Compact

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RESPONSE TO SGX-ST QUERIES

The Board of Directors of Compact Metal Industries Ltd (the "Company", and together with its subsidiaries, collectively the "Group") refers to the queries raised by Singapore Exchange Securities Trading Limited ("SGX-ST") and would like to provide further information in relation to the Full Year Results Announcement for the year ended 31 December 2018:

SGX's Query

1) Please provide a breakdown of Other expenses amounting to S$8.33 million against comparative period for fourth quarter ended 31 December 2018 and briefly describe each of the material expenses and reasons for incurring these other expenses.

2) In relation to Reversal of impairment loss on trade and other receivables and contract assets:-
   a. Please provide a breakdown of the line item amounting to S$1.87 million for the fourth quarter ended 31 December 2018.
   b. Please elaborate on the factors that contributed to the original impairment and aging of receivables.
   c. Please explain reason for the subsequent reversal of impairment losses amounting for the reporting period.
   d. Please disclose the counterparties that these reversals relates to.

3) Please elaborate the nature of the inventories written down to net realizable value and reason for the write down amounting to S$466,000 for the reporting period.

4) Please elaborate on the factors that resulted in significant exchange gain of S$778,000 for the reporting period and nature of underlying items which contributed to the gain.

5) Please elaborate on the construction of cement plant in Kazakhstan providing information on the total cost of construction; size and capacity of the plant; status of construction; estimated completion timeline and how it will be funded.

6) Please provide further information on the S$2.9 million loan made to a supplier:-
   a. Provide the identity of the supplier and whether it has any relationship to the directors, CEO, substantial shareholders or controlling shareholders and its associates.
   b. Provide the reason for granting the loan to the supplier.
   c. Provide the repayment schedule and terms of loan.

7) Please provide breakdown and description of the Prepayments made for the cement plant in Kazakhstan amounting to S$6.3 million and whether it relates to procurement costs, off-site equipment or otherwise?

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Company's Reply

1. Breakdown of other expenses incurred during 4Q2018 and its comparative period is as follows:

	4Q2018 S$'000	4Q2018 S$'000
Utilities	2,084	1,839
Transportation	1,749	1,330
Packaging costs	1,713	1,409
Selling and distribution expenses	393	313
Spare parts and maintenance	990	582
Travelling expenses	525	503
Professional fees	240	309
Audit fees	252	187
Other expenses	383	430
Total	**8,329**	**6,902**

A significant portion of utilities expenses is incurred for the operating of the cement plant in Tajikistan and fabrication/extrusion factories in Malaysia.

Transportation is incurred for the transport of raw materials from quarries to the cement plant and delivery of goods to customers for both the cement and aluminium businesses.

Packaging costs relate to the 50kg bags used for the packaging of cement for delivery to customers.

Selling and distribution expenses include payment to agents and advertising costs.

Spare parts and maintenance are mainly incurred for the upkeeping of the plant and machinery in the cement plant in Tajikistan.

Travelling expenses mainly relate to the cost of travelling (air tickets and accommodation) by employees and external service providers.

Professional fees are paid to lawyers, tax agents and external consultants.

2. In relation to the reversal of impairment loss on trade and other receivables and contract assets:

a. Breakdown is as follows:

	4Q2018 S$'000
Aluminium segment	482
Cement segment	1,388
Total	**1,870**

b. In accordance with SFRS(I) 9 *Financial Instruments* which was adopted by the Group for the financial year ended 31 December 2018, the 'incurred loss' model in FRS 39 *Financial Instruments: Recognition and Measurement* was replaced with an 'expected credit loss' ("ECL") model. The Group applied the exemption in SFRS(I) 1 and elected not to restate information for 2017. Accordingly, the information presented for 2017 is presented, as previously reported, under FRS 39, including the profit and loss statement. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in retained earnings and reserves as at 1 January 2018.

As disclosed in Note 5 of the Full Year Results Announcement for the year ended 31 December 2018, the adoption of SFRS(I) 9 resulted in an additional impairment loss of S$2,840,000 on trade and other receivables as at 1 January 2019. This was computed based on the ECL model where the Group assessed the probability-weighted estimates of credit losses based on historical information for the past 3 years on bad debt write offs, adjusted for forward looking indicators.

c. As the collection and aging of trade and other receivables improved for the year ended 31 December 2018 as compared to the prior period, this resulted in a reversal of impairment losses during the current financial year.

d. These reversals related to the computation of 'expected credit losses' which was based on percentages of each aging bracket and do not relate to any specific counterparty.

3. Aluminium billets and aluminium finished goods were written down to net realisable value based on the latest London Metal Exchange ("LME") index for aluminium. The loss was due to a reduction in LME prices in 2018.

4. Approximately 40% to 50% of sales in the cement segment are denominated in United States dollars (“USD”). Exchange gain arose due to the strengthening of USD against the Tajikistani Somoni by 7%.

5. The cement plant in Kazakhstan has an annual production capacity of between 1,200,000 to 1,500,000 metric tonnes of ordinary cement of various grades. Cost to complete approximates S$180 million. Progress of the construction of plant is approximately 60% as at 31 December 2018 and the plant is expected to be completed by end of 2019. The construction of this plant will be funded by both internal and external borrowings.

6. With regards to the S$2.9 million loan made to the supplier, there is an error in the commentary section of the 4Q2018 results announcement.

   Long-term trade and other receivables mainly comprised prepayments of S$12.2 million prepayments made for the construction of a cement plant in Kazakhstan (refer to response to Query 7 below for nature of prepayments) and S$9.6 million made for the construction of additional facilities for a cement plant in Tajikistan.

   Increase in long-term trade and other receivables of S$9.8 million was mainly due to prepayments made for the construction of additional facilities for a cement plant in Tajikistan amounting to S$9.6 million. These amounts were paid to the main Engineering, Procurement and Construction (“EPC”) contractor to construct additional facilities, i.e. a grinding station, for the cement plant in Tajikistan and the construction of these additional facilities is expected to be completed in Q2 2019.

7. Prepayments are paid to the main EPC contractor for purposes of the construction of the cement plant in Kazakhstan and it relates to procurement costs for equipment to be installed on site.

On behalf of the Board
COMPACT METAL INDUSTRIES LTD

Ma Zhaoyang
Chairman

28 February 2019