

Aobo Environmental Technology Limited and its controlled entities

(ACN 633 117 807)

CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 30 June 2020



Contents

	Page
Directors' Report	2
Auditor's Independence Declaration	4
Consolidated Statement of Profit or Loss and Other Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements for the year ended 30 June 2020	9
Director's declaration	23
Independent Auditor's Report	24

Directors' Report

For the half-year ended 30 June 2020

The directors present their report together with the financial report of Aobo Environmental Technology Limited ("the Company") and its controlled entities ("the Group") for the half-year ended 30 June 2020 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the half-year ended 30 June 2020 to the date of this report are:

Name	Position	Appointment Date
Andrew Smith	Non-Executive Chairman	29 April 2019
Zhang Jiangang	Executive Director and Chief Executive Officer	29 April 2019
Hon. Andrew Thomson	Non-Executive Director	3 February 2020
Brendan Connell	Non-Executive Director	30 January 2020
Jiang Ting	Non-Executive Director and Company Secretary	29 April 2019 (Resigned as Director on 30 January 2020)

Principal activities

The main principal activities include manufacturing and selling of air treatment solutions for industrial applications, and battery energy storage systems in the People's Republic of China (PRC) and international markets such as Australia.

There were no significant changes in the nature of the activities of the Company during the period.

Financial Results

The Group has recorded a profit after tax for the financial year of \$748,205 (June 2019: \$212,100).

Dividends

No dividend has been declared, recommended or paid relating to the half-year ended 30 June 2020.

Options

No options have been issued by the Group.

Significant Changes in State of Affairs

The COVID-19 outbreak was declared a pandemic by the World Health Organization ('WHO') in March 2020 during the half-year ended 30 June 2020, which continues to spread throughout Australia and the People's Republic of China (PRC) (the Group's main geographical area of operation). Subsequent to the declaration by the WHO, the outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the overall economy. The scale and duration of these developments remain uncertain as at the date of this report and it is not possible to estimate the impact of the outbreak's longer effects or Governments' varying efforts to combat the outbreak and support businesses.

After the COVID-19 outbreak in 2020, the Group is paying close attention to the development of, and the disruption to business and economic activities caused by the outbreak and its potential impact on the financial position, cash flows and operating results. The COVID-19 outbreak resultant disruptions in business activities and interruptions in domestic and international travel resulting in some projects and orders of the Company negotiated or obtained prior to the outbreak being delayed resulting affecting the operations and results for the half-year results ended 30 June 2020 and reduced the Group's efforts in promotional activities for its products. With effective control of COVID-19 in China improved resulting in the opening up of domestic travel, production and logistics channels, the Group's operation has returned back to a more normal status.

The construction of a new manufacturing facility is nearing completion and has not been materially affected by COVID-19. Construction is proceeding according to the plan. Main buildings are now completed, and road construction, in and out of the manufacturing facility, is in progress with commencement of operations on the new site in 2021.

There has not been any other significant changes in the state of affairs during the half-year ended 30 June 2020.

Subsequent Events After the Balance Date

The Directors are not aware of any matters or circumstances that have arisen since the end of the reporting period that have significantly affected or may significantly affect either:

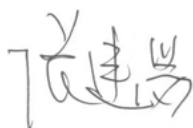
- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Auditor's Independence Declaration

The auditor's independence declaration is set out immediately after the Directors' Report and forms part of the Directors' Report for the half-year ended 30 June 2020.

This report is made in accordance with a resolution of the directors.

Dated at this 30th day of October 2020



Zhang Jiangang
Executive Director

Auditor's Independence Declaration


To the Directors of Aobo Environmental Technology Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Aobo Environmental Technology Limited for the half-year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



D Chau
Partner – Audit & Assurance

Adelaide, 30 October 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2020

	Note	June 2020 AUD	June 2019 AUD
Sales revenue	3	4,488,896	6,199,979
Cost of sales		(2,866,718)	(3,996,085)
Gross profit		1,622,178	2,203,894
Other income	3	800,390	-
Interest income		13,518	40,046
Sales and marketing expenses		(321,574)	(637,657)
Research and development expenses		(245,231)	(556,639)
Provision for expected credit losses		(291,430)	(189,159)
Administrative expenses		(453,290)	(534,445)
Finance costs		(170,273)	(184,294)
Profit before income tax		954,288	141,746
Income tax benefit/(expense)		(206,083)	70,354
Profit for the period		748,205	212,100

Other comprehensive income:

Items that may subsequently be reclassified to profit or loss:

- Exchange differences on translating foreign operations

		43,611	77,513
Total comprehensive income for the period		791,816	289,613

Earnings per share on profit attributable to ordinary equity holders

Basic earnings per share (cents per share)	15	0.39	0.11
Diluted earnings per share (cents per share)	15	0.39	0.11

These consolidated financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	June 2020 AUD	December 2019 AUD
Current assets			
Cash and cash equivalents	5	562,836	1,232,904
Trade and other receivables	7	10,389,471	10,531,069
Inventories		1,670,938	1,689,065
Right-of-use assets		43,588	86,547
Other current assets	6	8,350,281	7,657,209
Total current assets		21,017,114	21,196,794
Non-current assets			
Property, plant and equipment	8	6,946,604	3,100,029
Intangible Assets		25,810	55,785
Deferred tax assets		97,648	85,299
Land use right		1,922,827	1,928,502
Total non-current assets		8,992,889	5,169,615
Total assets		30,010,003	26,366,409
Current liabilities			
Trade and other payables		10,227,871	7,140,444
Contract liabilities		304,183	421,986
Current tax liabilities		170,627	-
Lease liabilities		46,348	90,843
Other financial liabilities	9	7,185,465	7,429,443
Total current liabilities		17,934,494	15,082,716
Total liabilities		17,934,494	15,082,716
Net assets		12,075,509	11,283,693
Equity			
Issued capital	10	209,467	209,467
Reserves	11	(76,697)	(120,308)
Retained earnings		11,942,739	11,194,534
Total equity		12,075,509	11,283,693

These consolidated financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2020

	Issued capital AUD	Reserves AUD	Retained earnings AUD	Total AUD
Balance at 1 January 2019	209,367	(34,275)	10,736,612	10,911,704
Profit for the period	-	-	212,100	212,100
Other comprehensive income for the period	-	77,513	-	77,513
Total comprehensive income for the period	-	77,513	212,100	289,613
Issuance of share capital, net of related issuance costs	100	-	-	100
Transactions with owners in their capacity as owners	100	-	-	100
Balance at 30 June 2019	209,467	43,238	10,948,712	11,201,417
Balance at 1 January 2020	209,467	(120,308)	11,194,534	11,283,693
Profit for the period	-	-	748,205	748,205
Other comprehensive income for the period	-	43,611	-	43,611
Total comprehensive income for the period	-	43,611	748,205	791,816
Balance at 30 June 2020	209,467	(76,697)	11,942,739	12,075,509

These consolidated financial statements should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2020

	Note	June 2020 AUD	June 2019 AUD
Cash flows from operating activities			
Receipts from customers		5,204,751	6,077,177
Payments to suppliers and employees		(5,096,320)	(7,084,917)
Interest received		13,518	40,046
Finance costs		(190,941)	(182,508)
Income tax paid		(47,183)	(740,214)
Net cash provided by (used in) operating activities		(116,175)	(1,890,416)
Cash flows from investing activities			
Purchases of property, plant and equipment		(67,920)	(3,447)
Purchase of intangible assets		-	(12,219)
Purchase of land use right		-	(1,967,740)
Net cash provided by (used in) investing activities		(67,920)	(1,983,406)
Cash flows from financing activities			
Proceeds from borrowings		-	2,059,423
Proceeds from issuance of shares		-	100
Advances to related parties		(540,647)	(26,093)
Repayment of advances (to)/from related parties		84,183	-
Net cash provided by (used in) financing activities		(456,464)	2,033,430
Net change in cash and cash equivalents held		(640,559)	(1,840,392)
Cash and cash equivalents at beginning of the period		1,232,904	2,001,179
Effect of exchange rates on cash holdings in foreign currencies		(29,509)	(6,736)
Cash and cash equivalents at end of the period	4	562,836	154,051

These consolidated financial statements should be read in conjunction with the accompanying notes.

Notes to the Consolidated financial statements for the half-year ended 30 June 2020

1. Nature of operations, General information and Statement of Compliance

Aobo Environmental Technology Limited ("Company") and its subsidiaries (the "Group") is a for-profit unlisted public company, incorporated in Australia on 29 April 2019.

The principal activities include manufacturing and selling of air treatment solutions for industrial applications and battery energy storage systems in the People's Republic of China (PRC) and international markets such as Australia. The Group operates predominately in one geographical location being the People's Republic of China (PRC) where the majority of the Group's assets are held. There were no significant changes in the nature of the Group's principal activities during the period ended 30 June 2020.

These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2019 and any public announcements made by the Group during the half-year.

The consolidated financial statements were authorised for issue by the directors on 30 October 2020.

Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. All amounts are presented in Australian Dollars (unless otherwise stated) which is the Group's presentational currency and the functional currency of Aobo Environmental Technology Limited (parent entity). The functional currency of the Group's main operating subsidiary, Aobo Environmental New Energy (Wuxi) Co., Limited in the People's Republic of China is Chinese Renminbi ('RMB').

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

10

Estimates and judgements

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgement, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2019, except for:

Provision for expected credit losses

Judgements has been exercised in relation to the recoverability of trade and other receivables, and estimation for the expected credit losses. Refer to Note 7 for further information.

Coronavirus (COVID-19) Pandemic

The COVID-19 outbreak was declared a pandemic by the World Health Organization ('WHO') in March 2020 during the half-year ended 30 June 2020, which continues to spread throughout Australia and the People's Republic of China (PRC) (the Group's main geographical area of operation). Subsequent to the declaration by the WHO, the outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the overall economy. The scale and duration of these developments remain uncertain as at the date of this report and it is not possible to estimate the impact of the outbreak's longer effects or Governments' varying efforts to combat the outbreak and support businesses.

After the COVID-19 outbreak in 2020, the Group is paying close attention to the development of, and the disruption to business and economic activities caused by the outbreak and its potential impact on the financial position, cash flows and operating results. The COVID-19 outbreak resultant disruptions in business activities and interruptions in domestic and international travel resulting in some projects and orders of the Company negotiated or obtained prior to the outbreak being delayed resulting affecting the operations and results for the half-year results ended 30 June 2020 and reduced the Group's efforts in promotional activities for its products. With effective control of COVID-19 in China improved resulting in the opening up of domestic travel, production and logistics channels, the Group's operation has returned back to a more normal status.

The construction of a new manufacturing facility is nearing completion and has not been materially affected by COVID-19. Construction is proceeding according to the plan. Main buildings are now completed, and road construction, in and out of the manufacturing facility, is in progress with commencement of operations on the new site in 2021.

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.

Going Concern

The consolidated financial statements have been prepared on a going concern basis that requires the Directors to have reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due. At balance date, the company had net cash outflows from operating activities of \$116,175 for the six months ended 2020 (June 2019: net cash outflows from operating activities of \$1,890,416). The Directors have reviewed cash flow projections covering a period for at least 12 months after reporting date.

In determining that the going concern basis is appropriate, the Directors have had regards to:

- The Group's ability to increase revenues through increased production capacity at the new manufacturing facility, the sale of new energy storage products and the existing air treatment solutions.
- Improved operating conditions in the Group's main geographical area of operations, People's Republic of China, post COVID-19 pandemic.
- Continued expansion of energy storage products in markets, such as Australia, Europe and the People's Republic of China.
- The Group's ability to roll-forward short-term borrowing balances as required on maturity (Refer to Note 9). Based on historical experience, the Group has been able to roll-forward short-term borrowings with financial institutions as required.

The construction of the new manufacturing facility is nearing completion and has not been materially affected by COVID-19. Construction is proceeding according to the plan. Main buildings are now completed, and road construction, in and out of the manufacturing facility, is in progress with commencement of operations on the new site in 2021.

At the date of this report, Management continue to consider that the COVID-19 and other matters noted above will not impact the Group's ability to remain solvent or continue to operate as a going concern. Accordingly, the going concern basis of accounting is considered to be appropriate, and that the Group will be able to pay its debts as and when they become payable.

Should the impacts of COVID-19 deteriorate or the above events not occur as anticipated, the use of the going concern assumption may not be appropriate. No allowance for such circumstances has been made in the financial report.

2. Changes in significant accounting practices

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 31 December 2019. The accounting policies included in the Group's last annual financial statements for the year ended 31 December 2019 are relevant policies for the purposes of comparatives.

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 other new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

New Accounting Standards issued but not yet effective and not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the AASB. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations issued but not yet effective have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

12

3. Revenue and Other Income

Revenue and other income consist of the following:

	June 2020 AUD	June 2019 AUD
Operating activities		
<i>Revenue recognised at point in time</i>		
- Sales of goods (stand-alone/installation)	4,472,696	6,195,387
<i>Revenue recognised over time</i>		
- Warranty services	16,200	4,592
Total revenue	4,488,896	6,199,979
Non-operating activities		
Other income	800,390	38,577
Total other income	800,390	38,577

Included in other income for the half-year ended 30 June 2020 includes \$756,642 (RMB3.5 million) received as compensation for the relocation to the new factory site on which the Group is constructing a new manufacturing facility on land-use rights held by the Group.

4. Segment Reporting

The Group operates predominately in one segment being the manufacturing and selling of air treatment solutions for industrial applications, including designing, manufacturing and selling of equipment used in humidity and climate control in the People's Republic of China (PRC). This is based on the internal reports that are reviewed and used by the Board of Directors/Management, who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and determining the allocation of resources. The Group operates predominately in one geographical area where the majority of sales revenue is generated and non-current assets are located, being the People's Republic of China. The Group's assets and liabilities are not specifically allocated to operating segments.

The Board has considered the requirements of AASB 8 *Operating Segments* and the internal reports that are reviewed by the CODM in allocating resources and have concluded at that there are no separately identifiable segments as there is currently no discrete financial information received by the chief operation decision maker.

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

13

5. Cash and Cash Equivalents

	June 2020 AUD	December 2019 AUD
Cash on hand	1,332	3,065
Cash at bank	561,504	1,229,839
Total cash and cash equivalents	562,836	1,232,904

Cash at bank and cash on hand balances as at 30 June 2020 amount of \$539,932 (RMB 2,619,910) (31 December 2019: \$1,195,568 (RMB 5,843,462)) are predominately Chinese Renminbi denominated balances, which are held with reputable financial institutions in the People's Republic of China in current bank accounts.

The Renminbi is not freely convertible into foreign currencies. Under the People's Republic of China (PRC) Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

The exchange rate of Renminbi is determined by the government of the PRC and the remittance of funds out of the country is subjected to exchange restrictions imposed by the government of the PRC.

6. Other current assets

	June 2020 AUD	December 2019 AUD
Prepayment to suppliers for purchases and services	8,342,491	7,641,664
Other current assets	7,790	15,545
Total other current assets	8,350,281	7,657,209

Within other current assets at 30 June 2020, \$7,461,762 (RMB36.20 million) (31 December 2019: \$7.06 million (RMB34.52 million)) relates to the delivery of completed dehumidifiers and equipment to lithium battery suppliers and equipment suppliers (*customers of the Group*) and act as a deposit for future battery and equipment purchases. The Group has entered into agreements with these customers to take-up stock of lithium batteries for the production of the Group's battery energy storage system and to purchase equipment/components for use in air treatment solution projects undertaken by the Company in lieu of cash receipts from the customers.

Lithium batteries have been provided to the Group by the customers at a price point below that of the wholesale market price and the Group has been able to receive lithium batteries below the standard minimum order quantities required by reputable suppliers.

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

14

7. Trade and Other receivables

	June 2020 AUD	December 2019 AUD
Trade receivables	8,604,539	8,811,661
Provision for expected credit losses	(653,922)	(373,384)
Other receivables		
- Notes receivable	470	-
- Short-term security deposits (Refer to Note 9)	388,688	716,098
- Other receivables	2,049,696	1,376,694
Total trade and other receivables	10,389,471	10,531,069

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

Trade receivable include un-invoiced amount to \$2,663,700 (RMB12,925,075) (31 December 2019:\$822,209 (RMB4,018,629)) as at 30 June 2020. The un-invoiced amounts related to confirmed sales and the collection of such amount is pending the passage of time.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the consolidated financial statements. The Group does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title. The Group generally requires its customers to pay in advance. Credit terms may be provided through negotiation with customers. No interest is charged on trade receivables.

Short-term bank security deposits are interest bearing and pledged as security for notes payable (Refer to Note 9) which is not available for general use by the Group but offset against notes payable on maturity.

Within other receivables at 30 June 2020 is a receivable from Jiang Ting (former Director) amounting to \$445,104 (31 December 2019: \$155,781) and \$816,107 (31 December 2019: \$810,214) from a government linked entity.

Provision for expected credit losses

The Group applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables and contract assets as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the historical payment profile for sales with customers as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and available forward looking information, macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Group has identified gross domestic product (GDP) and unemployment rates of China in which the customers are domiciled to be the most relevant factors and according adjusts historical loss rates for expected changes in these factors.

Trade receivables and contract assets are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 2 years.

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

15

On the above basis the expected credit loss for trade receivables and contract assets as at 30 June 2020 was determined as follows:

30 June 2020	Within 1 year	1-2 years	2-3 years	>3 years	Total
Expected loss rate	1%	25%	100%	100%	
Gross carrying amount	6,033,776	2,385,424	122,950	62,389	8,604,539
Loss allowance	166,185	309,227	116,120	62,390	653,922

31 December 2019	Within 1 year	1-2 years	2-3 years	>3 years	Total
Expected loss rate	1%	25%	100%	100%	
Gross carrying amount	7,702,477	996,672	43,827	68,685	8,811,661
Loss allowance	103,343	188,219	43,827	37,995	373,384

8. Property, Plant and Equipment

	June 2020 AUD	December 2019 AUD
Machinery and Office Equipment		
At cost	1,206,752	1,198,036
Accumulated depreciation	(623,448)	(540,985)
Total machinery and office equipment	583,304	657,051
Leasehold Improvement		
At cost	215,254	213,699
Accumulated depreciation	(188,636)	(151,656)
Total leasehold improvement	26,618	62,043
Motor Vehicles		
At cost	385,160	382,379
Accumulated depreciation	(358,646)	(341,910)
Total motor vehicles	26,514	40,469
Construction in Progress	6,310,168	2,340,466
Total property, plant and equipment	6,946,604	3,100,029

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

16

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of current period:

	Machinery and Office Equipment	Leasehold Improvement	Motor Vehicles	Construction in Progress asset	Total
	AUD	AUD	AUD	AUD	AUD
Balance at 1 January 2019	816,301	134,176	67,621	-	1,018,098
Additions	3,591	-	-	2,382,286	2,385,877
Depreciation	(160,109)	(72,506)	(27,175)	-	(259,790)
Net exchange differences	(2,732)	373	23	(41,820)	(44,156)
Balance at 31 December 2019	657,051	62,043	40,469	2,340,466	3,100,029
Additions	-	-	-	4,146,306	4,146,306
Depreciation	(83,217)	(37,633)	(14,105)	-	(134,955)
Net exchange differences	9,470	2,208	150	(176,604)	(164,776)
Balance at 30 June 2020	583,304	26,618	26,514	6,310,168	6,946,604

Construction in progress represents the construction of a new manufacturing facility on land-use rights held by the Group. The construction of the new manufacturing facility is nearing completion at the date of this report. It is expected that commencement of operations will occur in 2021.

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

17

9. Other Financial Liabilities

	June 2020 AUD	December 2019 AUD
Short-term borrowings ^(*)	6,800,899	6,751,780
Notes payable ^(**)	384,566	677,663
Total other financial liabilities	7,185,465	7,429,443

(*) Short term borrowings amounting to \$6.82 million (RMB 33 million) (31 December 2019: \$6.75 million (RMB 33 million)) are secured by personal guarantees provided by Zhang Jiangang (*Director*) and Mu Xianhong (*wife of Zhang Jiangang*). Interest is payable on rates between 4.785% to 5.22% per annum (31 December 2019: 4.785% to 5.22% per annum) for the current financial period with maturity dates between August 2020 and April 2021. Land use rights has also been used as guarantees for short-term borrowings.

(**) Notes payable are guaranteed by short term security deposit within Trade and Other Receivables.

10. Issued Capital

	30 June 2020 No. of shares	31 December 2019 No. of shares	30 June 2020 ⁹ AUD ⁽³⁾	31 December 2019 AUD ⁽³⁾
Ordinary shares				
Balance at beginning of the period/incorporation ⁽¹⁾	190,000,000	-	209,467	-
Issuance of share capital (29 April 2019)	-	100	-	100
Acquisition of Aobo Environmental Technology (Hong Kong) Limited ⁽²⁾	-	189,999,900	-	209,367
End of the year	190,000,000	190,000,000	209,467	209,467

⁽¹⁾ Ordinary shares carry one vote per share and carry the right to dividends.

⁽²⁾ Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

⁽³⁾ Note represents movement in the legal parent company's issued capital.

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

18

11. Reserves

	June 2020	December 2019
	AUD	AUD
Statutory reserve	140,746	140,746
Foreign currency translation reserve	(217,443)	(261,054)
Total reserves	(76,697)	(120,308)

Statutory reserve

Pursuant to the current People's Republic of China Company Law, the Group is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches minimal 50% of the registered capital. For the purposes of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

Foreign Currency Translation Reserve

The foreign currency translation reserve represents exchange differences arising from translation of the subsidiaries' functional currency (Chinese Renminbi and Hong Kong Dollars) into presentational currency of the Group (Australian Dollars).

12. Contingent Liabilities

As at 30 June 2020, the Group is not aware of any other contingent assets or liabilities that should be disclosed in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. (31 December 2019: nil).

13. Related Party Transactions

a) Details of key management personnel during the period as follows:

Directors

- Andrew Smith (Non-Executive Chairman)
- Zhang Jiangang (Executive Director)
- Hon. Andrew Thomson (Non-Executive Director)
- Brendan Connell (Non-Executive Director)
- Jiang Ting (Non-Executive Director) (*Resigned 30 January 2020*)

Key Management Personnel (Other)

- Qian Jin (Finance Manager)
- Zhang Hao (Sales Manager)
- Mu Xianhong (Head of Human Resources and Administration)

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

19

b) Transaction with related parties and key management personnel

The following comprises transactions with entities in which the Directors have an interest

	June 2020 AUD	December 2019 AUD
Zhang Jiangang (Executive Director)		
Advances to related party	(123,332)	(151,609)
Receipts from related party	81,373	159,109
Wuxi Aogang New Energy Co., Ltd <i>(Director related entity)</i>		
Advances to related party	(115,009)	(53,391)
Receipts from related party	2,810	99,207
Jiang Ting (Non-Executive Director) (Resigned 30 January 2020 as Director)		
Advances to related party	(302,306)	(158,565)

Related party transactions have arisen from normal course of business and related party loans, no specific terms and conditions have been attached to the above transactions.

c) Balances with related parties and key management personnel

	June 2020 AUD	December 2019 AUD
Zhang Jiangang (Executive Director)		
Payable to related party	32,500	7,500
Wuxi Aogang New Energy Co., Ltd <i>(Director related entity)</i>		
(Payable)/Receivable (to)/from related party	61,620	(45,011)
Jiang Ting (Non-Executive Director) (Resigned 30 January 2020)		
Receivable from related party	445,104	155,781

d) Other transactions with related parties and key management personnel

Zhang Jiangang (*Director*) and Mu Xianhong (*wife of Zhang Jiangang*) have provided a personal guarantee for short-term borrowings (Refer to Note 9).

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

20

14. Controlled Entities

Details of subsidiaries controlled by the Company as at 30 June 2020 are as follows:

	Country of Incorporation	Percentage Owned (%)	
		30 June 2020	31 December 2019
Aobo Environmental Technology Limited	Australia		
<i>Subsidiaries of Aobo Environmental Technology Limited</i>			
Aobo New Energy Pty Ltd	Australia	100%	100%
Aobo Environmental Technology (Hong Kong) Limited ("Aobo HK")	Hong Kong (People's Republic of China)	100%	100%
Aobo Environmental Technology (Wuxi) Co., Limited ("AETWX")	People's Republic of China	100%	100%
Aobo Environmental New Energy (Wuxi) Co., Limited ("AENEWX")	People's Republic of China	100%	100%

- (1) Percentage of voting power is in proportion to ownership.
- (2) Pursuant to a Share Sale Deed dated 15 November 2019, Aobo New Energy Pty Ltd was acquired from Mr. Zhang Jiangang (Executive Director), sole shareholder of Aobo New Energy Pty Ltd prior to the acquisition by Aobo Environmental Technology Limited.
- (3) Aobo Environmental Technology (Hong Kong) Limited is a wholly owned subsidiary of Aobo Environmental Technology Limited. Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

15. Earnings per share

Both the basic earnings per share have been calculated using the profit attributable to shareholders of the Company as a numerator, i.e. no adjustments to profits were necessary during the half-year ended 30 June 2020:

	30 June 2020	30 June 2019
Profit used to calculate basic EPS	748,206	212,100
Weighted average number of shares used in basic and diluted EPS	190,000,000	190,000,000

Aobo Environmental Technology Limited was incorporated on 29 April 2019 with 100 ordinary shares. Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

16. Events After the Reporting Date

There are no other matters or circumstances that have arisen since the end of the half-year that have significantly affected or may significantly affect either:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

17. Business Reconstruction

Transaction between Aobo Environmental Technology Limited and Aobo Environmental Technology (Hong Kong) Limited

Pursuant to a Share Sale Deed dated 6 May 2019, Aobo Environmental Technology Limited acquired 100% of the share capital in Aobo Environmental Technology (HK) Limited and its controlled entities and became a wholly owned subsidiary of the Company. This was finalised on the 19 November 2019 by way of issuance of 189,999,900 shares in the Company to existing shareholders of Aobo Environmental Technology (HK) Limited as consideration.

Through this transaction effective control of Aobo Environmental Technology (HK) Limited passed to the shareholders of Aobo Environmental Technology Limited. The transaction is the one referred to in AASB 3 *Business Combinations* as common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure Aobo Environmental Technology Limited took control of Aobo Environmental Technology (HK) Limited with no change in underlying control.

The fair value of the equity instruments issued has been estimated by reference to the value of historical net assets as of 31 December 2019 of the Aobo Environmental Technology (HK) Limited group.

The following has been extracted from the consolidated financial information of Aobo Environmental Technology (HK) Limited as at 31 December 2019. The assets and liabilities of Aobo Environmental Technology (HK) Limited as at 31 December 2019 were:

	December 2019
	AUD
Cash and cash equivalents	1,198,634
Trade and other receivables	10,509,332
Inventories	1,620,305
Right of use assets	86,547
Other current assets	7,657,209
Property, plant and equipment	3,100,029
Intangible Assets	55,785
Deferred tax assets	85,299
Land use rights	1,928,502
Trade and other payables	(7,018,761)
Other financial liabilities	(7,429,443)
Contract liabilities	(411,986)
Lease liability	(90,843)
Total net assets acquired	11,290,609
Accounted for as:	
Issued capital	209,367
Reserves	(120,308)
Retained earnings	11,201,550
Total	11,290,609

Notes to the consolidated financial statements

For the half-year ended 30 June 2020

22

Transaction between Aobo Environmental Technology Limited and Aobo New Energy Pty Ltd

Pursuant to a Share Sale Deed dated 15 November 2019, Aobo New Energy Pty Ltd was acquired from Zhang Jiangang (Executive Director), sole shareholder of Aobo New Energy Pty Ltd prior to the acquisition by Aobo Environmental Technology Limited.

At the time of the transaction, Zhang Jiangang (*Executive Director*) was both the controlling shareholder of Aobo Environmental Technology Limited and Aobo New Energy Pty Ltd. Through this transaction effective control of Aobo Environmental New Energy Pty Ltd passed to the shareholders of Aobo Environmental Technology Limited. The transaction is the one referred to in AASB 3 *Business Combinations* as common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure Aobo Environmental Technology Limited took control of Aobo New Energy Pty Ltd with no change in underlying control.

The fair value of the equity instruments issued has been estimated by reference to the value of historical net assets as of 31 December 2019 of Aobo New Energy Pty Ltd.

The following has been extracted from the financial information of Aobo New Energy Pty Ltd as at 31 December 2019. The assets and liabilities of Aobo New Energy Pty Ltd as at 31 December 2019 were:

	December 2019 AUD
Cash and cash equivalents	34,270
Trade and other receivables	21,737
Inventories	68,760
Trade and other payables	(121,683)
Contract liabilities	(10,000)
Total net liabilities acquired	(6,916)
Accounted for as:	
Issued capital	100
Retained earnings	(7,016)
Total	(6,916)

18. Company Details

The registered office and principle place of business of the Group is:
Suite 511, 434 St Kilda Road
Melbourne VIC 3004

Director's declaration

In the opinion of the Directors of Aobo Environmental Technology Limited:

- a The consolidated financial statements and notes of Aobo Environmental Technology Limited are in accordance with the *Corporations Act 2001*, including
 - (a) Giving a true and fair view of its financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and
 - (b) Complying with AASB 134 *Interim Financial Reporting*; and
- b There are reasonable grounds to believe that Aobo Environmental Technology Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



Zhang Jiangang

Executive Director

Dated this 30th day of October 2020

Independent Auditor's Report

To the Members of Aobo Environmental Technology Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Aobo Environmental Technology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Aobo Environmental Technology Limited does not give a true and fair view of the financial position of the Group as at 30 June 2020, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110.

Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.


Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Aobo Environmental Technology Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



D Chau
Partner – Audit & Assurance

Adelaide, 30 October 2020