COMPACT METAL INDUSTRIES LTD.
(the ***Company***)
(Company Registration No.: 197500009H)
(Incorporated in the Republic of Singapore)

PROPOSED ACQUISITION OF A 65% EQUITY INTEREST IN A JOINT VENTURE COMPANY ESTABLISHED IN TAJIKISTAN THAT WHOLLY OWNS A NEWLY-CONSTRUCTED CEMENT PLANT

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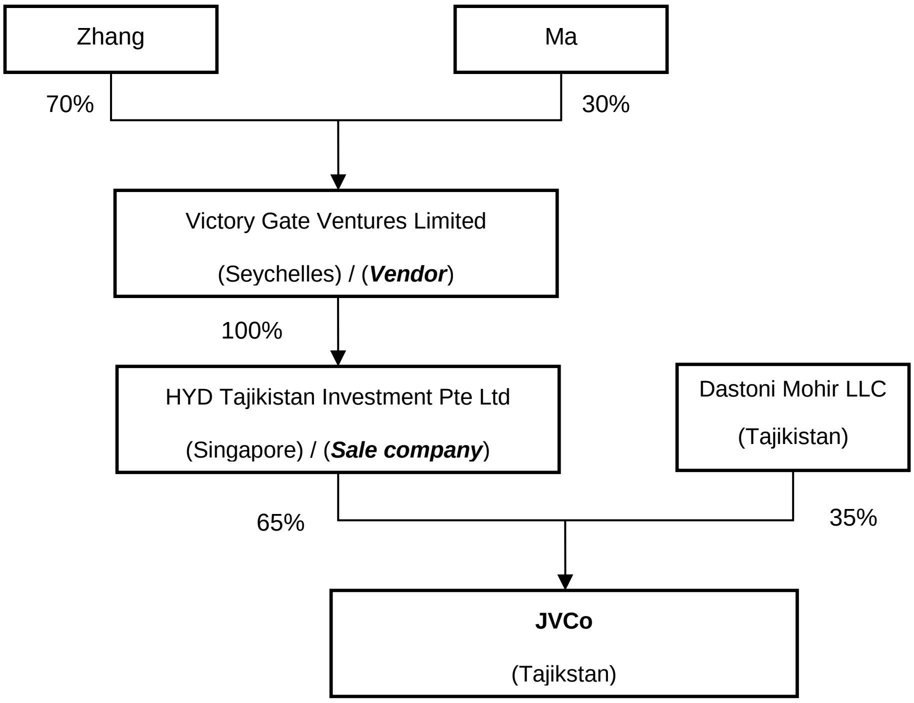
1. INTRODUCTION; BACKGROUND INFORMATION ON THE SALE COMPANY AND THE JVCo

The board of directors of the Company (***Board***) wishes to inform the shareholders of the Company (***Shareholders***) that the Company has entered into a conditional sale and purchase agreement dated 27 April 2017 (***SPA***) with, *inter alia*, Victory Gate Ventures Limited (IBC No. 149979), an international business company incorporated in Seychelles (***Vendor***) for the Company's acquisition (the ***Proposed Acquisition***) of a 65% equity interest in the "International Manufacturing Company Chzhungtsai Mohir Cement"[1] (Company Registration Number: 4010005560), a joint venture company incorporated in Tajikistan (***JVCo***).



The JVCo has two shareholders, HYD Tajikistan Investment Pte Ltd (the ***Sale Company***), a Singapore-incorporated company with an issued and paid up capital of USD100 consisting of 100 ordinary shares, and Dastoni Mohir LLC, the local Tajikistan-incorporated party, and their interests in

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[1] English translation from the Tajik name of the JVCo, which is **ҶАМЪИЯТИ ДОРОИ МАСЪУЛИЯТИ МАҲДУДИ "ШИРКАТИ БАЙНАЛМИЛАЛИИ ИСТЕҲСОЛИИ ҶЖУНГТСАЙ МОҲИР СЕМЕНТ"**.

the registered capital of the JVCo are 65% and 35% respectively.

The Sale Company is a wholly-owned subsidiary of the Vendor. In turn, the Vendor is owned by Mr Zhang Zeng Tao (***Zhang***) and Mr Ma Zhao Yang (***Ma***) in proportions of 70% and 30% respectively. Zhang and Ma, who are the executive director and executive chairman of the Company, are also the only directors of the Vendor. Zhang and Ma are also parties to the SPA as joint obligors and are jointly and severally liable for any default by the Vendor of its obligations under the SPA.

To carry out the Proposed Acquisition, the Company will acquire from the Vendor the entire issued and paid up share capital of the Sale Company free from all encumbrances and together with all rights and benefits attached thereto as at the date of completion of the Proposed Acquisition (***Sale Shares***).

As the Vendor is an associate of Zhang and Ma, the Proposed Acquisition is an "interested person transaction" within the meaning defined in Chapter 9 of the listing manual of the Singapore Exchange Securities Trading Limited (the SGX-ST) (the ***Listing Manual***). Pursuant to Rule 906 of the Listing Manual, the Shareholders' approval is required for the Proposed Acquisition.

The Proposed Acquisition will also constitute an a "Very Substantial Acquisition" within the meaning defined in Chapter 10 of the Listing Manual, and is subject to the approval of the Shareholders as well as from the approval of SGX-ST.

<u>Information on the JVCo</u>

The JVCo was established in 2014 to carry on the business of the production, sale and/or distribution cement.

The JVCo wholly owns and operates a newly constructed cement plant near Dushanbe, the capital and largest city of Tajikistan (***Cement Plant***). The Cement Plant is situated on a 16.34-hectare piece of land, over which the JVCo has obtained use of unlimited tenure since 23 February 2015. Adjoining this 16.34-hectare piece of land is a 1.5-hectare piece of land over which the JVCo obtained use of a 30-year tenure starting 19 January 2016.

The Cement Plant commenced commercial operations on or around 1 September 2016 and has an annual capacity to produce between 1,000,000–1,200,000 metric tonnes of cement. The JVCo also has concession rights to quarries near the Cement Plant for the extraction of limestone and other raw materials required for the production of cement. Please refer to Section 2 for more details on the quarries.

<u>Information on the Sale Company</u>

The Sale Company is a special purpose entity incorporated solely to hold its 65% legal and beneficial interest in the registered capital of in the JVCo and it does not carry on any other business activity. It does not have any external borrowings or significant liabilities.

2. RATIONALE OF THE TRANSACTION

At a general meeting of the Company held on 31 March 2015, Shareholders had approved*, inter alia*, for:

(a) the Company's core business to include businesses comprising the production, sale and/or distribution of cement; and

(b) the Company to make any investments or embark on any joint ventures to further its cement business in regions consisting of Central Asia among others.

This shift of focus of the Company's business to cement came about because the Company had been facing strong competition in its aluminium business. More importantly, Zhang and Ma, both with prior experience in the cement business, had become controlling shareholders of the Company in late 2014 and came on board the Company. Ma and Zhang saw the opportunity to develop an international cement business in less developed countries in Central Asia following the Chinese government's One Belt and One Road initiative. They decided on using a listed company in Singapore as the platform to grow this business.

Around 2016, the Company began to direct its focus towards an emerging project in relation to the cement plant being constructed by JVCo in Tajikistan. As mentioned above, the JVCo was established in 2014. Prior to Zhang becoming a shareholder in the Company in 2014, Zhang and Dastoni Mohir LLC had already established the JVCo to build, own and operate the Cement Plant.

Dastoni Mohir LLC, as the local party, contributed in kind to the joint venture, in procuring land, mining rights, buildings, licences *etc* for the JVCo and its operations, while the Sale Company provided the requisite funding, technical support and professional management of the construction and operation of the Cement Plant (inclusive of installation of plant equipment and machinery).

Total investment contributed for the construction of the New Cement was about USD110 million, all through shareholders' funding by Sale Company and without external borrowings from third parties or financial institutions. As for Dastoni Mohir LLC's contributions, it has obtained for the JVCo, mining rights over an area of quarry land measuring 25.84 hectares for mining limestone, and mining licenses to a bend quarry and aleurolite quarry. The mining licences to the bend and aleurolite quarries are for a tenure of 30 June 2016 to 30 June 2023. Limestone is the principal raw material needed for cement production, while the bend quarry and aleurolite quarry contain auxiliary raw materials.

Construction of the Cement Plant had started in November 2014 and at that time, there were also issues to be resolved with the local shareholder of JVCo, Dastoni Mohir LLC. It was therefore considered premature for the Company to acquire an interest in the Cement Plant earlier. The Company had intended that it would consider acquiring an interest in the Cement Plant when its construction was completed and it was fully operational. This is part of its strategy to build its cement business in Central Asia.

Construction of the Cement Plant was completed more than half a year ago, around 31 August 2016. It commenced commercial operations on 1 September 2016, and currently it is one of two modern large-scale cement plants granted approval to run in Khatlon region. Based on management accounts of the JVCo for the period 1 August 2016 to 31 December 2017, the JVCo turned a net profit of S$3.6 million for the period commencing 1 August 2016 and ending on 31 December 2016.

Now that the Cement Plant has commenced operations and is profitable with a positive cashflow from its operating activities, the Company has now been invited to invest in it with the purchase consideration being satisfied through the issue of shares by the Company and without any cash payment from the Company. The Company considers the Proposed Acquisition a good opportunity to improve its financial condition, especially when the cement business is on cash terms and there is no financing cost to be borne by the JVCo.

3. SALIENT TERMS OF THE SPA

3.1. Proposed Acquisition

As mentioned above, it is proposed that the Company shall acquire the Sale Shares from the Vendor.

3.2. Purchase consideration

The purchase consideration for the Sale Shares is the lower of:

(a) S$180 million; and

(b) an amount equivalent to 65% of the Valuation Amount (as defined in the paragraphs below).

This purchase consideration is so structured under the SPA, as a safeguard mechanism. The purchase consideration will be adjusted downwards depending on the aggregate value of a 100% interest in the entire business, assets and undertakings of the JVCo (the ***Valuation Amount***) as set out in the Valuation Report, defined in the paragraph immediately below.

The Company will be appointing a firm of international valuers for the Proposed Acquisition to prepare a valuation report opining on the Valuation Amount which shall satisfy all applicable requirements of the Listing Manual (***Valuation Report***). The Valuation Report will be included in the circular to Shareholders to be despatched in due course.

The Valuation Amount will be arrived at by taking into account the audited financial statements of the JVCo to the periods: (a) commencing on the 28 June 2014 and ending on 31 December 2016; and (b) commencing 1 January 2017 and ending on 31 March 2017.

It should be noted that purchase consideration will not be adjusted upwards in the event that 65% of the Valuation Amount is higher than S$180 million.

The purchase consideration will be satisfied by the Company on completion of the Proposed Acquisition through the issuance to the Vendor of new ordinary shares in the Company (***Consideration Shares***) credited as fully paid. The number of Consideration Shares will be determined by dividing the Purchase Consideration by the issue price of S$0.04 on the date of completion of the SPA (rounded to the nearest whole share). These Consideration Shares issued will: (a) be credited as fully paid, (b) rank *pari passu* with all existing shares in issue and (c) be issued free from all encumbrances.

Assuming that the purchase consideration is S$180 million, at completion, 4.5 billion Consideration Shares would be issued, constituting 79.45% of the enlarged share capital of the Company. The combined shareholding of the Vendor, Ma and Zhang in the Company would increase to 85.37% upon the issue of the Consideration Shares.

The purchase consideration was agreed upon after arm's length negotiations, on a willing buyer-willing seller basis, with the Company taking into account the total investment amount of USD110 million contributed in full by or on behalf of the Sale Company to the JVCo.

3.3. Moratorium

The Vendor agrees to be subject to the applicable moratorium requirements under the Listing Manual not to dispose of, transfer or encumber any of the Consideration Shares (unless the same is not required by the SGX-ST).

3.4. Conditions Precedent

The obligations of all parties to the SPA arising from the SPA shall be conditional upon, *inter alia*, the fulfilment of the following conditions on or before 30 April 2018 (or such other date agreed on by the parties):

(a) the results of due diligence on the JVCo and Sale Company being satisfactory to the Company, including legal, financial, accounting, environmental or any other diligence exercises carried out by the Company;

(b) the Company's receipt of the Valuation Report;

(c) the Company's receipt of the audited financial statements of the JVCo prepared in accordance with the law and accounting standards generally accepted in Tajikistan for the following periods: (i) commencing on the date of incorporation of the JVCo and ending on 31 December 2016, and (ii) commencing 1 January 2017 and ending on 31 March 2017, both issued by a firm of auditors acceptable to the Purchaser;

(d) the shareholders of the Company who are independent to vote approving the whitewash resolution to waive the Vendor's obligation to make a mandatory general offer under the Singapore Code on Take-overs and Mergers consequent upon the acquisition of the Consideration Shares (***Whitewash Waiver***);

(e) the Shareholders approving at a general meeting the Proposed Acquisition and the issuance of Consideration Shares to the Vendor and/or its nominee(s);

(f) all regulatory approvals being obtained for the Proposed Acquisition, including but not limited to the Whitewash Waiver from the Security Industry Council and the approval of the SGX-ST; and

(g) the in-principle approval of the SGX-ST for the additional listing of the Consideration Shares being obtained, with any related conditions (where applicable) being reasonably acceptable to the parties to the SPA.

3.5. Vendor's Warranties

Under the SPA, the Vendor has represented, warranted and undertaken to the Company that, *inter alia*:

(a) the information given to the Company under and pursuant to the SPA in relation to the Vendor and the JVCo are true, complete and accurate in all material respects;

(b) the Vendor is the legal and beneficial owner of the Sale Shares, and shall be entitled on completion to transfer them to the Company (and/or its nominee(s)) free from encumbrances;

(c) the Sale Company is a special purpose entity incorporated solely to hold its 65% legal and beneficial interest in the registered capital of in the JVCo and it does not carry on any other business activity and does not have any interest in any real property of any kind in Singapore or elsewhere;

(d) the aggregate amount of all other liabilities (both actual and contingent) of the Sale Company as at the date of completion of the SPA shall not exceed S$100,000;

(e) neither the JVCo nor the Sale Company has nor will on completion of the SPA have any oustanding loan or external borrowing from any party; and

(f) neither the JVCo nor the Sale Company (and any of its subsidiaries from time to time) has any interest in the shares or debentures of, or other investment in, any body corporate, or any partnership, joint venture, consortium or other unincorporated association or arrangement for sharing profit, save from their interests in one another.

4. FINANCIAL EFFECTS

The financial effects of the Proposed Acquisition on the Company as set out in this Section 4 are for illustrative purposes only and are not intended to reflect the actual future financial performance or position of the Company immediately after the completion of the Proposed Acquisition.[2] The pro forma financial effects of the Proposed Acquisition set out below have been prepared based on the Company's latest audited consolidated financial statements of the Company and unaudited management accounts of the JVCo for the period of five months from 1 August 2016 to 31 December 2016.

4.1. Value of and profits attributable to the Sale Shares being acquired

The value (book value, net tangible asset value and the latest available open market value) of the Sale Shares being acquired are set out as follows:

Book Value	$129.5 million
Net Tangible Asset Value	$129.5 million
Latest Available Open Market Value	NA

The net profits attributable to the Sale Shares being acquired are S$2.3 million. As mentioned above, the Cement Plant only commenced commercial operations on 1 September 2016, and the net profit of S$3.6 million is for the period commencing 1 August 2016 and ending on 31 December 2016.

While net profits of the JVCo for the last quarter of 2016 were in the region of S$2.6 million, a valuation report is not available as at the date of this Announcement. However, it is a condition precedent to the SPA that a Valuation Report (as defined in Section 3.2 above) be obtained.

As the JVCo only commenced commercial operations on 1 September 2016, no audited financial statements have been made available to the Company. The Company had required audited financial statements of the JVCo, for the period commencing on the date of the JVCo's incorporation and ending on 30 June 2017, as a condition precedent. When these audited financial statements are available, the Company will provide a summary of the pro forma financial information of the Sale

[(1)]For the purpose of computation of figures in this Section 4.2 only, the exchange rate shall be taken to be SGD to TJS is 1:5.44.

Shares for the last two financial years ended 31 December 2015 and 31 December 2016.

4.2. Net Tangible Assets ("NTA")

Assuming that the Proposed Acquisition was completed on 31 December 2016, the pro forma financial effects of the Proposed Acquisition on the consolidated NTA of the Company are as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA of the Company as at 31 December 2016 (S$'000)	62,772	197,428(1)
Number of issued and paid-up shares ('000)	1,163,816	5,663,816
NTA per Share (cents)	5.39	3.49

4.3. Earnings per Share ("EPS")

Assuming that the Proposed Acquisition had been completed on 1 January 2016, the impact of the Proposed Acquisition on the EPS of the Company would be as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Profit attributable to shareholders of the Company (S$'000)	581	2,902**(1)(2)**
Weighted average number of issued and paid-up shares ('000)	1,014,296	5,514,296
EPS for FY2016 (cents)	0.06	0.053

Note:

(1) Profits of the JVCo used in this table are for the period of five months from 1 August 2016 to 31 December 2016.

(2) For the purpose of computation of figures in this Section 4.3 only, the exchange rate shall be taken to be SGD to TJS is 1:5.59.

5. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

For the purposes of Chapter 10 of the Listing Manual, the relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006 and based on the latest announced audited financial results of the Company as at 31 December 2016 are as follows:

Rule	Bases	Relative Figure (%)
1006(a)	The net asset value of the assets to be disposed of, compared with the Company's net asset value. This basis is not applicable to an acquisition of assets.	Not applicable

1006(b)	The net profits attributable to the assets acquired, compared with the Company's net profits. [1]	399.4
1006(c)	The aggregate value of the consideration given, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	672.5
1006(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	386.7
Rule	Bases	Relative Figure
1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Company's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

Based on the relative figures above, the Proposed Acquisition is considered a "Very Substantial Acquisition" under Rule 1006 of the Listing Manual.

Note:

(1) Profits of the JVCo used in this table are for the period of five months from 1 August 2016 to 31 December 2016.

6. INTERESTED PERSON TRANSACTION

As Ma and Zhang are directors of the Company and the Vendor is an associate of Ma and Zhang, the Proposed Acquisition will constitute an "interested person transaction" within the meaning defined in Chapter 9 of the Listing Manual.

For the purposes of Rule 907 of the Listing Manual, the aggregate value of interested person transactions entered into during the financial year under review in its annual report are as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)
Ma	Not applicable	Not applicable
Zhang		Not applicable
A) International Manufacturing Company	USD500,000	

	Chzhungtsai Mohir Cement (***IMCCMC***) [(1)]		
	B) Asia Gain Investments Limited (***AGIL***) [(2)]	USD100,000	

Notes:

(1) An unsecured, interest-free loan from IMCCMC, repayable within one year, and controlled by Mr Zhang Zengtao.

(2) An unsecured, interest-free loan from AGIL, repayable within one year, and controlled by a family member of Mr Zhang Zengtao.

For the purposes of Rule 917 of the Listing Manual, the Audit Committee of the Company will be obtaining an opinion from an independent financial advisor before forming its view, which will be announced subsequently.

7. SERVICE AGREEMENTS

Except for Ma, no person will be appointed to the Board in connection with the Proposed Acquisition and no service contracts in relation thereto will be entered into by the Company.

8. FINANCIAL ADVISER; INDEPENDENT FINANCIAL ADVISER

The Company will be appointing a financial adviser in relation to the Proposed Acquisition.

The Company will also appoint an independent financial adviser to: (a) advise the independent directors of the Board on whether the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders and (b) advise the Shareholders in respect of the proposed Whitewash Waiver in due course. The advice of the independent financial adviser will be set out in the circular to be despatched to the Shareholders in due course.

9. FUTURE ANNOUNCEMENTS

The Company will make further announcements on the Proposed Acquisition as appropriate or when there are further developments on the same.

10. RESPONSIBILITY STATEMENT

The directors comprising the Board collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts of the Proposed Acquisition, the Company, and the directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the announcement in its proper form and context.

11. DOCUMENTS FOR INSPECTION

A copy of the SPA will be made available for inspection during normal business hours at the registered office of the Company for a period of three (3) months from the date of this announcement. The Valuation Report, when available, will similarly be made available for inspection.

12. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares. There is no certainty or assurance as at the date of this Announcement that the Proposed Acquisition will be completed, or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Acquisition and other matters contemplated in this Announcement.

Shareholders are advised to read this Announcement and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions that they should take.

BY ORDER OF THE BOARD
COMPACT METAL INDUSTRIES LTD

Zhang Zengtao
Managing Director

27 April 2017