

# ASX Announcement

12<sup>th</sup> November 2020

## China accounting irregularities – investigation update

Phoslock Environmental Technologies (ASX:PET) announced today that the Board's Audit Committee is considering recommended next steps following an investigation into accounting irregularities relating to PET's China operations. The Audit Committee is considering those recommendations before determining whether it will pursue further investigations into the matters identified.

The Company now confirms that it has identified fraudulent activity relating to areas including false accounting and falsification of invoices and service contracts; improper tax reporting; potential misappropriation of funds including improper payment of bonuses; and undisclosed related party transactions.

In response to these matters, the Company has already:

- Commenced a restructuring of its organisation in China, with a number of senior and middle management employees terminated;
- Commenced a comprehensive and systematic review of all current China contracts and contractual arrangements with third parties, including sub-contractors and distributors, to help provide a sound basis for re-evaluating our near and mid-term expectations for revenue generation in China;
- Commissioned an independent market review of the waterways remediation market in China to help assess our opportunity in the region and to better inform decisions relating to organisation structure, location, etc; and
- Implemented changes which will strengthen PET China's financial reporting procedures, delegated authority policies and general risk management framework.

PET continues to investigate and consider its rights in relation to pursuing legal action against individuals and/or entities found to have been involved in any fraudulent activity and to securing the recovery of amounts associated with identified irregularities.

Internal reviews are continuing into all projects currently contracted in China and the Company's China-based manufacturing operations. Specialist consultants are assisting with these reviews and providing near-term support in the ongoing operations of the China business.

The Company confirmed in its announcement on 8th October that measures had been taken to protect the company's assets, including cash reserves, and intellectual property while the investigation was underway. All company operations and assets outside of China are unaffected by these matters, including significant cash reserves on deposit in Australia.

The Company announced on 30<sup>th</sup> September that the Board had accepted the immediate resignation of two Board members - Deputy Chairman, Mr Zhigang Zhang and non-executive director Mr Ningping Ma. A recruitment process has commenced to attract experienced and skills-relevant candidates for these Board positions.



ASX Code: **PET**

Share Price: **A\$0.245**

52 Week High: **A\$1.08**

52 Week Low: **A\$0.19**

Issued Shares: **625.0m**

Market Cap: **A\$153m**

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BLOG on Water Issues:

[www.phoslock.com.au](http://www.phoslock.com.au)

The Company now has a basis to conclude the review of its financial statements, with adjustments expected to be made to both financial year 2019 and financial year 2020 accounts. This work will be undertaken as quickly as possible, after which re-stated financial accounts will be released to the market.

Suspected accounting irregularities in China were first discovered during an internal review of controls – instigated by corporate head office. These were subsequently brought to the attention of PET’s auditor and an investigation was commenced.

PET’s CEO and Managing Director, Lachlan McKinnon, said:

“The Company is committed to ensuring that all areas of PET operations meet high standards of financial governance, accountability and transparency.

The discovery of these irregularities demands a comprehensive re-set on how we conduct business in China. We are immediately implementing additional processes and reporting requirements in China- and will make the necessary personnel changes there to ensure appropriate standards of compliance are met on a consistent basis.

“China represents a valuable and important market for PET and we continue to have confidence in our growth prospects there. All current China contracts and contractual arrangements with third parties, including sub-contractors and distributors, are now being comprehensively and systematically reviewed with appropriate head office oversight. This will provide a sound basis for re-evaluating our near and mid-term expectations for revenue generation in China.

“While we undertake the necessary work to re-establish the business in China on a proper footing, the company will continue its focus on developing its growing opportunities in other parts of the world.”

To coincide with the release of re-stated accounts, the Company will schedule a business update briefing. Details of that briefing will be provided in due course.

*This announcement has been approved by the Managing Director and Chairman*

**Matthew Parker**  
Company Secretary

***For more information please contact:***

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## **ABOUT PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED (PET)**

Phoslock Environmental Technologies Limited (ASX: PET) specialises in engineering solutions and water treatment products to remediate polluted lakes, rivers, canals and drinking water reservoirs.

Headquartered in Melbourne, PET has offices in Brisbane, Beijing and Manchester and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors, and agents in ten other countries including SePRO Corporation in the United States and HidroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments, inhibiting the growth of Harmful Algal Blooms (HAB).

Phoslock® is certified to be used in drinking water in North America, Europe, Brazil, Australia and China. Along with Phoslock®, PET also supplies zeolites and specialised strains of bacteria that address water pollution issues.

For more information visit [www.phoslock.com.au](http://www.phoslock.com.au)