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ASX Market Announcements

Australian Securities Exchange

Background

To date, the general objectives of SML Corporation Ltd (**Company**) (ASX Code: SOP) have been, among other things, to develop and expand its exploration and mining activities and operations.

The Company has been seeking appropriate acquisition and capital raising opportunities, both in Australia and overseas, whilst essentially maintaining the current nature of its business. However, the mining sector together with the pricing of commodities has been the subject of a substantial downturn, both locally and internationally, especially given the current downturn in, and uncertainties over, the Chinese economy and consequently the substantial fall in demand for commodities. Unfortunately, and according to many of the economic experts, the outlook for this sector is not very promising for the next 5 years or so and consequently, the investment sentiment for mining stocks, especially in small market capitalised companies, has been and continues to be generally negative.

With the Company's current cash burn rate, unless there is a substantial turnaround in the current conditions and investment sentiment for the mining sector and commodity prices, the outlook for the Company in the short and medium term is not positive for developing and expanding its current business and operations.

The Company's market capitalisation is presently \$1.3 million.

Accordingly, the Board of the Company has been actively seeking alternative ways to ensure its long term viability and prosperity. At a very informal and preliminary level, the Company has also explored several potential "reverse takeover" (**RTO**) deals. Until now, none of these opportunities have warranted further progress for a number of reasons.

Recently, the Board of the Company has been considering, on a confidential and preliminary basis, and now wishes to pursue an RTO opportunity with a view to changing the nature of its business and activities to property development, initially, in Asia where there are numerous opportunities for relatively high returns in the short term with relatively low capital costs. This opportunity is discussed in greater detail below. Consequently, and assuming this proposed change is approved by

its shareholders and all applicable requirements under the ASX Listing Rules and all other legal requirements are satisfied, the Company also wishes to divest its existing mining and exploration assets.

Acquisition and New Project

The Company is pleased to announce that it has entered into a binding Heads of Agreement to acquire all the shares in OSC Group Pte Ltd (**OSCG**), a private Singaporean property development company (**Acquisition**).

The consideration for the Acquisition comprises 320,000,000 new fully paid shares in the capital of the Company which shall be allotted to the shareholders of OSCG at completion of the Acquisition.

OSCG is a recently formed company, founded by its major shareholder Mr Hiroyuki Ochi (**Mr Ochi**) – a Japanese national with extensive experience in property development in various parts of the world, to carry on the business of engaging in and conducting property development activities and providing building and property management services and consultancy services in relation to property development and related property activities.

OSCG, through its Thai subsidiaries, has secured a 70% financial interest in a commercial and residential property development project in City of Sriracha on the eastern seaboard of Thailand (**Project**) known as the “Waterside Pavilion Sriracha”. The Project comprises of two phases:

Phase 1 of Project

Phase 1 will comprise of an anticipated total of approximately 314 residential units, a commercial/retail block and a medical suite, with a total gross floor area of approximately 56,200 square metres, based on the plans disclosed in writing by OSCG to the Company.

The estimated completion date for Phase 1 is in or about June 2019.

Phase 2 of Project

Phase 2 will comprise of additional residential units, with a gross floor area of approximately 42,000 square metres, based on the plans disclosed in writing by OSCG to the Company. The number of units and the sizes of the units will be determined in due course.

The estimated date for completion of Phase 2 is in or about December 2020.

OSCG

OSCG’s founder, Mr Ochi, has many years of experience in property development and related activities in Thailand, Singapore, Australia, USA, Middle East, China, Hong Kong and Malaysia.

OSCG’s main focus is to form joint ventures or co-ownership arrangements with landowners who wish to develop their land or re-develop their existing properties but do not have the capital or expertise to do so. Where it is feasible and beneficial, OSCG will invite other parties to participate as a joint venturer or co-owner in the projects. In each project, OSCG and these parties will participate in the financial interest arising from the project at the agreed percentages, which will vary for each project depending on each party’s contribution.

OSCG's strength lies in its proven ability and experience of its founder, Mr Ochi, and its management team to provide comprehensive project management services to a project. In addition to its own team, OSCG will also procure services from third party professional firms who will be compensated on a fee basis for their services.

The project management services provided by OSCG include project identification and conceptualization, architectural design, structural design, construction management, budgeting and costs control, marketing and sales as well as strata management services.

OSCG also works with banks and other financial institutions to secure project loans to fund part of the construction and development costs. OSCG contributes hands-on input in order to secure the best outcomes for the project, particularly in project planning and execution where OSCG works closely with the contractors and sub-contractors to ensure a smooth and timely construction process.

Presently, OSCG is focusing on the ASEAN region but it has plans to diversify into the East Asian countries such as China and Japan in the future.

Management of OSCG and Project

Mr Ochi is the founder of OSCG. Mr Ochi is a substantial shareholder and director in OSCG. He has more than 25 years of experience in real estate project management and business development throughout Asia and the Middle East.

He spent 15 years working for Shimizu Corporation as the Regional Business Development Manager (Asia and Pacific region) and a director to an affiliate real estate company, during which he was involved in the construction of several major commercial developments and government infrastructure projects. Shimizu Corporation is a large conglomerate in architecture, civil engineering and general contracting which can provide integrated solutions.

He has also provided business merger and acquisition advisory services in the real estate sector and related industries such as REITs. In addition, he continues to serve as a consultant to various international companies. He holds an MBA from the University of California, Berkeley, USA.

Some of the more notable and sizeable projects that Mr Ochi has been involved with include:

- (a) Hawaii, US - Four Seasons Hotel, Maui Island;
- (b) Singapore – the Holland Hill Condominiums;
- (c) Singapore - Ngee Ann City shopping and commercial centre;
- (d) Singapore – the Republic Plaza;
- (e) Shanghai, China – the Shanghai Electric Building;
- (f) Hong Kong - Peninsula Hotel;
- (g) Sydney, Australia – the Darling Harbour Nikko Hotel;

(h) Malaysia- Singapore Second Causeway.

Mr Shinnarat Pooruahong, a Thai national – Mr Pooruahong is the Managing Director of the special project Thai company for the Project (**Thai Project Company**), majority owned and controlled by OSCG, which will hold the 70% financial interest in the Project. He has 20 years of experience in finance, project management and business development in high end real estate development. He has a deep understanding of the real estate market in Thailand.

Mr Takeshi Kanemoto, a Japanese national – Mr Kanemoto has resided in Thailand for over 15 years, mostly in Sriracha and the Chonburi Province. He is fluent in Thai and has worked closely with both local Thai and Japanese expatriates in the real estate and other industries in the region. His involvement and experience has earned him deep knowledge and expertise in the market conditions and the development potential in the real estate sector in the Chonburi Province and surrounding regions. He will be mainly involved in the sales and marketing as well as certain management aspects of the Project.

Although they will not be involved with the day to day management, certain of the current directors of the Company also have experience in property development. For example, Mr. Kiat Poh was involved in property development projects financing, property development, turnkey construction since 1992 and related industries such as construction materials manufacturing in Malaysia and Singapore since 1975.

Project Location - City of Sriracha, Thailand

Sriracha is located approximately 105 km from Bangkok and is the capital city of the Chonburi province, to the southeast of Bangkok along the eastern coastal region of Thailand.

Sriracha serves as a hub city for several industrial estates located in the Chonburi and neighbouring provinces. This hinterland region is referred to as the “Sriracha hinterland”. It is home to famous industrial names such as Toyota and General Motors in Thailand. In recent years, the Sriracha hinterland has been gradually transforming into a regional operational hub catering, not just to manufacturing activities but also to R&D, strategic planning and product design. Several businesses have established regional headquarters in this location to oversee their operations in Thailand and neighbouring countries such as Myanmar, Laos, Cambodia and Vietnam.

The growth of the Sriracha hinterland is in large measure driven by the limits to the expansion capacity of Bangkok. Bangkok is getting increasingly overcrowded, overburdened by the increase in demand for residential and commercial space, road space and infrastructure and social facilities and amenities. There is mounting pressure for an easing of this burden on Bangkok by encouraging the move out to areas such as the Sriracha hinterland.

In addition, numerous expatriates and their families live in Bangkok despite the fact that the expatriates actually work outside of Bangkok. This is due to the lack of family housing or expatriate schools near their place of work. The commute between Bangkok and the place of work not only increases the cost of travelling, not to mention time, but also decreases the quality time available to the expatriates and their families. Some communities have implemented their own initiatives. As an example, the Japanese community has taken steps to build a Japanese school in Sriracha. If family housing can be made more readily available, it will go a long way in persuading more of the Japanese

families to relocate there. There are a large number of Japanese expatriates working in the Sriracha hinterland. Presently, about 35,000 Japanese nationals are residing or working in Chonburi province. It is an established community, so much so that a local Thai real estate developer has built two Japanese themed shopping and community malls in Sriracha. The malls house a large Japanese supermarket, Japanese styled pharmacy stores and several Japanese produce and food and beverage outlets.

The Project aims to capture markets such as the Japanese expatriate market, where active steps are currently being taken to encourage their families to relocate to Sriracha by the building of schools and amenities. There are reasons to believe that other expatriate communities will follow suit, given the pressures of living in Bangkok and the inconvenience of having to commute as described earlier.

Thai conglomerates, such as the SAHA Group, are continuing to invest in developments in Sriracha and the surrounding areas to cater to the growth of the Sriracha hinterland as an alternative to Bangkok. Movement of people into the region is expected to continue to increase and, along with it, the demand for residences. The Project is developed to cater to this demand.

Whilst spreading his “net” as wide as possible, Mr Ochi’s inherent strength is in the Japanese market and this will be his main focus. Mr Kanemoto, referred to above, will also be directly involved in this effort.

It is believed that the Japanese market is “ripe for the picking” in view of the active steps taken by the Japanese community to make Sriracha a more obvious choice to locate or relocate to, such as building a Japanese school in Sriracha. Due to the lack of appropriate housing, this new school is only about 60% occupied as compared to the two Japanese schools in Bangkok that are fully occupied. The Japanese schools in Bangkok have apparently resorted to giving priority to Japanese expatriates who actually work in the greater Bangkok area itself, hence denying those children whose parents work outside Bangkok, such as Sriracha.

Design and Implementation of Project

The Project is designed with a Japanese theme in terms of internal design and the external ambience. It is intended that the main contractor will be Japanese and the financing of the construction, which is subject to formal documentation, is by a Japanese bank. This strategy of having “all things Japanese” is designed to attract mainly Japanese tenants and provide buyers with a secure and reliable tenant market.

Buyers of units in the Project may range from individuals to investment funds and corporate entities such as Japanese companies to house their employees.

The Project was conceptualized by OSCG after extensive studies on the growth characteristics in the Sriracha hinterland and the substantial demand for housing, targeting mainly, but not exclusively, at the potential inflow of residents from elsewhere in Thailand, like Bangkok, as well as new expatriate arrivals.

OSCG will lead manage the Project, working with the design consultants and architects on all aspects of design and architecture, dealing with government departments on approvals and regulatory matters, liaising with and supervising the contractors on the execution, and engage in cost and

budgetary controls for the Project. In addition, and subject to formal documentation, OSCG has negotiated with a Japanese bank for the financing for the construction of the Project. Further, it will undertake to work with external consultants to devise and execute the sales and marketing plan.

The main contractor that OSCG intends to appoint, subject to final contract terms, is a major Japanese construction firm which has an established presence in Thailand and globally. It is familiar with Thai construction regulations and practices and is also cost competitive. It is also intended that a Japanese based architectural/engineering firm with Thai offices, will serve as the Project's architects and engineering consultants.

The implementation of phase 1 of the Project will be funded by the Project's financier by way of loan of at least \$28 million and a \$3 million working capital contribution by OSCG to the Project – this \$3 million contribution by OSCG will be funded by the Company by way of an interest free loan to OSCG repayable within 36 months or earlier (**SMLC Loan**).

Beyond the Project

Looking beyond the Project, OSCG is working actively to increase and diversify the scope and scale of future endeavours in the real estate industry and explore further opportunities in Thailand and other countries. Presently and at a preliminary discussion level only, OSCG is considering two other real estate projects in Central Bangkok, Thailand, which potentially can form part of the pipeline for future deals. As the terms of these two projects have not been determined and are speculative at this stage, it would be inappropriate to disclose any specific information at the present time.

The Company's major shareholder, Northwest Nonferrous Australia Mining Pty. Ltd., is supportive in principle of the Project and the Company's proposal to both change its nature of business and activities to property development and the possible divestment of its existing mining assets.

Capital Raising

Given the application of the relevant ASX Listing Rules in the context of a company proposing to change the nature of its business and activities, the Company will seek to raise capital under a prospectus to be lodged with the Australian and Investments Commission for the purpose of satisfying the requisite shareholder spread requirements under those Rules (**Capital Raising**) – estimated to be approximately \$800,000.

Details of the terms of the Capital Raising will need to be determined by the Company in consultation with its broker or corporate adviser.

Bonus Options

Subject to compliance with all regulatory requirements and the Company being satisfied that it is able to complete its acquisition of all the shares in OSCG (ie. prior to the completion of the Company's acquisition of all the shares in OSCG and prior to the issue of any new shares in the capital of the Company to the shareholders of OSCG), the Company will issue to the existing shareholders of the Company, at no issue price, new "bonus" options (**Bonus Options**) to subscribe for new shares in the capital of the Company on the basis of 2 options for every 5 shares held in the Company.

Each option will be exercisable at 5 cents and when exercised, will entitle the option holder to receive one new fully paid ordinary share in the capital of the Company. The options will have an exercise period of 5 years from the date of issue. The Company will seek to have these options quoted on the ASX.

Indicative Capital Structure

Post completion of the acquisition of all the shares in OSCG by the Company and the allotment and issue of 320,000,000 new fully paid shares in the capital of the Company to the shareholders of OSCG as consideration (excluding the new shares to be issued under the Capital Raising and upon the exercise of any of the Bonus Options), the share capital structure of the Company is expected to be as follows:

Shares	Number of Shares
Currently issued shares	107,839,799
Shares issued to the shareholders of OSCG at completion of the acquisition of all the shares in OSCG by the Company	320,000,000
Total shares on issue	427,839,799

Possible Divestment of Existing Mining Assets

The Company wishes to divest its existing mining assets given its proposed change of business and activities into property development through its proposed acquisition of OSCG.

In material terms, the Company presently owns:

- (a) the Glen Wills-Sunnyside mining tenement;
- (b) 3 exploration licences, in respect of which little or no direct exploration activities have been undertaken in the last 36 months. As such, these 3 exploration licences will be surrendered, when their respective tenures are due for renewal;
- (c) cash and plant and equipment.

The Company's market capitalisation is presently \$1.3 million.

In relation to the proposed divestment of its mining assets, the Company proposes to appoint agents for this sale process and to seek offers from bidders interested in these assets.

Any possible divestment of the Company's mining assets to a successful bidder will be conditional on, among other things, the proposed change in nature of the Company's business and activities being approved by its shareholders and completion of the Acquisition.

Heads of Agreement and Conditions Precedent

The key terms of the Heads of Agreement include:

1. The acquisition of the all the shares in OSCG by the Company free from all encumbrances (**Acquisition**).
2. The purchase price for all the shares in OSCG will be satisfied by the allotment and issue of 320,000,000 new fully paid ordinary shares in the capital of the Company to the shareholders of OSCG at completion of the Acquisition.
3. At completion of the Acquisition, the Company will disburse the SMLC Loan to OSCG.
4. The Heads of Agreement and the Acquisition is subject to the following two conditions precedent being satisfied on or before 30 June 2016:
 - (a) the Company and its representatives conduct, and are satisfied with the results of, their due diligence enquiries and investigations in relation to the Project, OSCG's business, OSCG and its Thai subsidiaries (including the Thai Project Company) including, but not limited to, their future or potential financial performance or prospects and the transactions provided for in or contemplated by the Heads of Agreement;
 - (b) the parties prepare, negotiate, finalise and sign a Share Sale Deed or Agreement for the sale of all the shares on OSCG to the Company, in exchange for 320,000,000 new shares in the capital of the Company to be issued to the shareholders of OSCG, on terms reasonably acceptable to all the parties including:
 - (i) the provision for reasonable undertakings, warranties and indemnities in favour of the Company commensurate with transactions generally of this nature;
 - (ii) the provision for reasonable "restraint of trade/non-compete" conditions in relation to Mr Ochi and another substantial shareholder of OSCG, Mr Michael Liang Huat Ong, a Singapore national, and their associates commensurate with transactions generally of this nature; and
 - (iii) the provision for the satisfaction of a number of conditions precedents, including the following:
 - (A) OSCG or the Thai Project Company procuring the drafting, preparation and completion of all architectural and engineering designs, drawings, plans, surveys and reports necessary or desirable for the lawful and proper undertaking and completion of phase 1 of the Project and them being reasonably satisfactory to the Company;
 - (B) OSCG and its Thai subsidiaries (including the Thai Project Company) obtaining all authorisations necessary or desirable for the undertaking and completion of phase 1 of the Project and all third

party consents in relation to the Acquisition in a form and on terms reasonably satisfactory to the Company;

- (C) the Thai Project Company obtaining approval of the loan for phase 1 of the Project from the Project's financier and the loan being on terms which are commensurate for a loan of this nature and in a form and on terms reasonably acceptable to the Company;
- (D) the owner of the land (which is to be developed for the Project) transferring to the Thai Project Company that land and the Thai Project Company becoming the registered proprietor and beneficial owner of that land free from all encumbrances;
- (E) the Project's financier disbursing to the Thai Project Company at least the sum of \$4,000,000 (out of the total \$28 million loan amount) for phase 1 of the Project;
- (F) the Thai Project Company having sold to independent third party purchasers at least 40% of all the residential units forming part of phase 1 of the Project in a form and on terms reasonable satisfactory to the Company;
- (G) as part of its ongoing due diligence obligations necessary or desirable, the Company and its representatives being satisfied with the results of their on-going due diligence enquiries and investigations in relation to the Project, OSCG's business, OSCG and its Thai subsidiaries (including the Thai Project Company) including, but not limited to, their future or potential financial performance or prospects and the transactions provided for in or contemplated by the agreement;
- (H) an independent expert appointed by the Company opining that the Acquisition is fair and reasonable or at least reasonable to the shareholders of the Company;
- (I) the Company obtaining all applicable regulatory and shareholder approvals including re-compliance with Chapters 1 and 2 of the ASX Listing Rules under Listing Rule 11.1.3;
- (J) the completion of the Capital Raising referred to above;
- (K) completion of the pro rate bonus issue of the Bonus Options to the shareholders of the Company referred to above;
- (L) no material adverse change occurs or is subsisting in relation to the Project, OSCG's business, OSCG and its Thai subsidiaries (including the Thai Project Company) including, but not limited to, their future or potential financial performance or prospects;

- (M) Mr Ochi being appointed as a director of the Company and the appointment of those persons nominated by the Company as additional directors of OSCG and each of the Thai subsidiaries, and such appointments to include at least the appointment of Freddie Heng, who is an existing director of the Company;
- (N) Mr Ochi entering into an Executive Employment Agreement with OSCG for a term of at least 3 years in relation to his employment with OSCG in a form and on terms reasonably acceptable to Company;
- (O) the Company and OSCG entering into a Loan Agreement for the SMLC Loan in a form and on terms reasonably acceptable to the Company; and
- (P) each of the shareholders of OSCG entering into restriction agreements with the Company for the purposes of Chapter 9 of the ASX Listing Rules in a form and on terms required by the ASX Listing Rules or the ASX.

Indicative Timetable

Once the Company completes its initial due diligence and the parties negotiate, finalise and sign a Share Sale Deed or Agreement (as referred to above), the Company will make a further announcement to the market which will include an indicative timetable.

For and on behalf of the Board of Directors of the Company



Kiat Poh
Chairman

25 February 2016