

Emefcy Group Limited (ASX:EMC) Announces China Strategy and Goals

11 July 2016

Highlights

- Based on intensive market research, the China market consists of over 30 different geographies and constitutes an estimated A\$20 Billion potential market for wastewater treatment solutions over the next five to seven years.
- Emefcy's new generation MABR technology based wastewater solution currently manufactured in Israel is directly relevant to meeting this market opportunity.
- Emefcy's vision is to become the China market leader for wastewater treatment plants in its target size range by 2020.
- Emefcy is pursuing a clear strategy to penetrate this market including establishing the appropriate corporate structure, local organisation and management, local manufacturing, and key supply chain logistics, distribution, and engineering services partnerships.
- Emefcy is articulating clear goals with associated timelines to execute the strategy including a pipeline of demonstration plants by Q4 2016 and planned rapid ramp up of Emefcy-based plants in China by the end of 2017.
- Emefcy's strategy is to commence on a small scale in order to establish key reference sites in different geographies, followed by building up a full roll out with larger partners delivering contracts over a multi-year period.

After several months of intense market research in China including detailed discussions with local advisers, manufacturers and potential partners, the Directors of Emefcy Group Limited (ASX:EMC) ("Emefcy" or the "Company") are pleased to articulate the Company's strategy and key goals for China market entry and potential segment leadership.

In February 2016, the Chinese government announced a Five Year Plan (the "Plan") including the objective of increasing the treatment of rural wastewater from 10% to 70% and providing Chinese Central Government funding to support this. Following a detailed analysis of the China market opportunity arising from the Five Year Plan, Emefcy estimates that plants treating rural wastewater affecting over 400 million people will need to be constructed over the next five to seven years.

Using numbers for wastewater volume and composition supplied by potential Chinese partners, Emefcy estimates this is potentially up to a A\$20 Billion market opportunity that matches Emefcy's new, second generation, MABR technology based wastewater solution. Emefcy's overall goal is to become the leading provider of wastewater treatment solutions to this target market by 2020. In order to achieve this it is commencing to put in place the necessary partnerships, personnel, facilities, distribution channels and other resources.

Key elements and deliverables of the strategy are summarised as follows:

Emefcy's China Vision

Become the **market leader** for energy-efficient, rural wastewater treatment in China by 2020, a market estimated at over A\$20B.

Key Requirements To Achieve Emefcy's China Vision

Requirement	Why This Matters	
<p>Corporate Structure</p>	<p>Establish Hong Kong subsidiary of EMC with one or more Wholly Foreign-Owned Entities operating in China</p>	<p>Provides maximum corporate and capital flexibility for future growth, helps to protect EMC's international interests and provides transparency of corporate laws as well as any future local liquidity event</p>
<p>Local Team</p>	<p>General management of China business Strong local business relationships Process design and plant standardisation Customer support</p>	<p>Establishes and maintains close relationships with customers, distribution & supply chain partners and other key influencers Minimises time to plant installation & ensures ongoing plant performance</p>
<p>Manufacturing Capability</p>	<p>Build, own & operate flexible, high-throughput, expandable production capacity in China</p>	<p>Protects intellectual property Ensures product quality and consistency Optimises product profitability & availability</p>
<p>Supply Chain Partners</p>	<p>Partner with Chinese specialty materials suppliers as source for EMC-specified raw materials Partners will carry inventory risk</p>	<p>Avoids large & highly variable working capital requirements as production ramps to meet demand. Allows off-balance sheet growth for EMC</p>
<p>Market Access Partners</p>	<p>Partner with leading market access entities: State Owned Enterprises; Private Enterprises; and Public Private Partnerships which together:</p> <ul style="list-style-type: none"> A. Represent preferred access to the regional projects, B. Will lead to EMC-system certifications in each geography, and C. Have strong financial backing 	<p>Will partner with EMC to select initial sites and invest in paid demo plants for each region Enables expedited certification in region Enables proper integration of teams to fine tune market penetration strategy for each region Enables transparency in to project pipelines Secures payment for plant at time of sale</p>
<p>Engineering Partners</p>	<p>Partner with experienced wastewater treatment engineering firms</p>	<p>Limits Emefcy's involvement to the plant sale and implementation, not ongoing operation. Minimises Emefcy's exposure to payments collection issues.</p>

Emefcy China Goals and Target Dates*		
	Goal	Target Date
Corporate Structure	Establish Hong Kong subsidiary of EMC	Q3 2016
	Establish China Wholly Foreign-Owned Entity	Q4 2016
Local Team	Hire China General Manager	Q1 2017
	Hire China Customer Support Leader	Q1 2017
	Hire China Business Development & Sales Leader	Q1 2017
Manufacturing Capability	Sign contract for initial manufacturing facility	Q3 2016
	Complete China production line design	Q3 2016
	Hire production line operator	Q4 2016
	Test China production line in Israel	Q2 2017
	Bring up China production line in China & ship initial product from China to supplement Israel production capacity	Q4 2017
Supply Chain Partners	Qualify key Chinese supply chain partners	Q4 2016
	Build prototype of China-sourced MABR product	Q1 2017
	Successfully complete China-sourced MABR product	Q2 2017
Market Access Partners	Sign first distribution partner including paid demo plant	Q3 2016
	Sign second distribution partner including paid demo plant	Q4 2016
	Sign third distribution partner including paid demo plant	Q4 2016
	Commission first demo plant	Q4 2016
	Obtain first provincial certification to enable commercial sales	Q1 2017
Engineering Partners	Sign first engineering partnership	Q4 2016

* subject to risk factors discussed below.

Execution of the above plan is anticipated to firmly establish Emefcy in the China market by Q1, 2017 with the aim of three demonstration plants operational, key members of the China management team in place, several key distribution partners signed, and provincial certification obtained, all of which is anticipated to enable full commercial ramp up to commence from Q2, 2017.

Emefcy will continue to update the market as the above milestones are achieved.

Disclaimer and risks

Forward-looking statements in this announcement are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, its directors and management.

Risks to achieving the stated strategic goals include establishing local partner agreements for distribution, attracting and retaining a competent workforce, obtaining local manufacturing licences and approvals, establishing reliable and economic supply lines, successfully completing the product development of new generation MABR modules, growing the local manufacturing capacity, achieving production volumes and quality to plan, preserving the MABR IP, sourcing and managing working capital requirements, being able to adapt to any changes in government regulations, competitor activities, foreign currency and capital market fluctuations, establishing product servicing and maintenance arrangements, and other risks associated with a foreign company operating in China.

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About Emefcy Group Limited (EMC)

Emefcy develops, manufactures and markets innovative, energy-efficient MABR based wastewater treatment solutions, aiming to change the economics of various markets and addressing the growing global demand for clean water in municipal and industrial plants.

Emefcy's advanced manufacturing facility in Israel is equipped with state of the art production machinery, and is current producing second generation MABR based wastewater solutions enabling the Company to control the quality and meet the quantity requirements of its current global markets and initial anticipated orders for China.

With several global innovation awards and a strong scientific background, Emefcy is at the forefront of the next generation of MABR based wastewater treatment. Customer contracts have already been signed in Israel, US Virgin Islands, and Ethiopia. Additional MABR based wastewater solutions from Emefcy's extensive R&D operations are anticipated to be announced in the coming year.

Emefcy Group Limited (ASX: EMC) is a public company traded on the Australian Stock Exchange.

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