

BKM MANAGEMENT LIMITED

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BKM Proposed Acquisition – additional clarification detail

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. BKM currently has 1,822,036,545 shares on issue and plans to consolidate the number of shares at a ratio to be agreed.

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 (at the agreed issue price of \$0.003 pre-consolidation equivalent) 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.

This transaction will amount to a back-door listing and therefore will require re-compliance with Chapters 1 and 2 of the ASX Listing Rules. BKM will remain suspended pending release of further information.

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 and Agarwood Tea Leaves. ZAG offered a turn-key solution to the many Agarwood farmers by offering

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

ZAG has 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 treating 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 extend their technology to 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. The main aim is to assist the farmers to improve the value of the current assets in their plantations in which they have been waiting for years for the right techniques.

The immediate buyers for the Agarwood chips are from Taiwan, Japan and China, which has increasing demand for such products over the last few years. The Middle East market is the largest buyer for Oudh Oil, which is oil extracted from Agarwood.

Currently, ZAG has sourced buyers that use the raw materials for the production of incense and cosmetics. ZAG has also the intention to create its own retail brand for Agarwood related products as they foresee the growing market in this sector as Agarwood which they believe, is the next Ginseng that can be an ingredient to many products.

Yours sincerely,



Phillip Hains
Company Secretary