

# ASX Announcement

8<sup>th</sup> October 2020

## Market Update – China accounting irregularities

Phoslock Environmental Technologies (ASX:PET) announced today that KPMG has reported its preliminary findings into suspected accounting irregularities relating to PET's China operations.

Fraudulent activity has been identified, including false accounting and falsification of invoices and service contracts where PET or its subsidiaries are the recipient, and potential improper tax reporting and misappropriation of funds. Several China-based employees have been either stood down or terminated in relation to these matters.

It has also been confirmed that several previously undisclosed related party transactions have taken place

Further investigations are required to determine the full extent of these, and possibly further, irregularities and to quantify the impact on the company's finances and accounts. This work is underway.

In addition to the work being undertaken by KPMG, PET has retained an experienced corporate finance consultant specialising in financial due diligence to be based at PET's China office and to provide assistance and support to the company. That assistance includes, but is not limited to:

- Help with the quantification of losses associated with any malpractice and assistance with related asset recovery;
- Arrangement of on-site forensic investigations into books and records to prepare for the reconstruction of the company accounts;
- Recommendations on new procedures and payment protocols; and
- Interim management of the business and approval of cash payments, including suppliers' payments, wages and salaries, statutory payments and reimbursements.

Measures are also being taken to protect the company's assets, including cash reserves, and intellectual property while the investigations continue. All company operations and assets outside of China are unaffected by these matters, including significant cash reserves on deposit in Australia.

PET will actively 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 all irregularities.

The company's shares will remain suspended from trading until such time as the investigations are complete; the financial and accounting impact has been assessed; and audited accounts for the half year have been released.



ASX Code: **PET**

Share Price: **A\$0.245**

52 Week High: **A\$1.44**  
52 Week Low: **A\$0.19**

Issued Shares: **625.0m**

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

Address:

Level 16, 1 Collins St  
Melbourne, Vic, 3000

Phone: +61 3 9110 0002  
Email: [ir@phoslock.com.au](mailto:ir@phoslock.com.au)

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

BLOG on Water Issues:  
[www.phoslock.com.au](http://www.phoslock.com.au)

While PET addresses these matters in China, the company is continuing its focus on developing its expanding business in other parts of the world and remains confident in its overall growth opportunities.

Further updates will be provided to the market in due course.

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

**Matthew Parker**  
Company Secretary

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

**Mr Lachlan McKinnon** – Managing Director and CEO, Phone: +61 (03) 9110 0002

**Mr Michael Kotowicz** – Investor Relations; Phone: + 61 (02) 9199 8010 / Mob: 0416 233 145

## **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)