



Lanka Graphite Limited

Head Office: Level 18,101 Collins St, Melbourne, VIC 3000, **Australia**

Sri Lanka Office: No.35C, Old Kottawa Road, Nugegoda, **Sri Lanka**

ACN 074 976 828

T +61 3 9221 6394

F +61 3 9620 0777

www.lankagraphite.com.au

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ASX Announcement Agreement to Acquire Retail E-Commerce Business

The Board of Lanka Graphite Ltd (ASX:LGR) (“Company”) is pleased to announce that it has executed a binding conditional term sheet (“Term Sheet”) to acquire 100% of the MSY group of companies, which retail consumer electronics throughout Australia.

The MSY group comprises of MSY Group Pty Ltd, MSY Technology Pty Ltd, MSY Technology NSW Pty Ltd, MSY Technology QLD Pty Ltd, MSY Technology SA Pty Ltd, MSY Technology WA Pty Ltd and MSY Technology TAS Pty Ltd (collectively referred to as “MSY”).

About MSY

Founded in 1996, MSY Technology is a leading Australian computer retailer with 28 stores across 6 major states – NSW, QLD, SA, TAS, VIC, WA plus ACT.

MSY sells computers, computer parts and software online and across 28 retail sites nationally, and generates revenues of over \$100 million per year.

MSY offers competitive prices on a wide selection of computer components, latest gaming gadgets, notebook computers and accessories with a strong future focus on e-commerce growth.

Proposed Transaction

Following the satisfaction of certain conditions precedent, as set out below, it is proposed that:

- the Company will acquire MSY and its business assets for total consideration of \$17.5 million, comprising of 350,000,000 ordinary shares in the Company at an issue price of \$0.05 per share, to be issued to MSY shareholders upon completion of the acquisition (“Consideration Shares”); and
- MSY will advance a loan of \$1m to the Company to be used for the purposes of working capital, relisting transaction costs, and the costs associated with the Company undertaking a spin off of its existing mining exploration assets. The

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loan of \$1 million will be provided to the Company by MSY over the next six weeks and this loan amount will convert into ordinary shares in the Company at an issue price of \$0.05 per share upon completion of the acquisition, forming part of the total Consideration Shares.

(collectively, the “Proposed Transaction” or “Transaction”).

The Term Sheet sets out the terms on which a share purchase agreement will be entered into to acquire 100% of the issued shares in MSY and the documents to be entered into to complete the Proposed Transaction (“Definitive Documents”).

The Proposed Transaction is subject to a 45 day due diligence period from the date of the Term Sheet. If the Proposed Transaction does not proceed, the loan monies advanced by MSY to the Company shall be refundable to MSY.

Investors should note that the Proposed Transaction is conditional, no Definitive Documents have been executed and that therefore there can be no guarantee that the Proposed Transaction will complete.

Conditions precedent

The Proposed Transaction is subject to a number of conditions precedent, including:

- a. Completion of due diligence;
- b. Drafting and execution of Definitive Documents;
- c. The Company obtaining all necessary shareholder approvals that are required to give effect to the Transaction in accordance with the Corporations Act and the ASX Listing Rules;
- d. Any applicable required regulatory approvals;
- e. Re-compliance with Chapters 1 and 2 of the ASX Listing Rules; and
- f. The advance of the loan funding by MSY to the Company.

Re-compliance with Chapters 1 and 2 of the ASX Listing Rules

The Company is currently a graphite mining exploration company which holds exploration tenements in the south-west of Sri Lanka. Following completion of the Transaction, the Company’s core business activities will shift from graphite exploration to retailing consumer electronics with a key focus e-commerce growth.

The acquisition of MSY will therefore result in a change in the nature and scale of the Company’s activities and will require shareholder approval under Chapter 11 of the ASX Listing Rules and re-compliance by the Company with Chapters 1 and 2 of the ASX Listing Rules. In accordance with the ASX Listing Rules, the Company’s shares will be suspended from trading with immediate effect from the date of this announcement until the Company re-complies with Chapters 1 and 2.

In the context of the Company’s proposed application under Chapters 1 and 2, a waiver is being sought from the ASX in relation to ASX Listing Rule 2.1 condition 2 because it is

proposed that the issue price of all securities for which the Company will be seeking quotation will be less than 20 cents per share.

An indicative timetable for the Proposed Transaction will be announced upon completion of the due diligence period.

Capital Raising

In connection with the Proposed Transaction and re-listing, the Company will be seeking to conduct a capital raising to raise up to \$3,000,000 via the issue of up to 60,000,000 ordinary shares at an issue price of \$0.05 per share (subject to an ASX waiver of ASX Listing Rule 2.1 condition 2) ("Capital Raising").

The Capital Raising will be in the form of an offer to eligible overseas and Australian investors under a Prospectus.

Please refer to the capital structure table below for details of the Company's proposed capital structure following the Capital Raising.

Conversion of Convertible Notes and Miniran debt to shares

As part of the Proposed Transaction, the Company will seek to convert approximately \$1,350,000 in current convertible note debt and approximately \$660,000 in funds payable to the vendors of Miniran Pty Ltd into ordinary shares in the Company at an issue price of \$0.05 per share, subject to the agreement of note holders and the Miniran vendors.

Please refer to the capital structure table below for details of the Company's proposed capital structure following these conversions.

Pro-forma capital structure

Following completion of the Proposed Transaction and related transactions, the capital structure of the Company will be as follows:

	Shares	% capital*
Shares on issue (LGR)	108,421,313	19.41%
Conversion of Miniran debt	Up to 13,200,000	2.36%
Conversion of Convertible Note debt	Up to 27,000,000	4.83%
Consideration Shares	350,000,000	62.65%
Capital Raising	Up to 60,000,000	10.74%
Total	Up to 558,621,313	100%

*Assuming completion of the Proposed Transaction, conversion of Miniran debt, conversion of Convertible Notes and Capital Raising, and that \$3,000,000 is raised under the Capital Raising. All percentages are approximate as subject to rounding.

Spin out or divestment of Graphite assets

The Company intends to spin out or divest its existing Sri Lankan graphite assets as soon as practicable following completion of the Proposed Transaction and shareholder approval for the change in activities.

Further information will be provided to the Company's shareholders as the Proposed Transaction progresses.

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