

# Phoslock admits to accounting fraud



**Tom Richardson** *Markets reporter and commentator*

Oct 8, 2020 – 3.10pm



Phoslock Technologies has admitted [a KPMG investigation into its accounts](#) has discovered fraud, falsified revenues, improper tax reporting and misappropriation of funds.

The bombshell findings are centred around the water treatment company's sales and operations in China, which have accounted for the majority of reported profits and sales.

Last week Phoslock announced its deputy chairman, Mr Zhigang Zhang, and director Mr Ningping Ma would leave the business with immediate effect.



Phoslock has admitted its Chinese operations are fraudulent. **Supplied**

On Thursday it reported several other China-based employees have been either stood down or sacked as a result of the investigation.

It said it is considering taking legal action against those found to have engaged in fraudulent activity, with the stock suspended until investigations are complete.

## RELATED QUOTES

<b>PET</b>	<b>\$0.24</b>	0.00	▼
------------	---------------	------	---

Shares in the former small-cap market darling traded above \$1.46 in September last year after management reported a net profit of \$1 million on revenue up 9 per cent to \$10.2 million for the six months ending June 30, 2019.

The appearance of success was based almost solely on its Chinese connections, with \$8.4 million, or 82 per cent, of reported revenue coming from China in the period.

---



**RELATED**

**Phoslock directors cleaning up**

---

On August 23, 2019 management forecast calendar 2019's profit would double to between \$6 million to \$8 million on revenue up 55 per cent to between \$27 million to \$30 million.

In the end it reported a calendar 2019 net profit of \$3 million on sales of \$25.1 million — below the forecast provided in August 2019 and reiterated on October 31, 2019.

Between June and August 2019 managing director Robert Schuitema, chairman Laurence Freedman and the now departed directors Zhigang Zhang and Ningping Ma [sold down shares in the company worth more than \\$35 million](#).

## **Incorrect forecasts**

In December it provided a forecast for 2020 sales to more than double to between \$50 million to \$70 million based largely on five major water treatment projects in China. It also claimed its China sales pipeline stood at \$200 million and growing.

---

On February 28, 2020 Phoslock announced that managing director Robert Schuitema would resign effective May 13, to be replaced by current chief executive Lachlan McKinnon.

At the time the company reported it had grown from a market value of \$15 million to \$344 million under Mr Schuitema's leadership. At its highs in September 2019 the

fraudulent company boasted a market value more than \$900 million.

At its May 25, 2020 annual general meeting Phoslock appeared to stick to a forecast for sales between \$50 million to \$70 million in 2020 to translate into EBITDA between \$12 million to \$20 million.

However, shareholders were seemingly losing faith in the company as shares that day closed at just 55¢.

Shares were sold off further until the company downgraded its sales guidance to between \$30 million and \$40 million on June 16, 2020. In the end it reported sales of just \$1.2 million for the first half of 2020 in a result blamed on the COVID-19 crisis.

On July 1, 2020, then deputy chair Zhigang Zhang sold 1.5 million shares on-market to pocket \$435,000 at a price of just 29¢ per share.

On September 17 shares were suspended at 24.5¢, after Phoslock said an investigation initiated by Mr Freedman and Mr McKinnon had revealed the accounting fraud in China.

In addition to KPMG it has appointed a second financial consultant to assist with the ongoing investigation.

**Tom Richardson** reports and comments on investment markets. *Connect with Tom on [Twitter](#). Email Tom at [tom.richardson@afri.com](mailto:tom.richardson@afri.com)*