

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 Third Quarter Results Announcement for the period ended 30 September 2017:

SGX’s Query 1

1. It was noted that inventories amounted to S\$13.5 million as at 30 September 2017 while revenue for 3Q2017 amounted to only S\$6.1 million. Please provide:
 - a. a breakdown by type of inventories as at 30 September 2017;
 - b. aging schedule of inventories as at 30 September 2017; and
 - c. reasons for the increase in inventories when the Company indicated in paragraph 10 of the Announcement that the aluminium business continues to be challenging.

Company’s Reply

- a. Breakdown by type of inventories as at 30 September 2017

	30 September 2017 \$'000	31 December 2016 \$'000	Inc/(Dec) \$'000
Raw materials	8,516	7,036	1,480
Work in progress	1,119	865	254
Finished goods	3,146	3,014	132
	<u>12,781</u>	<u>10,915</u>	
Allowance for inventories obsolescence	(1,114)	(1,114)	
	<u>11,667</u>	<u>9,801</u>	
Construction work in progress	1,833	676	1,157
	<u>13,500</u>	<u>10,477</u>	

Note:

Construction work in progress represents unbilled amount of contract work performed to date.

b. Aging schedule of inventories as at 30 September 2017

	Group \$'000
Less than 12 months	13,904
12 - 24 months	97
More than 24 months	462
	14,463
Allowance for inventories obsolescence	(963)
	13,500

c. Inventories increased mainly due to increase in raw material and construction in progress. As the Group has an order book of \$20.1 million as at 30 September 2017, the increase in raw materials was due to purchases of materials and aluminium billets to meet existing demands.

SGX's Query 2

2. It was noted that trade and other receivables amounted to S\$12.4 million as at 30 September 2017 while revenue for 3Q2017 amounted to only S\$6.1 million. Please provide:
- a breakdown between trade and other receivables as at 30 September 2017;
 - aging schedules for (i) trade receivables and (ii) other receivables, as at 30 September 2017;
 - reasons for the significant trade and other receivables which exceeds the revenue in 3Q2017; and
 - the nature of the underlying transactions which resulted in the significant balance of other receivables as at 30 September 2017.

Company's Reply

a.

	30 September 2017 \$'000
Trade receivables	8,979
Allowance for doubtful receivables	(3,526)
	<hr/> 5,453
Other receivables and deposits	6,969
	<hr/> 12,422

b.

	Group \$'000	Impairment loss \$'000
Not past due*	8,267	-
Past due 0-30 days	1,395	-
Past due 31-120 days	1,888	-
More than 120 days	4,398	3,526
	<hr/> 15,948	<hr/> 3,526

Note: Deposit of \$6.7 million placed with an EPC contractor for the purchase of property, plant and equipment is included in Not past due*

- The reason for the significant trade and other receivables which exceeds the revenue in 3Q2017 was due to the deposit of \$6.7 million placed with an EPC contractor for the purchase of property, plant and equipment.
- Please see reply (c) above.

SGX's Query 3

It was disclosed in paragraph 10 of the Announcement that "the order book as of 30 September 2017 including variation orders was about S\$20.1 million". Please elaborate on the following:

- a. When will these projects be completed?
- b. Please provide discussion of the factors and the projects that will affect the Group in the next reporting period and next 12 months.

Company's Reply

- a. The order book mainly consists of public and private building projects in Singapore. These projects are expected to be completed progressively over the next 3 years.
- b. The Group's projects relate to public and private building projects in Singapore. Therefore, the supply of residential units in Singapore determined by construction investment in residential units by private sector developers and HDB, which is the public sector's largest supplier, would affect the supply of projects available for the Group. As the supply of residential units from both the public and private sector are low currently, this will in turn affect the next reporting period and next 12 months.

SGX's Query 4

It was disclosed in paragraph 10 of the Announcement that “the revenue generated from the cement plant should help to improve the financial results of the Group”. Please elaborate on the competitive conditions and known factors that will affect the Group in next reporting period and next 12 months for the cement plant operations.

Company's Reply

The cement plant is located in the Republic of Tajikistan where most of the infrastructure and buildings in the country are old and the government is planning to increase the investment in and reconstruction of the country's infrastructure. Thus, the demand for quality building materials is expected to increase with the growth of Tajikistan's economy. In addition, urbanisation in Tajikistan and its globalisation through China's infrastructure investment in China's “One Belt One Road” initiative will also increase the demand for cement.

Furthermore, the cement plant is located in the Khatlon Region where currently there is only one main competitor, and the threat of new entrants is low due to high barriers of entry. The Group is prudently optimistic of performance of the Tajikistan cement plant.

On behalf of the Board

COMPACT METAL INDUSTRIES LTD

Zhang Zengtao
Managing Director

15 November 2017