

BKM MANAGEMENT LIMITED

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ANNOUNCEMENT Proposed Acquisition of Singapore based Agarwood Company

BKM Management Ltd (BKM) is pleased to announce that it has entered into a non-binding Term Sheet to acquire 100% (Acquisition) of Zenith Agro Group Pte Ltd (ZAG), an agricultural company focused on Agarwood tree plantation production and technology, with assets based in South East Asia. The consideration (Consideration Shares) for the acquisition will be fulfilled by the issue of new BKM shares. As at the date of the announcement, ZAG holds 125,000,000 BKM ordinary shares equal to 6.86% of BKM.

The Consideration Shares will comprise of 70% BKM ordinary shares, 20% Class A performance shares and 10% Class B performance shares, where:

- Class A Performance Shares will convert to ordinary shares when ZAG achieves minimum revenues of A\$10m in the first 12-month period following the completion of the acquisition; and
- Class B Performance Shares will convert to ordinary shares when ZAG achieves a minimum annual gross profit of A\$5m in either the first or second 12-month period following the completion of the Acquisition.

ZAG has subsidiary companies based in Cambodia which have an interest in Agarwood plantations, and a wholly owned subsidiary based in China for the purposes of its commercial operations. A recent valuation of the Cambodian plantations undertaken by ZAG has placed a value of US\$53m on the interest in such plantations.

The agreement is subject to completion of certain condition precedent, including:

- 1) BKM will undergo a share consolidation at such consolidation ratio as shall be agreed between the parties during the Due Diligence period;
- 2) Satisfactory due diligence;
- 3) BKM completing a capital raising of a minimum of A\$5m under a prospectus issued by BKM in connection with the ZAG acquisition;
- 4) BKM obtaining shareholder approval for the acquisition, and all other shareholder and regulatory approvals, including the ASX necessarily required to be obtained in connection with the Acquisition;
- 5) ZAG obtaining its shareholders' approval and consent; and
- 6) Both parties executing the definitive legally binding Share Sale Agreement for the Acquisition.

Should ZAG not be able to fulfil its obligations in respect of the Condition Precedent Clause 5 above by not executing a legally binding Share Sale Agreement or obtaining its shareholder approval by the Sunset Date of 31 March 2018, ZAG will pay to BKM the sum of \$200,000 as a break fee.

ZAG Business Background

There is an increase in the demand for certain species of trees and its related products in recent years such as Agarwood, OUD oil, Agarwood Tea Leaves and Agarwood Cigarettes. The initial intention of ZAG was to plant new Agarwood trees in emerging countries such as Cambodia.

However deeper exploration into the industry led to the discovery of existing matured Agarwood trees in such countries including Cambodia. Many farmers were sold the Agarwood seeds many years ago by traders and told of the profitability of the trees once matured. However the farmers were not aware of the low probability of the Agarwood occurrence in the wild and the need to wait for a few decades to have wild Agarwood. Therefore many of the farmers are now stuck with the situation of having matured trees but are not able to further fund the cultivation or have the correct source of cultivation. ZAG offered a turn-key solution to the farmers by offering

- Proven cultivation techniques and funding for producing Agarwood and
- Off-taking the Agarwood including own end-product line.

Studies done by ZAG of Cambodia estimate that there are some 30 million Agarwood trees in Cambodia which provides readily available trees for immediate inoculation and cultivation of Agarwood. The plan is also to set up relevant infrastructure in Cambodia to

- mass cultivate the bacteria required for inoculation of the trees and
- processing of the raw material into exportable forms like wood, chips, powder or oil and finally
- for production of the various end Agarwood products

ZAG has a team of experts in the field of inoculation, a process of “inducting” the trees so that it produces antibiotics and microbes thus form resins that can later be extracted for many types of Agarwood products and OUD oil.

ZAG looks forward to extending their technology into Cambodia as well as equip the local farmers with the skills to cultivate Agarwood using ZAG’s technology. ZAG is also working closely with the Department of Development (DOD) under the Ministry of Defence for the Kingdom of Cambodia. ZAG has obtained agreement for up to 6 million agarwood trees in Cambodia. To assist the farmers to improve the value of the current assets that might have been sitting at their plantations for years waiting for the right techniques. Utilizing Natural and organic based compounds as fertilizer, pest control and more that are being produce by ourselves.

The immediate buyers for the Agarwood are from Taiwan and China, which has increasing demand for such products over the last few years. Most of them, if not all, buy the product in the form of wood chips. Currently, Zenith Agro Group has sourced for end buyers that use the raw materials for the production of incense and cosmetics. The immediate buyers forms the first phase of off-taking for ZAG.

Yours sincerely,



Phillip Hains
Company Secretary
Date: 28th July 2017