

RESPONSE TO SGX-ST QUERIES

The Board of Directors of Compact Metal Industries Limited (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 Second Quarter Results Announcement for the period ended 30 June 2018:

SGX’s Query

For non-current trade and other receivables amounting to S\$33.85 million, up from S\$16.38 million as at 31 December 2017:

- Provide a breakdown between trade and other receivables as at 30 June 2018;
- Elaborate on the nature of these significant long-term trade and other receivables;
- Disclose if the deposits placed with contractors for purchase of cement plants are refundable;
- Provide details of the construction of cements plant such as the capacity, location, cost to complete, source of funding and when the construction will be completed;
- Discuss the Group’s policy on collection of these receivables and steps undertaken by the Board to ensure collectability of its trade receivables.

Company’s Reply

- Breakdown of long-term trade and other receivables as at 30 June 2018:

| | 30 June 2018 S\$’000 |
|-----------------------|---------------------------------------|
| Deposit to contractor | 6,186 |
| Prepayments | 22,478 |
| Retention sums | 2,367 |
| Fixed deposits | 2,583 |
| Other receivables | 236 |
| Total | 33,850 |

- b. Nature of significant long-term trade receivables is as follows:
- (i) Deposit of S\$6.2 million is placed with a contractor for the construction of a cement plant in Kazakhstan.
 - (ii) Prepayments of S\$22.5 million pertain to amounts placed with contractors for the construction of a cement plant in Kazakhstan and acquisition of plant and machinery.
 - (iii) Retention sums of S\$2.4 million are amounts withheld by main contractors until the successful completion of the project works and these are only receivable by the Group upon completion of the construction contracts and after the defects liability period.
 - (iv) Fixed deposits of S\$2.6 million have a maturity of more than 1 year.
- c. Deposit placed with a contractor for the construction of the cement plant amounting to S\$6.2 million is refundable. Refer to (e) below for more details.
- d. The cement plant is in Almaty, Kazakhstan and 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\$150 million and this will be funded by both internal and external borrowings. Construction of the cement plant is expected to be completed in 2019.
- e. The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The contractor whom a deposit has been placed with has been assessed to be of sound credit standing and the construction of the cement plant is within schedule. For retention sums, the Group actively monitors the credit standings of main contractors and is in constant contact with them to ensure collectability of these amounts. Fixed deposits are placed with financial institutions which are regulated.

On behalf of the Board
COMPACT METAL INDUSTRIES LTD

Zhang Zengtao
Managing Director

18 September 2018