss in the current period and $87,000 has been recognised as a restatement to prior period (note 4).

** Refer to note 13 for more information.

Note 9. Trade and other receivables

	Consolidated	
	30 Jun 2021 $'000	31 Dec 2020 $'000
Current assets		
Trade receivables	11,850	12,976
Less: Allowance for expected credit losses	(10,198)	(10,350)
	1,652	2,626
Grant income receivable	83	100
	1,735	2,726

Allowance for expected credit losses
The Group is party to a trade receivable balance due from Beijing BHZQ Environmental Engineering Technology Co., Limited ('BHZQ') totalling $2,567,000 as at 30 June 2020. BHZQ is a related party of Mr Zhigang Zhang, who was a director of Phoslock Environmental Technologies Limited until his resignation on 30 September 2020.

As at 30 June 2021 the receivable from BHZQ remains due, with the probability of collection deemed remote, notwithstanding the Group's continued efforts to recover the amount including taking the matter to arbitration. In light of these circumstances, the Group continues to recognise an impairment provision of $2,121,000 for the half year ended June 30 2021 for the amount outstanding from BHZQ. This amount constitutes the full balance owing (Note: BHZQ paid a nominal amount in August 2020).

It remains managements judgment that the recoverability of outstanding accounts receivable for BHZQ continues to be uncertain and the impairment provision remain.

As noted in the 31 December 2020 financial statements, the Group identified an amount of $349,000 in account payable, which related to a contractual obligation to pay a third party connected with transactions under investigation. The contract was characterised as labour services connected to the Xingyun Lake Project. Due to concerns regarding the interdependency of the contracts related to the Xingyun Lake Project, management concluded that the recoverability of outstanding accounts receivable in relation to this contract was uncertain, notwithstanding that the terms of the Xingyun Lake contract did not require payment until 31 March 2021. Management therefore concluded to impair the outstanding balance recognising an allowance for expected credit losses of $6,403,000 as at 31 December 2020 in relation to this contract.

Within the current period, the Company received the Phase 1 payment ($536,000) relating to works completed at Xingyun Lake. The part payment resulted in a partial write back of the impairment provision maintained at 31 December 2020. Although this recent part-payment is a positive outcome, it is for initial work, not the bulk of the project application. The company is yet to receive written confirmation of the receivable from the customer, or acknowledgment that it is past due, despite several requests to that effect.

At around the same time, the Company extinguished the contractual obligation to pay the 3rd party connected to the Xingyun Lake Project. This resulted in a write back of an account payable provision of $349,000 as a credit to the profit and loss account “other income”, in accordance with accounting standards.

Notwithstanding the release of the contractual obligation, it remains management judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remain.

The Company remains in constant contact with Xingyun Lake officials to secure payment. Recently, officials of the lake have made preliminary overtures to reach agreement on a payment plan. These types of overtures in the past have borne little fruit. Should the Lake agree to a payment plan and demonstrate a consistency of payment to the plan, management will re-asses its judgement on the balance of that receivable.

Note 9. Trade and other receivables (continued)

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Carrying amount 30 Jun 2021 $'000	Carrying amount 31 Dec 2020 $'000	Allowance for expected credit losses 30 Jun 2021 $'000	Allowance for expected credit losses 31 Dec 2020 $'000
Not overdue	9,394	11,068	9,123	8,913
0 to 3 months overdue	545	264	-	-
3 to 6 months overdue	782	21	-	-
Over 6 months overdue	1,129	1,623	1,075	1,437
	11,850	12,976	10,198	10,350

Movements in the allowance for expected credit losses are as follows:

	Consolidated 30 Jun 2021 $'000	Consolidated 31 Dec 2020 $'000
Opening balance	10,350	-
Additional provisions recognised	27	10,935
Foreign exchange translation	357	(585)
Unused amounts reversed	(536)	-
Closing balance	10,198	10,350

Note 10. Inventories

	Consolidated 30 Jun 2021 $'000	Consolidated 31 Dec 2020 $'000
Current assets		
Raw materials - at cost	955	1,012
Finished goods - at cost	4,650	4,319
Less: Provision for impairment	(1,723)	(1,372)
	2,927	2,947
	3,882	3,959

The Group concluded that its inventory holding significantly exceeded short term demand in light of the continued impacts of COVID-19 and reduced business activity in China following the Board investigation conducted through the period. While directors believe there is a limited risk of its inventory (both raw materials and finished goods) becoming obsolete or expiring, based on the factors outlined above, the Board concluded to impair all or portions of inventory that is not associated with a committed order or is under contract negotiation with a memorandum of understanding (MOU) has been agreed.

Included in the inventory at-cost, $1,580,000 of finished goods in China that has been defined as having a quality issue or defect in the product during the manufacturing process which renders it non-resaleable or non-useable in its current state, and therefore has been fully provided for.

Note 11. Property, plant and equipment

	Consolidated 30 Jun 2021 $'000	Consolidated 31 Dec 2020 $'000
Non-current assets		
Plant and equipment - at cost	2,375	2,341
Less: Accumulated depreciation	(801)	(784)
Less: Impairment	(1,538)	(1,484)
	36	73
Motor vehicles - at cost	76	76
Less: Accumulated depreciation	(76)	(76)
	-	-
	36	73

Reconciliations

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

Consolidated	Plant and equipment $'000
Balance at 1 January 2021	73
Additions	5
Disposals	(5)
Exchange differences	1
Depreciation expense	(38)
Balance at 30 June 2021	36

Impairment

As at 30 June 2020 the Group identified an indicator of impairment with respect to the Group's property, plant and equipment, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment assessment which resulted in the recognition of an impairment loss which reduced the carrying value of Phoslock (Changxing) Water Solutions (China) (a subsidiary of the Group) plant, property and equipment assets to $nil.

The recoverable amount of the CGU associated with the Group's Chinese operations was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss has been recognised on property, plant and equipment as outlined above.

This impairment loss reflects the uncertainty regarding the future operating performance of the Group in light of the loss incurred in the current year, volatile market conditions associated with COVID-19 and uncertainty regarding the future performance of the Group's Chinese operations.

In accordance with accounting standards, an impairment loss on property, plant and equipment assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intend to reassess the position adopted at future balance dates, as it did as at 30 June 2021, with reference to current and future trading performance at that time.

The value in use model was created to test whether the CGU generates cash when taking into consideration the relative age and condition of the assets and capacity constraint of the plant as a result of treating the wastewater appropriately (3,000 tones p/a).

Note 11. Property, plant and equipment (continued)

Given the above, combined with market pricing of the product and the overheads inherent in the business, the model indicated that the recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss was recognised on property, plant and equipment as outlined above.

Note 12. Right-of-use assets

	Consolidated	
	30 Jun 2021 $'000	31 Dec 2020 $'000
Non-current assets		
Land and buildings - right-of-use	928	4,106
Less: Accumulated depreciation	(17)	(93)
Less: Impairment	(791)	(3,865)
	120	148
Office equipment - right-of-use	28	28
Less: Accumulated depreciation	(14)	(11)
	14	17
	134	165

Impairment
As at 31 December 2020 the Group identified an indicator of impairment with respect to the its China Operations right-of-use assets, primarily lease assets, arising from the operating loss incurred by the Group during the period. In light of this, the Group undertook an impairment test which resulted in the recognition of an impairment loss which reduced the carrying value of the right-of-use asset to $nil.

The recoverable amount of the CGU associated with the Group's Chinese operations was estimated based on the present value of the future cash flows expected to be derived from the CGU (value in use). The recoverable amount of the CGU was lower than the carrying amount of the assets within the CGU and therefore an impairment loss has been recognised on right-of-use assets as outlined above. This impairment loss reflects the uncertainty regarding the future operating performance of the Group in light of the loss incurred in the current year, volatile market conditions associated with COVID-19 and uncertainty regarding the future performance of the Group's Chinese operations.

In accordance with accounting standards, an impairment loss on right-of-use assets can be reversed where there is evidence that the conditions that resulted in the impairment loss are no longer present. The Group intend to reassess the position adopted at future balance dates with reference to current and future trading performance at that time.

On 11 January 2021 the Group signed a lease modification with its landlord in relation to the Zheijang Phoslock Environmental Technologies Ltd (China) ('PETZ') factory which reduced the lease term, square footage and overall cost. This is part of the ongoing effort to right size the business as a result of the investigation findings and current trading conditions. This resulted to recognition of gain on lease modifications of $115,000 (note 7) presented as other income and $3,125,000 (note 8) recognised as reversal of impairment in the statement of profit or loss for the half-year ended 30 June 2021.

Note 12. Right-of-use assets (continued)

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

Consolidated	Buildings right-of-use $'000	Office equipment right-of-use $'000	Total $'000
Balance at 1 January 2021	148	17	165
Additions	7	-	7
Depreciation expense	(35)	(3)	(38)
Balance at 30 June 2021	120	14	134

Note 13. Lease liabilities

	Consolidated 30 Jun 2021 $'000	Consolidated 31 Dec 2020 $'000
Current liabilities		
Lease liability	261	544
Non-current liabilities		
Lease liability	135	3,292
	396	3,836

On 11 January 2021, the Group signed a lease modification with its landlord in relation to the Zheijang Phoslock Environmental Technologies Ltd (China)('PETZ') factory which reduced the lease term, square footage and overall cost. This is part of the ongoing effort to right size the business as a result of the investigation findings and current trading conditions. This resulted to recognition of gain on lease modifications of $115,000 (note 7) presented as other income and $3,125,000 (note 8) recognised as reversal of impairment in the statement of profit or loss for the half-year ended 30 June 2021.

Note 14. Issued capital

	Consolidated			
	30 Jun 2021 Shares	31 Dec 2020 Shares	30 Jun 2021 $'000	31 Dec 2020 Restated $'000
Ordinary shares - fully paid	625,000,509	625,000,509	92,398	92,398

Ordinary shares
Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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.

As outline in note 4, the Company has become aware that 610,000 ordinary shares in the Company were invalidly issued to one of its wholly-owned subsidiaries in 2017 and 2019. These transactions have been accounted for and adjusted accordingly to reflect that the purported issue was void. The company will formally rescind the purported issue and will take the necessary steps to request a correction to its registered details to remove these void shares, to reflect that the company has 624,390,509 ordinary shares on issue.

Share buy-back
There is no current on-market share buy-back.

Note 15. Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 16. Contingent liabilities

The Group is continuing to assess certain regulatory compliance and operational matters connected with its Chinese operations which may result in penalties or the Group incurring additional costs associated with rectification activities. These include income tax and other associated tax matters as well as environmental matters. As at the date of this financial report it is not possible to measure the contingent obligation with sufficient reliability as it remains subject to the outcome of future events not wholly within the control of the entity. The Group will recognise a liability for these amounts if and when the possible obligations are confirmed and can be reliably measured.

The Group identified certain adjustments associated with historical income tax deductions, research and development activities and withholding tax matters which resulted in the restatement of prior period comparatives. These adjustments may result in penalties or interest in future periods. As at the date of this report, other than items detailed in this interim report, no amount has been provided for such costs as it is not possible to measure the contingent obligation with sufficient reliability as it remains subject to the outcome of future events not wholly within the control of the entity. These matters may require amendments to previously lodged income tax returns and therefore create an uncertain tax position in relation to the tax authorities' views in relation to these corrections. In addition, these adjustments may result in penalties or interest in future periods.

Note 17. Related party transactions

Parent entity
Phoslock Environmental Technologies Limited is the parent entity.

Note 17. Related party transactions (continued)

Transactions with related parties related to fraud
In the prior half-year period, the Group identified that previous members of Key Management Personnel ('KMP') (Mr Zhigang Zhang - resigned 30 September 2020, Mr Ningping Ma- resigned 30 September 2020 and Mr Tingshan Liu- resigned 31 December 2020) had relationships with the following entities that rendered them to be related parties of the Group up to the date of the resignation of these KMPs, which had not been disclosed:

Entity	Relationship
Beijing Hualijia Environmental Engineering Technology Co., Ltd ('BHEET')	100% directly owned by Mr Zhang
Beijing BHZQ Environmental Engineering Technology Co., Ltd ('BHZQ')	27.19% indirectly owned by Mr Zhang 2.81% indirectly owned by Mr Ma Both are directors of BHZQ
Beijing Kelin Haohua Environmental Technology Development Co., Ltd ('BKHETD')	80% directly owned by Mr Zhang 15% directly owned by Mr Liu Both are directors of BKHETD

The following are the transactions with the above related entities:

Transactions	Entity	Half-year ended 30 June 2021* $	Half-year ended 30 June 2020 $
Sales of aeration machines (Xinfeng River project)	BHZQ	-	191,120
Purchase of consulting service (Car rental service)	BHEET	-	4,895
Purchase of consulting service (Venue hire service)	BHEET	-	6,118
Service fee of bacteria agent expansion	BHEET	-	209,976

* There are no more transactions with the above related parties as they are no longer KMP during the half-year 30 June 2021.

Receivable from and payable to related parties related to fraud
The following receivable from and payable to the above related parties.

	30 June 2021		31 December 2020	
	Trade and other receivables $	Trade and other payables $	Trade and other receivables $	Trade and other payables $
BHEET**	-	-	1,591	202,566
BHZQ*	-	-	-	-
	-	-	1,591	202,566

* Represents value of receivables after provision for expected credit loss had been fully written-off as of 30 June 2021.
** There was a trade and other receivables of $1,647 as of 30 June 2021 but no longer disclosed as no longer related party as at 30 June 2021.

Note 17. Related party transactions (continued)

There are no more transactions in relation to above related parties as of 30 June 2021.

Transactions with related parties not fraud related
The following transactions occurred with related parties:

	Consolidated	
	30 Jun 2021 $	30 Jun 2020 $
Payment for services provided by relatives of key management personnel:		
Margaret Schuitema - part-time employment**	-	91,509
Yolanda Winks - part-time employment***	-	20,001
Venus Ho - part-time employment****	-	11,253
Payment for services provided by companies related to key management personnel:		
Payment for rent - Link Traders (Aus) Pty Ltd*	21,873	57,216
Payment for investor relations fees - Serenity Holdings Pty Ltd*	55,756	67,579

* related party of Laurence Freedman, no longer related party as at 30 June 2021.
** related party of Robert Schuitema, no longer a related party as at 30 June 2021.
*** related party of Andrew Winks
**** related party of Chris Hui, no longer a related party as at 30 June 2021.

Receivable from and payable to related parties
Other than the receivable and payable to related party which were fraud related presented above, there were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions outside of China were made on normal commercial terms and conditions and at market rates.

Board investigations
The Board investigation is still on going and there are no further updates to disclose in the half-year period 30 June 2021. The details of these matters are detailed in the 'Board Investigation' section of the Annual report for 2020. This can be found at https://www.phoslock.com.au/site/Investors/reports1/Annual-Reports

Note 18. Earnings per share

	Consolidated	
	30 Jun 2021 $'000	30 Jun 2020 Restated $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(1,207)	(21,617)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	625,000,509	584,917,983
Weighted average number of ordinary shares used in calculating diluted earnings per share	625,000,509	584,917,983
	Cents	**Cents**
Basic earnings per share	(0.19)	(3.70)
Diluted earnings per share	(0.19)	(3.70)

Note 19. Events after the reporting period

Since 30 June 2021, the Group’s operations have continued to be impacted by the COVID-19 pandemic and related Government actions imposed in key markets to slow the spread of the virus. As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group’s business activities

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Lachlan McKinnon	David Krasnostein
Managing Director	Chairman

1 October 2021
Melbourne

Accountants & Advisors

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

Report on the Audit of the Interim Financial Statements

Qualified Opinion

We have audited the interim financial statements of Phoslock Environmental Technologies Limited (the Company and its subsidiaries (the Group)) which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying interim financial statements of Phoslock Environmental Technologies Limited is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the half-year then ended; and

b. complying with AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The prior period financial statements for the year ended 31 December 2020 and the prior period interim financial statements for the half year ended 30 June 2020 were disclaimed by the predecessor auditor. We were unable to obtain sufficient appropriate audit evidence regarding the comparative information and the opening balances as at 1 January 2021. As a result, we are qualifying on the comparative information and the opening balances as at 1 January 2021. Consequently, we were unable to determine what additional adjustments, if any, might have been necessary in the statement of profit and loss and comprehensive income in respect of the interim financial statements for the half year ending 30 June 2021.

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

Key Audit Matters

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

In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Valuation of Inventory

Area of focus	How our audit addressed the area of focus
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), Note 10 (Inventory) The Group holds inventory amounting to $3,882,000 which is significant to the financial statements. Inventory is required to be carried at the lower of its cost and net realisable value. The valuation of inventory involves judgement by management depending on the age and type of inventory. Because of the high level of judgement involved in determining its net realisable value, and the significant carrying amounts involved, we have determined that this is a key judgement area that our audit has focussed upon.	Our audit procedures included: • Obtaining an understanding and assessing key controls over the valuation of inventory • Evaluating management's judgement and assumptions used in determining the need for an inventory provision. • Reviewing subsequent inventory sales to ensure inventory was valued at the lower of cost and net realisable value. • Evaluating the aging of inventory and ensuring costs assigned to inventory were reasonable. We assessed the adequacy of the Group's disclosures in respect of Inventory.

2. Trade receivables – Expected credit losses

Area of focus	How our audit addressed the area of focus
Refer to Note 3 (Critical accounting judgements, estimates and assumptions), Note 9 (Trade and other receivables) Given the size of trade receivables, the historical issues with regards to fraud being uncovered and the general economic environment, it's prudent to review management's estimate of expected credit losses (ECL) to ensure it appears reasonable.	Our audit procedures included: • Obtaining an understanding and assessing whether the methodology applied by management in their ECL model is in accordance with the requirements of AASB 9. • Assessing the mathematical accuracy of the model. • Assessing the integrity of method, assumptions and data used by management in its assessment of the underlying risk of ECL's • Assessing the impact of the COVID-19 pandemic on the loss rates along with forward-looking factors in the measurement of the ECL. • Assessing the adequacy of the provision by comparing the post period end cash receipts to the outstanding trade receivables at year end. Reviewing the adequacy of financial statement disclosures.

3. Impairment of non-current assets	
Area of focus	**How our audit addressed the area of focus**
Refer also to Note 3 (Critical accounting judgements, estimates and assumptions), Note 11 (Property, plant and equipment), Note 12 (Right-of-use assets) The Group identified an indicator of impairment with respect to the China CGU and as a result the recoverable amount of the CGU was determined. The recoverable amount was determined using a value-in-use model based on discounted cashflows of management's forecasts for sales and EBITDA. Due to the high level of judgement involved, and the significant carrying amounts, we have determined that the recoverable amount is a key judgment area that our audit has focussed upon.	Our audit procedures included: • Obtaining an understanding and assessing key controls over the preparation of the value-in-use model • Obtaining an understanding of the method, assumptions and data used by management in the value-in-use model • Testing the accuracy of the value-in-use model • Assessing whether the method, assumptions and data used by management were appropriate; and • Obtaining assistance from our own valuation specialists to assess whether the key assumptions, method and data were appropriate. Assessed the adequacy of the Group's impairment disclosures.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the interim financial statements that gives a true and fair view in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the interim financial statements, 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 interim financial statements 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 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 interim financial statements, 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 the directors.
- Conclude on the appropriateness of the directors' 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 interim financial statements, including the disclosures, and whether the interim financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the interim financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Hayley Underwood
Partner

Melbourne, 1 October 2021