Phoslock Environmental Technologies Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Phoslock Environmental Technologies Limited
ABN:	88 099 555 290
Reporting period:	For the half-year ended 30 June 2022
Previous period:	For the half-year ended 30 June 2021

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	5.1%	to	1,258
Underlying Earnings/(Loss) Before Interest and Taxes ('Underlying EBIT')	up	26.9%	to	(5,311)
Loss from ordinary activities after tax attributable to the owners of Phoslock Environmental Technologies Limited	up	439.1%	to	(6,507)
Loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited	up	439.1%	to	(6,507)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
The loss for the Group after providing for income tax amounted to $6,507,000 (30 June 2021: $1,207,000).

The reconciliation of statutory net profit/(loss) after tax ('NPAT') to Underlying Earnings EBIT is outlined below:

	Consolidated 30 Jun 2022 $'000	Consolidated 30 Jun 2021 $'000
Revenue	1,258	1,326
Net Profit/(Loss) after Tax ('NPAT')	(6,507)	(1,207)
Add: Finance costs	6	11
Add: Impairment of receivables/(reversals)	254	(536)
Add: Impairment of assets/(reversals)	805	(2,405)
Add: Foreign exchange losses/(gains)	148	79
Less: Interest revenue	(17)	(12)
Less: Gain on lease modifications	-	(115)
Underlying EBIT*	(5,311)	(4,185)

* 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.

Refer to the 'Review of operations' section in the 'Directors report' for further details of operations and commentary on the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	3.09	4.55

The net tangible assets calculation does not include rights-of-use assets of $nil (30 June 2021: $134,000) but include the lease liabilities of $871,000 (30 June 2021: $396,000).

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to an audit by the auditors and the audit report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Phoslock Environmental Technologies Limited for the half-year ended 30 June 2022 is attached.

12. Signed

As authorised by the Board of Directors

Signed ______________________________ Date: 31 August 2022

Lachlan McKinnon
Managing Director
Melbourne

Phoslock Environmental Technologies Limited

ABN 88 099 555 290

Interim Report - 30 June 2022

Contents

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 2022. 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 and Non-Executive Director
Brenda Shanahan
Lachlan McKinnon
Barry Sechos
Bob Prosser

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 $6,507,000 (30 June 2021: $1,207,000).

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 2022 $'000	30 Jun 2021 $'000
Revenue	1,258	1,326
Net Profit/(Loss) after Tax ('NPAT')	(6,507)	(1,207)
Add: Finance costs	6	11
Add: Impairment of receivables/(reversals)	254	(536)
Add: Impairment of assets/(reversals)	805	(2,405)
Add: Foreign exchange losses/(gains)	148	79
Less: Interest revenue	(17)	(12)
Less: Gain on lease modifications	-	(115)
Underlying EBIT*	(5,311)	(4,185)

* 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 $1,258,000, which was down 5% on the $1,326,000 generated in the prior corresponding period. Consistent with commentary made at the full year in March 2022, project delays and port disruptions driven by the ongoing impact of COVID 19 during the first half of 2022 resulted in lower-than-expected sales in the period. The Company continued to execute on its diversification strategy, with the majority of sales generated across South America and modest contributions in Europe, ANZ and China.

Gross profit was $715,000 for the six months (6 months to 30 June 2021: $684,000). The gross profit margin was 56%, up from the prior period's 52% as a result of lower freight costs in the period and higher margin sales to our South American distributor. The business incurred modest project application costs as compared to the prior period which also contributed to the higher margin.

Underlying EBIT for the period was a loss of $5,311,000 compared to loss of $4,185,000 in the prior corresponding period. Lower sales revenue, gross profit and higher operating expenses in the period all contributed to the loss. Operating expenses were higher in the reporting period, as a result of expenditure on restructuring costs in China, expenses incurred in relation to manufacturing operations (both current plant and proposed expansion facility), ongoing legal and consulting expenses pertaining to the fraud and mismanagement investigations and consultancy costs relating to ongoing R&D activity, government lobbying to enable certification in a key market and the Company's manufacturing/supply chain strategy.

NPAT for the six months amounted to a loss of $6,507,000. This compared to a NPAT loss of $1,207,000 in the prior corresponding period. In the prior corresponding period, as disclosed in note 19 'Lease liabilities', the Group reported that on 11 January 2021 it 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 was part of the ongoing effort to right size the business for the current trading. This resulted in the recognition of a gain on remeasurement of lease liabilities of $3,247,000 presented as other income in the statement of profit or loss for the year ended 31 December 2021. This favourable adjustment did not repeat in the current period.

Subsequent to 30 June 2022, on 7 July 2022, the Company announced that the court in China ordered the payment of the outstanding receivable from YuXi City Ecosystem Department ('YuXi') in relation to XingYung Lake Project of RMB31,900,000 ($6,900,000) and interest of RMB1,200,000 ($260,000) by 18 October 2022.

Notwithstanding the court decision, it remains management's judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remains.

The Company is in constant contact with Xingyun Lake officials to secure payment. Should a payment plan be agreed and implemented, management will re-assess its judgement on the balance of that receivable.

Cash Flows

Operating Cash Flow for the six months period was a cash outflow of $4,507,000 (6 months to 30 June 2021: outflow of $3,848,000), representing $659,000 additional cash outflow from the previous period.

Cash payments from customers for the six month period were $3,303,000 (6 months to 30 June 2021: $2,822,000). Cash payments to suppliers, consultants and employees for the six month period was $8,099,000 (6 months to 30 June 2021: $6,275,000). The increase in cash outflow relates primarily to higher employee payments and manufacturing related activity combined with ongoing legal and consulting expenses as a result of the fraud and mismanagement investigations and consultancy costs relating to reviews of the R&D program, government lobbying and the Company's manufacturing/supply chain strategy.

Spending on new plant, equipment, and intangibles for the six months to 30 June 2022 totalled $245,000. This was mainly for the Chinese manufacturing facilities, R&D related activity and costs associated with patent applications.

Financial position

Current assets of the Group as at 30 June 2022 were $22,028,000, made up of cash ($17,535,000); trade and other receivables ($654,000) and inventories ($3,035,000), financial assets ($126,000) and other assets ($678,000).

Current liabilities of the Group as at 30 June 2022 were $2,089,000 made up of trade / other payables, lease liabilities and employee liabilities.

The net assets of the Group were $19,289,000 as of 30 June 2022, from $25,817,000 as at 31 December 2021 primarily driven by a reduction in cash balances and impairment 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 $28,091,000 as at 30 June 2022 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 legal matters, 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
As at 30 June 2022, the Group obtained a $1,800,000 settlement of outstanding receivable and recognised a reversal equal to this amount as at 31 December 2021. The amount has been received in two equal instalments in mid-January 2022 and mid-February 2022.

Significant changes in the state of affairs
There were no 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.

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

31 August 2022
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 2022 there have been:

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

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

SW

SW Audit (Formerly ShineWing Australia)
Chartered Accountants

Hayley Underwood
Partner

31 August 2022

Phoslock Environmental Technologies Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2022

	Note	Consolidated 30 Jun 2022 $'000	Consolidated 30 Jun 2021 $'000
Revenue			
Sales revenue		1,258	1,326
Cost of sales		(543)	(642)
Gross profit		715	684
Other income	6	229	624
Interest revenue calculated using the effective interest method		17	12
Expenses			
Distribution		(37)	(49)
Marketing		(92)	(75)
Occupancy		(247)	(44)
Director, listing and professional fees		(3,246)	(3,028)
Administration		(2,781)	(2,261)
(Impairment)/reversals of receivables	8	(254)	536
(Impairment)/reversals of assets	7	(805)	2,405
Finance costs	7	(6)	(11)
Loss before income tax expense		(6,507)	(1,207)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(6,507)	(1,207)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(21)	66
Other comprehensive (loss)/income for the half-year, net of tax		(21)	66
Total comprehensive loss for the half-year attributable to the owners of Phoslock Environmental Technologies Limited		(6,528)	(1,141)
		Cents	**Cents**
Basic earnings per share	19	(1.04)	(0.19)
Diluted earnings per share	19	(1.04)	(0.19)

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

	Note	Consolidated 30 Jun 2022 $'000	Consolidated 31 Dec 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		17,535	22,991
Trade and other receivables	8	654	2,781
Inventories	9	3,035	3,305
Financial assets		126	126
Other assets		678	633
Total current assets		22,028	29,836
Non-current assets			
Property, plant and equipment	10	-	15
Right-of-use assets	11	-	322
Intangibles	12	-	241
Total non-current assets		-	578
Total assets		22,028	30,414
Liabilities			
Current liabilities			
Trade and other payables		1,448	2,935
Contract liabilities		2	88
Lease liabilities	13	421	520
Employee benefits		218	282
Total current liabilities		2,089	3,825
Non-current liabilities			
Lease liabilities	13	450	772
Employee benefits		15	-
Provisions	14	185	-
Total non-current liabilities		650	772
Total liabilities		2,739	4,597
Net assets		19,289	25,817
Equity			
Issued capital	15	92,398	92,398
Reserves		1,071	1,092
Accumulated losses		(74,180)	(67,673)
Total equity		19,289	25,817

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

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2021	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 (loss)/income for the half-year	-	66	(1,207)	(1,141)
Balance at 30 June 2021	92,398	1,051	(64,943)	28,506

Consolidated	Issued capital $'000	Foreign currency translation reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2022	92,398	1,092	(67,673)	25,817
Loss after income tax expense for the half-year	-	-	(6,507)	(6,507)
Other comprehensive loss for the half-year, net of tax	-	(21)	-	(21)
Total comprehensive loss for the half-year	-	(21)	(6,507)	(6,528)
Balance at 30 June 2022	92,398	1,071	(74,180)	19,289

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

Phoslock Environmental Technologies Limited
Consolidated statement of cash flows
For the half-year ended 30 June 2022

	Consolidated	
	30 Jun 2022 $'000	30 Jun 2021 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	3,303	2,822
Payments to suppliers and employees (inclusive of GST)	(8,099)	(6,275)
Government grants and incentives received	272	129
Interest received	17	12
Interest and other finance costs paid	-	(11)
Income taxes paid	-	(525)
Net cash used in operating activities	(4,507)	(3,848)
Cash flows from investing activities		
Payments for property, plant and equipment	(176)	(3)
Payments for intangibles	(69)	(44)
Proceeds from disposal of property, plant and equipment	-	2
Net cash used in investing activities	(245)	(45)
Cash flows from financing activities		
Repayment of lease liabilities	(510)	(315)
Net cash used in financing activities	(510)	(315)
Net decrease in cash and cash equivalents	(5,262)	(4,208)
Cash and cash equivalents at the beginning of the financial half-year	22,991	30,441
Effects of exchange rate changes on cash and cash equivalents	(194)	66
Cash and cash equivalents at the end of the financial half-year	17,535	26,299

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:

Unit D
Level 2, Como Centre
650 Chapel Street
South Yarra Victoria 3141

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 31 August 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2022 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 2021 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 cash position and net current asset position of $19,939,000 as at 30 June 2022 (31 Dec 2021: $26,011,000), 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. 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 8 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 9 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.

Note 4. 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.

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.

Note 4. Operating segments (continued)

Major customers
During the half-year ended 30 June 2022, approximately 75% of the Group's external revenue was derived from sales to 3 customers (30 June 2021: approximately 82% of the Group's external revenue was derived from sales to 3 customers).

Operating segment information

Consolidated - 30 Jun 2022	Australia/NZ $'000	Europe/UK $'000	US/Canada/ Brazil $'000	China $'000	Eliminations $'000	Total $'000
Revenue						
Sales to external customers	140	92	987	39	-	1,258
Intersegment sales	517	-	-	691	(1,208)	-
Total revenue	657	92	987	730	(1,208)	1,258
EBIT	(4,028)	(405)	22	(808)	(92)	(5,311)
Interest revenue						17
Foreign exchange loss						(148)
Impairment of receivables						(254)
Impairment of assets						(805)
Finance costs						(6)
Loss before income tax expense						(6,507)
Income tax expense						-
Loss after income tax expense						(6,507)
Assets						
Segment assets	35,339	1,714	532	15,124	(30,681)	22,028
Total assets						22,028
Liabilities						
Segment liabilities	3,134	159	743	9,874	(11,171)	2,739
Total liabilities						2,739

Note 4. Operating segments (continued)

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)
Consolidated - 31 Dec 2021						
Assets						
Segment assets	40,757	3,005	10	7,934	(21,292)	30,414
Total assets						30,414
Liabilities						
Segment liabilities	4,381	2,371	9	1,898	(4,062)	4,597
Total liabilities						4,597

Note 5. Revenue

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

	Consolidated	
	30 Jun 2022 $'000	30 Jun 2021 $'000
Geographical regions		
Australia/NZ	140	14
Europe/UK	92	177
US/Canada/Brazil	987	710
China	39	425
	1,258	1,326
Timing of revenue recognition		
Goods transferred at a point in time	1,244	1,279
Services transferred at a point in time	14	47
	1,258	1,326

Seasonality of operations
The Group’s sale of goods 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 6. Other income

	Consolidated	
	30 Jun 2022 $'000	30 Jun 2021 $'000
Gain on remeasurement of lease liabilities	-	115
Research and development grants	-	(16)
Other	229	525
Other income	229	624

Gain on remeasurement of lease liabilities
Refer to note 13 for more information.

Other
Other includes freight collected from customers for product transportation.

Note 7. Expenses

	Consolidated 30 Jun 2022 $'000	Consolidated 30 Jun 2021 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Office equipment	6	38
Land and buildings right-of-use assets	54	35
Office equipment right-of-use assets	2	3
Total depreciation	62	76
Amortisation		
Patents and trademarks	7	6
Total depreciation and amortisation	69	82
Impairment of assets/(reversals)		
Other receivables	-	26
Inventories	93	694
Plant and equipment	171	-
Rights-of-use assets**	242	(3,125)
Patents	299	-
Total impairment	805	(2,405)
Finance costs		
Interest and finance charges paid/payable on lease liabilities	6	11
Net foreign exchange loss		
Net foreign exchange loss	148	79
Leases		
Short-term lease payments	1	6
Employee benefits expense		
Employee benefits expense excluding superannuation	1,940	1,590
Defined contribution superannuation expense	80	68
Total employee benefits expense	2,020	1,658
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. As at 30 June 2021, 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 was recognised within profit or loss. As of 31 December 2021, the Group finalised the lodgements with respective tax authorities. Per final notice of assessment, final tax liability was $223,000 with $163,000 paid in December 2021 and the remaining $60,000 as at 30 June 2022.

Note 8. Trade and other receivables

	Consolidated 30 Jun 2022 $'000	Consolidated 31 Dec 2021 $'000
Current assets		
Trade receivables	8,998	10,843
Less: Allowance for expected credit losses	(8,344)	(8,062)
	654	2,781

Allowance for expected credit losses
As at 30 June 2021 the fraud related receivable from Beijing BHZQ Environmental Engineering Technology Co., Ltd ('BHZQ') remained due, at that time the probability of collection was deemed remote, notwithstanding the Group's continued efforts to recover the amount including taking the matter to arbitration. The Group recognised 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.

During the period, the Group obtained a $1,800,000 settlement of outstanding receivable and recognised a reversal equal to this amount as at 31 December 2021. The amount was received in two equal instalments in mid-January 2022 and mid-February 2022.

Subsequent to 30 June 2022, on 7 July 2022, the Company announced that the court in China ordered the payment of the outstanding receivable from YuXi City Ecosystem Department ('YuXi') in relation to XingYung Lake Project of RMB31,900,000 ($6,900,000) and interest of RMB1,200,000 ($260,000) by 18 October 2022.

Notwithstanding the court decision, it remains management's judgment that the recoverability of outstanding accounts receivable for Xingyun Lake continues to be uncertain and the impairment provision remains.

The Company is in constant contact with Xingyun Lake officials to secure payment. Should a payment plan be agreed and implemented, management will re-assess its judgement on the balance of that receivable.

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

Consolidated	Carrying amount 30 Jun 2022 $'000	Carrying amount 31 Dec 2021 $'000	Allowance for expected credit losses 30 Jun 2022 $'000	Allowance for expected credit losses 31 Dec 2021 $'000
Not overdue	546	1,019	-	-
0 to 3 months overdue	91	81	-	-
3 to 6 months overdue	6	688	-	-
Over 6 months overdue	8,355	9,055	8,344	8,062
	8,998	10,843	8,344	8,062

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

	Consolidated 30 Jun 2022 $'000	Consolidated 31 Dec 2021 $'000
Opening balance	8,062	10,350
Additional provisions/(reversals) recognised	254	(3,047)
Foreign exchange translation	28	759
Closing balance	8,344	8,062

Note 9. Inventories

	Consolidated 30 Jun 2022 $'000	Consolidated 31 Dec 2021 $'000
Current assets		
Raw materials - at cost	888	877
Finished goods - at cost	4,048	4,238
Less: Provision for impairment	(1,901)	(1,810)
	2,147	2,428
	3,035	3,305

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').

The Chinese Manufacturing facility (PWSC) holds $1,659,000 worth of Phoslock 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. The business in the process of remediating this product to enable it to be saleable.

Note 10. Property, plant and equipment

	Consolidated 30 Jun 2022 $'000	Consolidated 31 Dec 2021 $'000
Non-current assets		
Plant and equipment - at cost	2,415	2,283
Less: Accumulated depreciation	(763)	(793)
Less: Impairment	(1,652)	(1,475)
	-	15
Motor vehicles - at cost	66	76
Less: Accumulated depreciation	(66)	(76)
	-	-
	-	15

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 2022	15
Additions	166
Disposals	(4)
Impairment of assets	(171)
Depreciation expense	(6)
Balance at 30 June 2022	-

Note 10. Property, plant and equipment (continued)

Impairment
As at 30 June 2022 and consistent with the 31 December 2021, a value in use model was created to test whether the China cash generating unit ('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).

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 China 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.

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 operations.

Note 11. Right-of-use assets

	Consolidated	
	30 Jun 2022 $'000	31 Dec 2021 $'000
Non-current assets		
Land and buildings - right-of-use	1,940	1,959
Less: Accumulated depreciation	(114)	(60)
Less: Impairment	(1,826)	(1,580)
	-	319
Office equipment - right-of-use	14	14
Less: Accumulated depreciation	(14)	(11)
	-	3
	-	322

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 2022	319	3	322
Lease modifications	(24)	-	(24)
Impairment loss recognised	(241)	(1)	(242)
Depreciation expense	(54)	(2)	(56)
Balance at 30 June 2022	-	-	-

Impairment
As at 30 June 2022, consistent with the 31 December 2021, a value in use model was used to estimate the recoverable amount of the Group's cash generating units ('CGUs') based on the present value of the future cash flows expected to be derived from each of the Group's CGUs.

The recoverable amount of the CGUs was lower than the carrying amount of the assets within the Group CGUs and therefore an impairment loss was recognised on right-of-use assets (primarily the head office lease at Como Centre in South Yarra).

Note 11. Right-of-use assets (continued)

This impairment loss reflects the uncertainty regarding the future operating performance of the Group exacerbated by consistent missing of volume forecasts throughout the period. In light of the loss incurred in the current year, future projections not being above previously announced break-even volume of 6,000 p/a, volatile market conditions associated with COVID-19 and uncertainty regarding the performance of the Group's operations an impairment provision against intangible assets was accounted for in the period.

Note 12. Intangibles

	Consolidated	
	30 Jun 2022 $'000	31 Dec 2021 $'000
Non-current assets		
Patents - at cost	346	281
Less: Accumulated amortisation	(47)	(40)
Less: Impairment	(299)	-
	-	241

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

Consolidated	Patents $'000
Balance at 1 January 2022	241
Additions	65
Impairment of assets	(299)
Amortisation expense	(7)
Balance at 30 June 2022	-

Impairment
As at 30 June 2022 and consistent with the 31 December 2021, a value in use model was used to estimate the recoverable amount of the Group's CGUs based on the present value of the future cash flows expected to be derived from the CGUs. The recoverable amount of the CGUs was lower than the carrying amount of the assets within the CGU's and therefore an impairment loss was recognised on the patents (intangible assets).

This impairment loss reflects the uncertainty regarding the future operating performance of the Group exacerbated by consistent missing of volume forecasts throughout the period. In light of the loss incurred in the current year, projections not being above previously announced break-even volume of 6,000 p/a, volatile market conditions associated with COVID-19 and uncertainty regarding the performance of the Group's operations an impairment provision against intangible assets was accounted for in the period.

Note 13. Lease liabilities

	Consolidated	
	30 Jun 2022 $'000	31 Dec 2021 $'000
Current liabilities		
Lease liability	421	520
Non-current liabilities		
Lease liability	450	772
	871	1,292

Note 14. Provisions

	Consolidated	
	30 Jun 2022 $'000	31 Dec 2021 $'000
Non-current liabilities		
Lease provisions	185	-

Lease provisions
During the period, the Company's subsidiary in USA signed a development agreement with Advanced Casper, based in Wyoming USA. The agreement provided the option for the Group to establish a manufacturing facility in Casper Wyoming subject to a business case. As a consideration, the Group is obligated to pay up to $185,000 (in rental and outgoings) for 2 years. These amounts constitute all payments that the Group is obligated to pay for the Casper project should the business decide not to go ahead with project.

Movements in provisions
Movements in each class of provision during the current financial half-year, other than employee benefits, are set out below:

Consolidated - 30 Jun 2022	Lease provisions $'000
Carrying amount at the start of the half-year	-
Additional provisions recognised	185
Carrying amount at the end of the half-year	185

Note 15. Issued capital

	Consolidated			
	30 Jun 2022 Shares	31 Dec 2021 Shares	30 Jun 2022 $'000	31 Dec 2021 $'000
Ordinary shares - fully paid	624,390,509	624,390,509	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.

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

Note 16. Dividends

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

Note 17. Contingent liabilities

The Group is continuing to assess regulatory, compliance and operational matters connected with its Chinese operations which may result in penalties or the Group incurring additional costs. These are discussed in more detail below. As at the date of this financial report it is not possible to measure any contingent obligations with sufficient reliability as they remain 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 become present obligations and can be reliably measured.

Note 17. Contingent liabilities (continued)

Tax and Environmental Matters

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 financial statements. 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.

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 Group. The Group will recognise a liability for these amounts if and when the contingent obligations are confirmed and can be reliably measured.

Regulatory authorities

As indicated in previous announcement and disclosures, the Company self-reported the suspected fraud and mismanagement issues identified by current management and entered into an Investigation Cooperation Agreement ('ICA') with the Australian Federal Police ('AFP') which requires the Company to engage cooperatively with the AFP.

The Company's engagement with the AFP is ongoing. In accordance with the ICA between AFP and the Company, the Company has/is committed to providing proactive and fulsome cooperation to the AFP. Proactive and fulsome cooperation will be an important factor for the Commonwealth Director of Public Prosecutions ('CDPP') when deciding whether or not to prosecute the Company or offer it a Deferred Prosecution Agreement should that option become available under Australian Law. Even if the CDPP ultimately decides to prosecute the Company, proactive and fulsome cooperation will also be a significant mitigating factor for sentencing purposes.

The Company has incurred approximately $147,000 in legal costs in connection with the AFP investigation to date in CY2022. It has also incurred approximately $645,000 in other investigation and advisory service fees this calendar year. The Company's anticipated cost and expense for the remainder of CY2022 is $122,000 in legal fees and $395,000 in investigation and advisory service fees.

The agreements deal primarily with offences in the nature of bribery and foreign corruption. There are other offences and proceedings which may be of relevance to the Company's past actions, some of which are within the purview of the AFP, while others are the domain of other regulatory agencies. The Company intends to keep progressing its management of these matters in the manner reflected in its agreements with the AFP.

The Company has engaged in discussions with the Australian Securities and Investments Commission ('ASIC'). ASIC has been making enquiries in relation to PET and its financial accounts that have been lodged with ASIC. The AFP has also referred certain allegations arising from the Company's engagement with the AFP under the ICA to ASIC for its consideration.

There is a risk that the Company will be exposed to judgments, fines and penalties arising from regulatory activity including the AFP's investigation and ASIC's inquiries that may have an adverse impact on its financial performance and financial position.

Claims by or against other persons involved in the Company's affairs

The November 16, 2021, Announcement to the market noted that the Company was "continuing to investigate potential claims against certain individuals. . .with the aim of having the relevant parties held accountable for their actions. . .we intend to take legal action against those responsible for the fraud, mismanagement and gross negligence that we have found and that have resulted in loss and damage to the company. We are in the final stages of examining the viability of those claims. We will update you with further information as soon as we confirm that we have viable claims, and proceedings are commenced. We would like to emphasise that any action we do take will be taken with strong regard to costs – we will not spend money unless it is justified."

Note 17. Contingent liabilities (continued)

The May 25 2022 Announcement stated the Company's "intention is to imminently file a legal claim seeking damages from former director Zhigang Zhang." In addition, it stated the Company's intention is to "serve a letter of demand on our former CEO and Managing Director Rob Schuitema. Further, "other potential claims are being considered and shareholders will be kept up to date as those matters progress".

The Company notes that in many circumstances, the initiation of a claim can accelerate or heighten the prospect of counterclaims, or of separate claims relating to similar matters. In this regard, and more generally in relation to the prospect of claims being made against the Company, the Company makes the following statements:

(1) The Company has not received any third-party claims, or letters of demand relating to these matters.
(2) As far as the Company is aware, no proceedings have been filed against it in relation to these matters.
(3) The Company's perspective on such claims, should they arise, is that they will be defended and prosecuted with the objective of liability being borne by the actual wrongdoers to the maximum extent possible, and not by the Company's shareholders.
(4) Having expended considerable time, effort and cost in investigating these fraud and mismanagement issues, the Company believes it is well placed to defend any claims that should arise with the objective stated above (namely that liability is borne by those wrongdoers).
(5) If any claims are made against the Company, or if these risks progress or develop, the Company will continue to keep shareholders appraised of such developments in a timely manner, and in accordance with the law and the ASX Listing Rules.

Further, following the fraud and mismanagement issues, the Company has been, and continues to be, exposed to a higher risk of being involved in proceedings, claims and disputes, whether initiated by the Company or persons previously involved with the Company's affairs. Any litigation, claim or dispute relating to the Company's past fraud and mismanagement issues may have an adverse impact on the financial performance and financial position of the Company.

After carefully considering (1) inquiries and investigations currently on foot by regulators, with compulsory powers to access documents and information, (2) the significant resources that would be expended by the Company and its key personnel in pursuing these claims, and (3) the quantum of potential compensation that could be obtained by the Company, should the claims be successful, the Company has determined to await the outcome of inquiries by regulatory agencies before the filing of legal claims against the aforementioned parties. The Company will keep shareholders appraised of any developments in this regard.

Note 18. Related party transactions

Parent entity
Phoslock Environmental Technologies Limited is the parent entity.

Transactions with related parties
There were no transactions with related parties during the current and previous financial half-year.

Receivable from and payable to related parties
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.

Transactions with related parties related to fraud
As of the prior comparative period 31 December 2021 and 30 June 2021, there are no more transactions related to fraud. However, as a results of the Board investigations, legal proceedings will be pursued against certain individuals and preparatory works are underway.

Note 19. Earnings per share

	Consolidated	
	30 Jun 2022 $'000	30 Jun 2021 $'000
Loss after income tax attributable to the owners of Phoslock Environmental Technologies Limited	(6,507)	(1,207)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	624,390,509	624,390,509
Weighted average number of ordinary shares used in calculating diluted earnings per share	624,390,509	624,390,509
	Cents	Cents
Basic earnings per share	(1.04)	(0.19)
Diluted earnings per share	(1.04)	(0.19)

Note 20. Events after the reporting period

On 7 July 2022, the Company announced that the court in China ordered the payment of the outstanding receivable from YuXi City Ecosystem Department ('YuXi') in relation to XingYung Lake Project of RMB31,900,000 ($6,900,000) and interest of RMB1,200,000 ($260,000) by 18 October 2022 unless YuXi appeals the decision.

No other matter or circumstance has arisen since 30 June 2022 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 2022 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
Managing Director

David Krasnostein
Chairman

31 August 2022
Melbourne

Take the lead

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED

Report on the Audit of the Interim Financial Report

Opinion

We have audited the interim financial report of Phoslock Environmental Technologies Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2022, 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 period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying interim financial report 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 2022 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 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 Interim 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 interim 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 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.

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1. Impairment of non-current assets

Why this is a key audit matter	How our audit addressed the key audit matter
Refer to Note 3 *Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*, Note 10 *Property, plant and equipment*, Note 11 R*ight-of-use assets*, and Note 12 *Intangibles* We identified the impairment of non-current assets as a key audit matter due to the estimation of the recoverable amount of each cash generating unit (CGU) involves complex and subjective management estimates. The recoverable amount of each CGU 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 audit matter.	Our audit procedures included: • Obtaining an understanding and assessing key controls over the preparation of the value-in-use models • Obtaining an understanding of the method, assumptions and data used by management in the value-in-use models • Testing the accuracy of the value-in-use models • Assessing whether the method, assumptions and data used by management were appropriate, and • Assessing the adequacy of the Group's impairment disclosures in the interim financial report.

2. Contingent Liabilities

Why this is a key audit matter	How our audit addressed the key audit matter
Refer also to Note 17 *Contingent liabilities* As detailed by the Company in previous announcements and disclosures to ASX, the Company entered into an Investigation Cooperation Agreement with the Australian Federal Police (AFP). The agreements primarily relate to bribery and foreign corruption offences. There is a risk that the Company will be exposed to judgments, fines and penalties arising from regulatory activity including the AFP's investigation inquiries that may have an adverse impact on its financial performance and financial position. Due to this risk we have determined this is a key audit matter.	Our audit procedures included: • Obtaining an understanding of the identified or suspected non-compliance with law and regulation • Discussing the areas of potential or suspected breaches of law and regulation, including the ongoing investigations, with management, the Board as well as the Group's legal advisors and assessing related documentation, and • Assessing whether the contingent liability disclosure in Note 17 to the financial statements is appropriate given the progress of the matter at this point in time.

3. Trade receivables – expected credit losses	
Why this is a key audit matter	**How our audit addressed the key audit matter**
Refer to Note 3 *Critical accounting judgements, estimates and assumptions*, Note 8 *Trade and other receivables* Subsequent to 30 June 2022, the Company announced that the Court in China ordered payment of the outstanding receivable. In addition given the historical issues with regards to fraud being uncovered and the general economic environment, it is prudent to review management's estimate of expected credit losses (ECL) to ensure it appears reasonable. As estimating ECL provisions involves significant judgement we have determined this to be a key audit matter.	**Our audit procedures included:** • Developing an understanding of the design and implementation of controls associated with monitoring of outstanding receivables and impairment calculations • Reviewing subsequent events to ensure these events are appropriately reflected in the interim financial report • Assessing whether the methods, assumptions and data used by management in the allowance for expected credit losses account balance were appropriate, • Reviewing the adequacy of the interim financial report disclosures.

Responsibilities of the Directors for the Interim Financial Report

The directors of the Company are responsible for the preparation of the interim financial report 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 report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the interim financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Interim Financial Report

Our objectives are to obtain reasonable assurance about whether the interim 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 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 interim 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 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 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 interim 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 report, including the disclosures, and whether the interim financial report 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 interim 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 report 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.

SW

SW Audit (formerly ShineWing Australia)
Chartered Accountants

Hayley Underwood
Partner

31 August 2022