



ASX Code: **PHK**

Share Price: **A\$0.20**

52 Week High: **A\$0.24**

52 Week Low: **A\$0.068**

Issued Shares: **415.1m**

Market Cap: **A\$83M**

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PHK BLOG on Water Issues:

www.phoslock.com.au

ASX ANNOUNCEMENT

Monday 31st July, 2017

Business Progress

Key Points:

- FY16-17 Sales/Other Revenues \$4.2m up 100% on FY15/16
- FY17-18 Sales forecast of \$18.5m up 460% on FY16-17
- New Changxing Factory commenced production
- Phoslock Beijing, major driver of Sales growth now fully operational
- Diversified business mix - combination of materials with In-house engineering services
- Balance Sheet strengthened with equity placement to Chinese water industry executives
- Senior Chinese water industry executive joins PWS Board

Highlights

Cash receipts for the June 2017 quarter were \$1.4m and \$3.8m for FY16-17, up 65% compared with \$2.3m in 2015/16. Group Cash was \$1.3 million as at 30 June, 2017.

Sales and Other Revenues for FY16-17 were \$4.2m, up 100% on FY15-16.

Forecast sales, based on current and expected orders for FY17-18 is \$18.5 million, up 460% on the previous year. Following the transformational change to PWS business, new sales will come from a combination of materials, including traditional Phoslock, as well as zeolites and new bacteria products. In-house engineering services will also provide cashflow.

Phoslock Beijing is now expected to become the major driver of PWS's growth. It is now fully functional, and has 15 employees. Phoslock Beijing is currently working on seven projects mainly around Beijing. A solid pipeline of additional projects with an aggregate value in excess of \$30 million, has already been put in place. Some of these projects could move into Contracts within the next 12 months.

The new Changxing Factory has commencing production at a significantly increased rate to meet new demand from both China and the rest of the world.

On 13 June, 2017 Mr Zhigang Zhang, Senior Manager of a subsidiary of BEWG (Beijing Enterprises Water Group Limited; HK Listed 371) was appointed to the PWS Board.

China

Phoslock Beijing Office is now fully functional with 15 professional employees. These include industrial chemists, engineers, project implementation experts and technical sales specialists. This is a transformation of the Group's current business and allows the Group to undertake a broader array of projects, including services, materials and construction.

The Phoslock Beijing senior executives have brought with them contracted project work and a network of industry and government contacts. Phoslock Beijing is currently working on seven projects mainly around Beijing. There is now a growing pipeline of additional projects, with an aggregate value currently in excess of \$30 million. Some of these projects are expected to formalise into Contracts within the next 12 months.

Changxing Factory

This is the first time PWS has complete control over all aspects of the manufacturing operation.

PWS's multi-purpose manufacturing facility in Changxing, Zhejiang province 150km from Shanghai is now functional. The current production rate is 15,000tpa. With adding additional equipment it can be readily increased to 45,000tpa.

The new factory has no discharge of water and no air pollutants. All waste water is treated in-house. The factory is in the process of being audited by Chinese EPA and international accreditation bodies. PWS expects to receive full compliance certificates.

The facility will also manufacture other products, including permeable Phoslock bricks, to be used in running water, rivers and canals.

A Phoslock Brick



The Changxing Factory has extensive R&D facilities, where work is currently underway on additional water treatment products, primarily focussing on specific Chinese water quality issues.



Changxing Factory – mixers, filter presses and conveyor to gas dryer



Changxing Factory - gas dryer and bagging facilities



Changxing Factory - Phoslock being loaded into container for export

International Business

International PWS sales and other revenue, excluding China, was approximately \$4 million for FY2016-17. The current forecast is for this to grow by 50% to \$6 million in the 2017/18 year. A number of major projects in Brazil, Canada and several European countries are in progress or about to commence over the next few months.

Brazil

Further orders were despatched to Brazil during the June quarter for the Pampulha project. Total sales since project commencement have now reached almost US\$2 million with highly positive results.

In addition Pampulha, PWS's Brazilian licensee, Hidroscience, continues to proactively identify new opportunities in Brazil. As a result of these initiatives, a new contract to treat a drinking water reservoir in Northern Brazil worth more than US\$500,000 was received during the quarter, while further contracts for potable water supply are expected shortly in Central and Southern Brazil. All these projects will be implemented progressively over the next six months.



Applications to Pampulha Lake, Brazil.

Europe

PWS Europe recorded net receipts of almost \$400,000 during the quarter. Following applications in the UK, Germany, Austria and Belgium during the previous quarter, PWS Europe completed further projects in the Netherlands, Scotland and Austria during the second quarter. Initial results from all projects are encouraging.

The European business continues to grow steadily and a major Polish project is now expected to take place before the end of the year. This will be the second largest international application of Phoslock to date after Pampulha.

North America

The U.S. and Canadian pipelines continue to grow; U.S. licensee, SePRO, reported continuing sales growth during the quarter and is currently in discussions with regulators in several U.S. regions. If realised, these projects would involve the application of more than 1,000 tonnes of Phoslock.

PWS continues to prepare for its largest ever Canadian application later this year. Valued at more than C\$500,000, the project is currently awaiting final regulatory approval. This together with other substantial projects brings the Canadian pipeline to over C\$6 million

Financial Commentary

Cash receipts from customers and government grants for the June quarter were \$1.4m. This takes cash receipts from sales for the 12 months to 30 June 2017 to \$3.8m (\$2.3m FY15-16).

Cash costs, excluding inventory purchases, interest and R&D, were \$882,000 (\$652,000 in March 2017 quarter). The increased costs are mainly from our Chinese operations, particularly the Changxing factory. Product purchases for the quarter were \$0.7m and just over \$3.0 million for FY2016-17.

During FY16-17, capital expenditures were \$1.2 million, and \$268,000 on R&D projects. Most of the R&D expenditure is expected to be received back in the current financial year.

As at 30 June, 2017 the Company had cash on hand of \$1.3m. In addition, receivables/debtors were over \$1m and inventories \$0.9m (at cost).

In May, 2017 PWS completed a placement of 30 million PWS shares to a China Investor Group with significant water industry expertise able to assist PWS grow its China business. The placement raised \$2.1 million which is being used to fund a number of projects including the Changxing factory; Chinese sales & marketing and working capital.

During the June 2017 quarter \$71,000 of PWS options were exercised. In the September quarter, approximately \$1.3m option revenue is anticipated.

Mr Zhigang Zhang appointed as a new PWS Director

On 13 June, 2017 Mr Zhigang Zhang, Senior Manager of a subsidiary of BEWG (Beijing Enterprises Water Group Limited; HK Listed 371) was appointed to the PWS Board. Mr Zhang is a senior environmental remediation expert with over 30 years in the industry.

Mr Zhigang Zhang is an internationally renowned Chinese water industry executive. He has worked in the water remediation and the water treatment industry in China and overseas for over 30 years including:

1987 to 1994 - Sino-Italian joint venture Beijing Snowflake Refrigerator Factory Water, sewage and air-conditioning Department Head.

1995 to 1998 - Chief Engineer and General Manager of Beijing Bi-Leaf Environmental Engineering Company

1998 to 2014 - Chairman and General Manager of Beijing Herocan Environmental Engineering Technology Co., Ltd.

2006 to 2008 - Chairman and General Manager of China Water Holdings Limited (Singapore).

2008 to 2014 - Executive Director and CEO of Standard Water Co., Ltd

2014 to Present - Senior Manager in a subsidiary of BEWG

Mr Laurence Freedman AM
Chairman

Mr Robert Schuitema
Managing Director

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PHOSLOCK WATER SOLUTIONS LIMITED (PHK)

PHK is an engineering and treatment products for the water industry.

PHK recently formed a new company, Phoslock (Beijing) Environment Engineering Technology Co., Ltd to focus on both engineering solutions for water environment projects as well use of water remediation products such as Phoslock, zeolites and other solutions in China. Phoslock Beijing undertakes design, engineering, implementation and use of remediation materials for river, canal and lake projects in China. This is a significant broadening of the current PHK business base and will allow it to undertake a broader array of projects in China, supplying both services and materials.

PHK has a large multi purposes factory in Changxing, Zhejiang province, China, 150km inland from Shanghai which manufactures its patented technology, *PHOSLOCK*, along with a number of other water treatment products.

PHK is headquartered in Sydney, Australia and has offices in Brisbane, Beijing, Shanghai & Changxing, China and Bremen, Germany. PHK is represented by licensees, distributors and agents in ten other countries including SePRO Corporation in the United States; HidroScience in Brazil and Bentophos in Germany.

PHK has signed six marketing and co-operation agreements in China with a number of environmental companies, including BHZQ, which is 70% owned by BEWG (Beijing Enterprises Water Group Limited; HK Listed 371)

For more information about PHOSLOCK Water Solutions and *PHOSLOCK* please visit our websites: www.PHOSLOCK.com.au or www.PHOSLOCK.eu (Spanish, Italian, Dutch and German) or www.PHOSLOCK.com.br (Portuguese) or www.PHOSLOCK.cn (Chinese).

PHOSLOCK BLOG on PHOSLOCK news and current Water Issues – see www.PHOSLOCK.com.au and look for PHOSLOCK BLOG icon in top right corner of the Home Page.

ABOUT *PHOSLOCK* – the Product

PHK produces *PHOSLOCK*, a patented technology was developed by the Commonwealth Scientific and Industrial Research Organisation (“CSIRO”). PHK has lodged a subsequent patent application to protect the core *PHOSLOCK* technology which is in an advanced stage of being granted in approx. 50 countries, with the intention of extending the core *PHOSLOCK* technology to 2033.

PHOSLOCK is a unique water treatment product that binds phosphorus in water bodies such as lakes and dams. It provides a protective permeable layer to sediments, permanently preventing the re-release of phosphorus.

Retention of phosphorus reduces the level of algae by depriving it of nutrients. This in turn improves water quality, both for human use and aquatic life as well as preventing and controlling Harmful Algal Blooms (HAB).

PHOSLOCK is primarily used as an in-water solution for lakes, drinking water reservoirs and other recreational water bodies. It is also used as a preventative product to absorb phosphorus before it is transported into water bodies by being applied in storm water basins and inflow channels, rivers and canals.

PHOSLOCK is a certified NSF/ANSI Standard 60 product - North American Drinking Water (see websites ansi.org and scc.ca). This certification enables *PHOSLOCK* to be applied to water bodies used for human consumption in the USA and Canada.



PHOSLOCK has been certified by Chinese Research Academy of Environmental Sciences (CRAES). *PHOSLOCK* is classified as a general environmental substance. It is neither hazardous nor harmful to the environment. *PHOSLOCK* has low risk to hydro ecological system.



PHOSLOCK has been used on many of high profile water bodies in Europe/UK, North America and Australia. To date over 300 initial and follow-up applications have been successfully made.

Over 60 peer reviewed scientific and technical papers, have been published on *PHOSLOCK* in leading scientific journals. For access: www.PHOSLOCK.com.au