



CMI LIMITED

ABN 98 050 542 553

# Prospectus

AN OFFER TO BUY BACK UP TO 90% OF EACH CMI LIMITED  
ORDINARY SHAREHOLDER'S ORDINARY SHARES IN EXCHANGE  
FOR CASH AND CLASS A SHARES

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## Important Notices

Defined terms and abbreviations used in this Prospectus are explained in the Glossary.

This Prospectus is dated 27 October 2006. A copy of this Prospectus was lodged with ASIC on that date. Neither ASIC or ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. No Class A Shares will be allotted or transferred on the basis of this Prospectus after the expiry date. This Prospectus expires on 26 October 2007.

The Offer is available to Ordinary Shareholders who are Australian residents in each State and Territory of Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons who obtain this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law. This Prospectus does not constitute an offer in any place where, or to any person to whom, it would not be lawful to make such an offer.

No person is authorised to provide any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information or representations not so contained may not be relied on as having been authorised by CMI or any other person in connection with the Offer.

**This Prospectus provides information for Ordinary Shareholders to decide if they wish to accept the Offer and should be read in its entirety. The risk factors that could affect the financial performance of CMI should be examined. You should consider carefully these factors in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest. The Offer does not take into account the investment objectives, financial situation and particular needs of Ordinary Shareholders.**

All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated.

This Prospectus is available in electronic form via [www.cmilimited.com.au](http://www.cmilimited.com.au). Applicants using the Acceptance Form attached to the electronic version of this Prospectus must be located within Australia. Persons who receive an electronic version of this Prospectus should ensure they download and read the entire Prospectus. Persons who received a copy of this Prospectus in its electronic form may, during the Offer period, obtain a paper copy of the Prospectus (free of charge) by telephoning 3004 8188. Applications for Shares may only be made on the Acceptance Form attached to this Prospectus or in its paper copy form as downloaded in its entirety from [www.cmilimited.com.au](http://www.cmilimited.com.au).

If you do not accept the Offer or if not all of your Ordinary Shares are bought back by CMI, you will continue to hold Ordinary Shares.

**THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY**

# Corporate Directory

## Company

### **CMI Limited**

Level 4

240 Margaret Street

Brisbane Qld 4000

Ph 07 3004 8188

Fax 07 3004 8180

Internet address [www.cmilimited.com.au](http://www.cmilimited.com.au)

## Directors

Max Hofmeister

John Johnson

Maurice Maughan

Warren Hill

## Company Secretary

Mark Laidlaw

## Share Registry

### **Link Market Services Limited**

Level 12

300 Queen Street

Brisbane Qld 4000

Ph 1300 554 474

Fax 02 9287 0303

## Lawyers for the Company

### **McCullough Robertson**

Level 11

Central Plaza Two

66 Eagle Street

Brisbane Qld 4000

Ph 07 3233 8888

Fax 07 3229 9949

## Auditor

### **Deloitte Touche Tohmatsu**

Level 25

123 Eagle Street

Brisbane Qld 4000

Ph 3308 7000

## Investor Relations Consultants

### **Bayly Willey Holt Pty Ltd**

Level 2

33 Park Road

Milton Qld 4064

Ph 07 3368 2355

## Tax Advisers

### **KPMG**

Level 30

Central Plaza One

345 Queen Street

Brisbane Qld 4000

# Glossary of Terms

<b>Acceptance Form</b>	an acceptance form attached to this Prospectus
<b>Annual Report</b>	CMI Limited Annual Report 2006
<b>Applicant</b>	a person or entity who submits an Acceptance Form
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASTC</b>	ASX Settlement and Transfer Corporation Pty Ltd ABN 49 008 504 532
<b>ASTC Settlement Rules</b>	The ASTC Settlement Rules, being the operating rules of the Settlement Facility for the purposes of the Corporations Act
<b>ASX</b>	Australian Stock Exchange Limited ABN 98 008 624 691
<b>Board</b>	the board of directors of CMI
<b>Buy-back</b>	the buy back of up to 90% of each Ordinary Shareholder's Ordinary Shares for the consideration offered under this Prospectus
<b>CHESS</b>	Clearing House Electronic Subregister System, operated by ASTC
<b>CHESS Holding</b>	has the meaning set out in the ASTC Settlement Rules
<b>Class A Shares</b>	the Class A Shares in CMI with the attached rights set out in section 8.2 of this Prospectus
<b>Class A Shareholders</b>	holders of Class A Shares
<b>Closing Date</b>	the date on which the Offer closes, being 8 December 2006. This date may be varied without prior notice by CMI
<b>Company or CMI</b>	CMI Limited ABN 98 050 542 553
<b>Controlling Participant</b>	in relation to Ordinary Shares in a CHESS Holding, the Participant with whom the holder has a sponsorship agreement as defined in the ASTC Settlement Rules (usually the shareholder's stockbroker)
<b>Corporations Act</b>	the Corporations Act 2001
<b>Directors</b>	the directors of CMI
<b>Issuer Sponsored Holding</b>	has the meaning set out in the ASTC Settlement Rules
<b>Listing Rules</b>	Listing Rules of ASX
<b>Notice of Meeting</b>	the notice of general meeting and explanatory memorandum for a meeting of all CMI shareholders to be held on 28 November 2006 to approve the Buy-back
<b>Offer</b>	the offer to Buy-back Ordinary Shares made under this Prospectus
<b>Ordinary Shareholders</b>	holders of Ordinary Shares
<b>Ordinary Shares</b>	fully paid ordinary shares in CMI
<b>Participant</b>	has the meaning set out in the ASTC Settlement Rules
<b>Partly Paid Ordinary Shares</b>	the 750,000 partly paid Ordinary Shares issued to entities associated with Max Hofmeister
<b>Prospectus</b>	this prospectus
<b>Settlement Facility</b>	has the meaning specified in the ASTC Settlement Rules
<b>us or we</b>	CMI
<b>you</b>	the investors pursuant to this Prospectus

# Offer at a Glance

Question	Answer
<b>Who is the issuer of this Prospectus?</b>	CMI
<b>What is offered?</b>	\$1.20 cash plus 1 Class A Share for every 2 Ordinary Shares in respect of which the Offer is accepted.
<b>What makes the Offer attractive?</b>	The Offer allows Ordinary Shareholders who wish to minimise their exposure to the adverse trading conditions outlined in this Prospectus the opportunity to receive a cash payment plus a higher ranking share paying a fully franked dividend which is greater than what is currently provided to them.
<b>What is the size of the Offer?</b>	CMI is offering to buy back up to 90% of each Ordinary Shareholder's Ordinary Shares. Ordinary Shareholders may accept the Offer in respect of either 90% of their Ordinary Shares or a lesser number which can be specified on the Acceptance Form.
<b>Date offer opens</b>	14 November 2006
<b>Date offer closes</b>	8 December 2006. CMI may extend the Offer period without prior notice.
<b>How do you apply?</b>	Complete the Acceptance Form attached to this Prospectus and return it in accordance with the directions on the Acceptance Form.
<b>How can further information be obtained?</b>	By speaking to your financial adviser, accountant, stockbroker, lawyer or other professional adviser.
<b>Contact details</b>	For contact details, please refer to the Corporate Directory in this Prospectus.

# Letter from the Chairman

27 October 2006



Dear Ordinary Shareholders

CMI's recently announced fall in net profit after tax for the year ended 30 June 2006 of 7.9% reflects the extremely difficult trading conditions that continue to prevail in the automotive industry. CMI's Directors have in recent years strategically invested in the segments of the group that do not have exposure to the automotive industry. The decision to diversify has increased the sales and profitability of these divisions, which to some extent has off-set the effects of difficult market conditions faced by the Engineering Components division. The Electrical Components division performed strongly during the 2005/2006 financial year and is poised for further sales growth with the acquisition of the business of XLPE Cables effective 1 July 2006. The Financial Services division performed well within an increasingly competitive market.

Unfortunately, CMI expects that the conditions it faces in the automotive industry will deteriorate further and all shareholders should take heed of the very difficult market conditions that currently prevail within CMI's Engineering sector.

Cost pressures are relentless, steel and copper prices are at record highs and passing on these increases is extremely difficult. The strength of the Australian dollar is increasing the competition from imported goods and our export business to North America is at best break even rather than profitable. High fuel prices are affecting sales of 4WD's and larger Australian made vehicles.

To further add to our difficulties we are experiencing customers rushing to China for their component parts or to establish factories. Financial failure of some our customer base is of increasing concern.

CMI may, over the next 3 years, have to rationalise its production facilities. This is a very expensive exercise and may affect profitability over that period. This may put at risk CMI's ability to pay the full year dividend of 12¢ fully franked on Ordinary Shares.

CMI's Directors see this as unacceptable because of the long standing loyal shareholder base that invests in CMI due to its high dividend yield. To overcome this, CMI's Directors are proposing to conduct an off market buy-back of a substantial proportion of CMI's Ordinary Shares.

Subject to obtaining shareholder approval, CMI is pursuant to this Prospectus offering to buy back up to 90% of each Ordinary Shareholder's Ordinary Shares.

The consideration payable for Ordinary Shares the subject of the Buy-back will be a combination of cash and Class A Shares. For every 2 Ordinary Shares you hold you are being offered \$1.20 cash plus 1 Class A Share.

In addition, the 6¢ fully franked dividend on the Ordinary Shares which was announced on 31 August 2006 will be paid before the Buy-back is completed.

CMI's Directors believe that the Buy-back will ensure that CMI continues to appropriately manage its capital structure whilst maximising returns to shareholders.

Firstly, the effect of the Buy-back will be a significant reduction in the dividend burden CMI currently faces without adversely affecting shareholders. Assuming full acceptance the net effect to CMI per annum after allowing for the above, as well as the future dividend requirements of the newly issued Class A Shares and the expected cost of meeting the interest expense to fund the cash component of the Buy-back, is a cash saving of approximately \$485,000 per annum.

Secondly, Ordinary Shareholders who wish to minimise their exposure to the trading conditions outlined above, are given the opportunity via this Offer to receive a cash payment plus a higher ranking share paying a fully franked dividend which is greater than what is currently provided to Ordinary Shareholders.

Please carefully consider the Offer contained in this Prospectus.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Max Hofmeister', written over a light blue background.

**Max Hofmeister**

*Executive Chairman  
CMI Limited*

# 1. Offer Overview

## 1.1 Key information

The Offer is an offer by CMI Limited to buy back up to 90% of each Ordinary Shareholder's Ordinary Shares. You have received a copy of this Prospectus because you are an Ordinary Shareholder.

If you accept the Offer, in exchange for your Ordinary Shares you will receive a combination of cash and Class A Shares. For every 2 Ordinary Shares you hold you are being offered \$1.20 cash plus 1 Class A Share.

This Prospectus sets out the terms and conditions of, and other important information that you will need to know in order to participate in the Offer. This includes the terms and conditions attaching to the Class A Shares you are being offered.

The Class A Shares being issued as part of this Offer are identical to those Class A Shares currently on issue.

**Please note that the Offer is conditional on CMI's Ordinary Shareholders and Class A Shareholders passing an ordinary resolution approving the Buy-back. A copy of the Notice of Meeting seeking shareholder approval has been distributed along with this Prospectus.**

In the event that the Buy-back is not approved the Offer will not proceed and no Class A Shares will be issued under this Prospectus.

## 1.2 Important dates for the Offer\*

Record Date for payment of dividend on Ordinary Shares	16 October 2006
Lodgement of Prospectus with ASIC	27 October 2006
Dispatch of Prospectus to Ordinary Shareholders	27 October 2006
Dividend payment to Ordinary Shareholders	2 November 2006
Offer opens	14 November 2006
General Meeting of all CMI shareholders and Annual General Meeting	28 November 2006
Notice of approval of Buy-back (or failure of resolution) to ASX	28 November 2006
Offer closes	8 December 2006
Allotment of Class A Shares	12 December 2006
Dispatch of holding statements and cash consideration to Ordinary Shareholders who have accepted the Offer	13 December 2006
Quotation of new Class A Shares	15 December 2006

\* These dates and times are indicative only. CMI reserves the right to vary the dates and times of the Offer without prior notice. Ordinary Shareholders are encouraged to submit their Acceptance Forms as soon as possible.

# 1. Offer Overview

## 1.3 Prospects of the Company

CMI's recently announced fall in net profit after tax for the year ended 30 June 2006 of 7.9% reflects the extremely difficult trading conditions that continue to prevail in the automotive industry. Unfortunately, CMI expects that the conditions it faces today will deteriorate further and all shareholders should take heed of the very difficult market conditions that currently prevail within CMI's Engineering sector.

CMI may, over the next 3 years, have to rationalise its production facilities. This is a very expensive exercise and may affect profitability over that period. This may put at risk CMI's ability to pay the current full year dividend of 12¢ fully franked on Ordinary Shares.

CMI's Directors see this as unacceptable because of the long standing loyal shareholder base that invests in CMI due to its high dividend yield. It should be highlighted, however, that other divisions of the business performed strongly during the 2005/2006 financial year and subject to unforeseen market conditions are expected to do so again during the next financial year. Of particular note were the Electrical Components division, which performed above expectations, and the Financial Services Division, which performed well within an increasingly competitive market.

## 1.4 Purpose of the Offer

The key commercial drivers for the Buy-back are as follows:

- ensuring that CMI continues to appropriately manage its capital structure to maximise returns to shareholders. Savings will be achieved via servicing the dividend requirements of the Class A Shares issued as part of this Offer and the debt to fund the Buy-back rather than dividend requirements of existing Ordinary Shares bought back. Assuming full acceptance of the Offer (excluding the participation of the entities associated with Max Hofmeister) the result is a net cash positive position of approximately \$485,000 per annum;
- allowing Ordinary Shareholders who wish to minimise their exposure to the trading conditions referred to above to realise a proportion of their investment in the Company through the cash payment;
- giving Ordinary Shareholders the opportunity to continue to be involved with the Company and receive dividends by providing a higher ranking share which pays a fully franked dividend which is greater than what they currently receive; and
- maintaining listing of both Ordinary Shares and Class A shares on a stock exchange to ensure the liquidity of each shareholder's investment.

## 1.5 Risk factors

Class A Shares are subject to both general and specific risks. Some of the risks are described in section 5 of this Prospectus. Before deciding to accept the Offer, Ordinary Shareholders should read this entire Prospectus and, in particular, should consider the risk factors that could affect the future performance of the Company and the Class A Shares.

## 1.6 Who can participate in the Offer?

Only holders of Ordinary Shares who are resident in Australia may participate in the Offer.

## 1.7 Do I have to sell my Ordinary Shares under the Offer?

You do not have to sell your Ordinary Shares under the Offer.

If you do not wish to sell your Ordinary Shares under the Offer, simply do nothing in response to this Prospectus.

Before you decide not to participate in the Offer, however, it is important that you are aware of the possible effect of the Offer on your Ordinary Shares. You should read this Prospectus in its entirety.

### **1.8 What will I receive in exchange for my Ordinary Shares if I participate in the Offer?**

If you accept the Offer, in exchange for your Ordinary Shares you will receive a combination of cash and Class A Shares. For every 2 Ordinary Shares you hold you are being offered \$1.20 cash plus 1 Class A Share.

The terms of the Class A Shares are set out in Section 8.2 of this Prospectus.

If you hold an odd number of Ordinary Shares then, in respect of any single remaining Ordinary Share, you will still receive \$1.20 cash plus 1 Class A Share.

In addition, the 6¢ fully franked dividend on the Ordinary Shares which was announced on 31 August 2006 will be paid before the Buy-back is completed.

### **1.9 ASX listing and quotation**

CMI is listed on ASX and its Ordinary Shares and Class A Shares are quoted on ASX. Application for quotation of the new Class A Shares on ASX will be made within 7 days after the date of this Prospectus.

It is not presently intended that the Class A Shares will be quoted on any other stock exchange.

### **1.10 Allotment and dispatch of Class A Share holding statements**

No allotment of new Class A Shares will be made until the Offer has closed and permission is granted for quotation of the Class A Shares on ASX.

The Directors expect that:

- (a) allotment of Class A Shares will take place on or about 18 December 2006; and
- (b) holding statements for the new Class A Shares will be dispatched on or around 18 December 2006.

If the new Class A Shares have not been quoted on ASX within 3 months of the date of this Prospectus, the issue of the Class A Shares pursuant to this Prospectus will be void in accordance with the requirements of the Corporations Act.

### **1.11 Director's intentions**

Entities associated with Max Hofmeister currently hold 3,077,031 Ordinary Shares and 750,000 Partly Paid Ordinary Shares and will not participate in the Buy-back.

The Company's other directors intend to accept the Buy-back offer in respect of a majority of their Ordinary Shares.

### **1.12 Summary only**

This summary is not intended to provide full details of the Offer. Investors must read this Prospectus in full to make a fully informed decision as to whether to accept the Offer.

## 2. Details of The Offer

### 2.1 Description of the Offer

CMI is seeking to buy back up to 90% of each Ordinary Shareholder's Ordinary Shares. CMI currently has 35,859,654 Ordinary Shares on issue. Given that entities associated with Max Hofmeister will not participate in the Buy-back, the maximum number of Ordinary Shares to be bought back is 29,504,361 Ordinary Shares.

CMI will pay consideration of \$1.20 cash plus 1 Class A Share for every 2 Ordinary Shares bought back.

If you hold an odd number of Ordinary Shares then, in respect of any single remaining Ordinary Share, you will still receive \$1.20 cash plus 1 Class A Share.

You can only accept the Offer in respect of up to 90% of your Ordinary Shares.

The Offer opens on 14 November 2006 and closes on 8 December 2006. CMI reserves the right to vary the Closing Date without notice.

### 2.2 How to accept the Offer

The steps you must take to accept the Offer will depend on the form of holding of your Ordinary Shares.

Your Ordinary Shares are in an Issuer Sponsored Holding if your holding is directly sponsored by CMI as issuer and held in its issuer sponsored sub-register.

Your Ordinary Shares are in a CHESS Holding if they are sponsored by a Controlling Participant.

#### Issuer Sponsored Holdings

If you hold Ordinary Shares in an Issuer Sponsored Holding, to accept this Offer you must:

- complete and sign the Acceptance Form in accordance with the instructions on it; and
- send your completed and signed Acceptance Form to Link Market Services Limited by no later than 5.00 pm (Sydney time) on 8 December 2006 (unless this date is extended).

#### CHESS Holdings

If your Ordinary Shares are in a CHESS Holding, to accept this Offer you must:

- complete and sign the Acceptance Form in accordance with the instructions on it; and
- send your completed and signed Acceptance Form to your Controlling Participant (usually your stockbroker) so that it is received no later than 5.00 pm (Sydney time) on 8 December 2006 (unless this date is extended).

#### Acceptance Form Instructions

Acceptances can only be made by completing and lodging a paper copy of an Acceptance Form.

A personalised Acceptance Form is attached to this Prospectus.

Acceptance Forms should be completed in accordance with the instructions on the Acceptance Form.

An Acceptance Form may only be distributed attached to a complete and unaltered copy of this Prospectus. Acceptance Forms included with this Prospectus contain a declaration that the investor has personally received the complete and unaltered Prospectus prior to completing the Acceptance Form.

CMI will not accept a completed Acceptance Form if it has reason to believe that the Applicant has not received a complete paper or electronic copy of this Prospectus or if it has reason to believe that the Acceptance Form or electronic copy of this Prospectus has been altered or tampered with in any way.

While CMI believes that it is extremely unlikely that during the period of the Offer the electronic version of this Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of this Prospectus should immediately request a paper copy directly from CMI or their financial adviser.

#### Acceptance Forms should be:

##### Posted to CMI Share Offer

Link Market Services Limited  
Locked Bag A14  
SYDNEY SOUTH NSW 1235

OR

##### Delivered to CMI Share Offer

Link Market Services Limited  
Level 12, 680 George Street  
SYDNEY NSW 2000

Additional copies of this Prospectus are available from CMI's website at [www.cmilimited.com.au](http://www.cmilimited.com.au).

Lodgement of an Acceptance Form constitutes an irrevocable offer made in accordance with the provisions of the guidelines to the Acceptance Form.

Enquiries about the Offer should be directed to Link Market Services Limited on 1300 554 474 during business hours.

## 2.3 Capital structure

The capital structure of CMI before and after the completion of the Offer (assuming that the Offer results in CMI buying back 90% of each Ordinary Shareholder's Ordinary Shares other than those held by entities associated with Max Hofmeister) will be as follows:

	Ordinary Shares	Class A Shares	Partly Paid Ordinary Shares <sup>1</sup>	Options <sup>2</sup>
Pre-Offer	35,859,654	26,076,742	750,000	1,342,500
Post-Offer	6,355,293	40,828,923	750,000	1,342,500

1. CMI has 750,000 Partly Paid Ordinary Shares on issue to its Chairman, Max Hofmeister.
2. CMI has 1,342,500 options to subscribe for Ordinary Shares on issue to its Directors and executives. All of the options are exercisable at \$2.22 per Ordinary Share. 42,500 of the options are exercisable on or before 27 April 2009. 1.3 million of the options are exercisable on or before 28 October 2009.

Holders of Partly Paid Ordinary Shares and CMI options are not entitled to participate in the Offer in respect of those Partly Paid Ordinary Shares or options.

## 2.4 Offer price

The Offer was announced to the market on 31 August 2006. The Directors consider that the consideration for the Offer is fair and reasonable given that:

- (a) the volume weighted average trading price for the Company's Ordinary Shares over the 30 days to 31 August 2006 was \$1.18;
- (b) the Company is offering cash of \$1.20 for every 2 Ordinary Shares;
- (c) the volume weighted average trading price for the Company's Class A Shares over the 30 days to 31 August 2006 was \$1.16 and the Company is also offering 1 Class A Share for every 2 Ordinary Shares; and
- (d) based on the volume weighted average trading prices set out above, the consideration offered by the Company represents \$1.18 per Ordinary Share. The Class A Shares forming part of the consideration also pay a higher fully franked dividend than an Ordinary Share.

## 2.5 Funding the Offer

The cash component of the Offer will be funded by the Company using a National Australia Bank bill facility.

## 2.6 Rights attaching to Class A Shares

The Class A Shares will rank equally in all respects with the shares held by the existing Class A Shareholders. The rights attaching to all shares are detailed in the Company's constitution. A summary of the major provisions of the constitution is set out in section 8.2 of this Prospectus.

## 2.7 Dividend policy

Dividends on Class A Shares are expected to be payable to Shareholders quarterly in arrears in March, June, September and December of each year.

Whilst the payment of dividends is subject to sufficient profits being available and the discretion of the Board, it is the Directors' current intention that CMI will pay dividends of not less than 14¢ per annum in accordance with the dividend rights set out in the summary of the rights attaching to Class A Shares in section 8.2 of this Prospectus.

Dividends, when paid, will be franked to the extent possible. If no franking credits are available, the minimum dividend payable will be increased in accordance with the formula set out in the summary of the rights attaching to Class A Shares in section 8.2 of this Prospectus.

## 2. Details of The Offer

### 2.8 CHESS

CMI will participate in ASTC's Clearing House Electronic Subregister System ('**CHESS**') in accordance with the ASX Listing Rules and the ASTC Settlement Rules. In accordance with the ASX Listing Rules and the ASTC Settlement Rules, the Company will maintain an electronic CHESS subregister (for shareholder who are participants in CHESS or sponsored by such a participant) and an electronic issuer-sponsored register (for all other shareholders).

Following the allocation of Class A Shares to successful Applicants, shareholders will be sent an initial statement of holding that sets out the number of Class A Shares that have been allocated and the shareholder's Holder Identification Number ('**HIN**'), or in the case of issuer sponsored holders, the Shareholder Reference Number ('**SRN**').

The Company will not issue certificates to Class A Shareholders.

Following distribution of the initial holding statements and CHESS notifications to all Class A Shareholders, a holding statement will be provided to a Class A Shareholder at the end of any subsequent month during which there has been a movement in their shareholding.

Class A Shareholders may also request CMI to provide a statement at other times, although the Company may charge an administration fee in these circumstances.

### 2.9 Ordinary Shareholders outside Australia

The Company will only extend the Offer to Ordinary Shareholders with registered addresses in Australia. The Company considers it would be unreasonable to extend the Offer to Ordinary Shareholders with registered addresses in other jurisdictions having regard to the small number of such shareholders, the small number and value of securities that would be offered in such jurisdictions and the costs of complying with legal and regulatory requirements in those jurisdictions.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

ASIC has provided an exemption under subsection 257D(4) of the Corporations Act from the operation of section 257D.

The exemption provides that CMI does not have to make the Offer available to foreign resident Ordinary Shareholders, other than those resident in countries which CMI is aware would allow the Offer to be made.

At the date of this Prospectus, the Company was not aware of any country other than Australia in which the laws would allow the Offer to be made.

### 2.10 Withdrawal

The Company reserves the right not to proceed with the Offer at any time before the allocation of Class A Shares to Applicants.

### 2.11 Conditionality of Offer

The Offer is conditional upon Ordinary Shareholders and Class A Shareholders approving the Buy-back by ordinary resolution in accordance with section 257D of the Corporations Act. A copy of the notice of meeting has been dispatched to all Ordinary Shareholders and Class A Shareholders along with this Prospectus.

## 3. CMI Limited – The Business

### 3.1 CMI profile

Founded in 1991 and listed on ASX in 1993, CMI is a diversified company operating through three major business streams:

- **Engineered and 4WD Components** - manufacture and distribution of metal-based products for a diverse range of industry sectors including automotive, 4WD accessories, heavy transport, water fittings, white goods, energy, rural and housing.
- **Electrical Components** - manufacture and distribution of specialty cables, plugs and couplers for the mining, communication, film, sound and lighting industries.
- **Financial Services** - consumer and commercial finance through the finance brokerage company, Capitalcorp Finance & Leasing Pty Ltd, which operates from 36 branches nationally.

The Company's operations are based throughout Australia, New Zealand and the United States of America. Head-officed in Brisbane, CMI employs approximately 1,100 people and as at the date of this Prospectus has approximately 3,320 Ordinary Shareholders and 2,072 Class A Shareholders.

### 3.2 Diversification and recent acquisitions

Over the past few years CMI has invested outside the original equipment automotive component business to realign underlying revenue streams via profitable opportunities within other parts of the business. CMI has increased growth in the electrical and financial businesses and as a result CMI is now a diversified manufacturing and services company which competes in a wide range of industry sectors with a large number of business units generating revenue from customer bases entirely or predominately outside the automotive manufacturing sector. Acquisitions in recent years, including the businesses of Aflex and XLPE Cables within the electrical business and Curtis Springs within the engineering business, have further reinforced this strategic realignment.

### 3.3 Outlook

As already noted in the Letter from the Chairman it is anticipated that there will be some tough years ahead for the Engineering Components Division, and as previously outlined above CMI has pursued a diversification strategy over recent years to mitigate the effects of issues faced by this part of the business.

The Electrical Components and Financial Services divisions performed successfully during the financial year and given further consistent efforts to develop and further invest in these businesses there is a confidence of further sales growth over the coming years.

However, despite the realignment of CMI's operations, Ordinary Shareholders should take heed of the very difficult market conditions that currently prevail within CMI's engineering sector. This is due to the current state of the automotive industry, where continued cost pressures from car manufacturers and tier one suppliers, as well as record steel and copper prices have made trading conditions extremely difficult with any increases proving difficult to pass on. Further, the strength of the Australian dollar has allowed increased competition from importers, and affected export business to North America. High fuel prices are also affecting sales of 4WD's and larger Australian made vehicles.

To further add to the difficulties in this sector, some customers are rushing to China for their component parts or to establish factories. Financial failure of some of our customer base is of increasing concern.

To respond to these concerns, CMI may, over the next three years, rationalise its production facilities. This is a very expensive exercise and may affect profitability over that period. As detailed in the Annual Report, this may put at risk CMI's ability to pay the full year dividend of 12¢ fully franked on Ordinary Shares and as a result the Directors are proposing to conduct an off market buy-back of a substantial proportion of CMI's Ordinary Shares. The proposed Buy-back will offer long standing shareholders the ability to minimise their exposure to trading conditions and the opportunity to receive a cash payment plus a higher ranking share paying a fully franked dividend which would be greater than what is currently provided to Ordinary Shareholders.

## 3. CMI Limited – The Business

### 3.4 Potential future acquisitions

CMI is currently investigating a number of small acquisition opportunities. One or more of these opportunities may result in CMI completing an acquisition either during the Offer period or later.

The Directors consider that given the size of the acquisitions under consideration, it is unlikely that any of them will have a material affect on the decision of Ordinary Shareholders whether to accept the Offer.

In the unlikely event that during the Offer period, there is a development in relation to an acquisition which has the potential to be materially adverse to an Ordinary Shareholder who accepts the Offer, CMI will take all necessary steps to ensure that all Ordinary Shareholders have the information they require to make an informed assessment of the Offer. This may include issuing a supplementary or replacement Prospectus.

# 4. Directors and Management

## 4.1 Directors and profile

### **Max Hofmeister**

#### *Executive Chairman*

Max founded CMI in July 1991, following extensive involvement with other successful rural products, engineering and manufacturing companies. He played an instrumental role in the Company's listing on ASX in the financial year ended 1993 and has overseen its expansion both in Australia and overseas from a \$15 million turnover company to a revenue base in excess of \$275 million.

### **John Johnson**

#### *Non-Executive Director*

John has been a director of CMI since 1993. He has 35 years experience in marketing and business development through a number of previous senior managerial positions with several leading companies. John was the Managing Director and Chief Executive Officer of The Stubbies Clothing Company Pty Ltd from 1983 to 1992 and was responsible for the expansion of that business into the US and Asia. John was previously Chairman of the Workplace Resource Centre in Brisbane and served as Chairman of the St Johns Cathedral Completion Committee. John was previously chairman of the Workplace Resource Centre in Brisbane and served as chairman of the St Johns Cathedral Completion Committee.

### **Warren Hill**

#### *Non-Executive Director*

Warren has been a Director of CMI since 2003. He has 27 years sales and marketing experience in Australia and South East Asia. During 1991 he was appointed General Manager and later Managing Director of the Stubbies Clothing Company Pty Ltd which was a division of the Chicago based Sara Lee Corporation. From 1994 Warren was President of Sara Lee Apparel and in 1997 was appointed a director of Sara Lee Holdings (Australia) Pty Ltd.

### **Maurice Maughan**

#### *Non-Executive Director*

Maurie was elected director in October 2005. Maurie was previously a partner at KPMG and antecedent firms for over 30 years, retiring in 2005 as the Senior Tax Partner in Queensland. During his professional career he has acted for a number of Australian and international public companies and has specialised in the manufacturing, energy and natural resources areas. He also advised companies setting up business in Australia and Australian companies setting up offshore operations.

### **Mark Laidlaw**

#### *Company Secretary and Chief Financial Officer*

Mark joined CMI in 1997. He is a former audit manager of international accountancy firm, Deloitte Touche Tohmatsu. Mark worked for Deloitte in both Australia and the US. He is a member of the Institute of Chartered Accountants in Australia. He holds a Bachelor of Commerce (Honours) from the University of Queensland.

## 4.2 Corporate governance charter

The Board of Directors is responsible for the corporate governance practices of the Company. Following the release of the Principles of Good Corporate Governance and Best Practice Recommendations by the ASX Corporate Governance Council, the Board formalised a Corporate Governance Charter in 2004. A summary of the Corporate Governance Charter is available on the Company's website [www.cmilimited.com.au](http://www.cmilimited.com.au) or in its Annual Report.

# 5. Risk Factors

## 5.1 Factors influencing success and risk

### Introduction

This section identifies the areas that are believed by the Board to be the major risks associated with Class A Shares.

The CMI business is subject to risk factors, both specific to its business activities and of a general nature. Individually, or in combination, these might affect the future operating performance of CMI and the value of its Class A Shares. There can be no guarantee that CMI will achieve its stated objectives or that any forwarding-looking statements or forecasts will eventuate. An investment in the Company should be considered in light of relevant risks, both general and specific. Each of these risks set out below could, if it eventuates, have a material adverse impact on CMI's operating performance and profits, and the market price of the Class A Shares.

Before deciding to accept the Offer, Ordinary Shareholders should:

- (a) read this entire Prospectus;
- (b) consider the risk factors that could affect the financial performance of CMI;
- (c) review these factors in light of their personal circumstances; and
- (d) seek professional advice from their accountant, stockbroker, lawyer or other professional adviser before deciding whether to accept the Offer.

## 5.2 Specific business risks

An analysis of some of the specific business risks facing CMI is shown below:

### Currency

CMI imports raw materials and components and exports finished goods and is therefore subject to movements in international currencies. As CMI is a net importer, a weakening of the Australian dollar against other international currencies will make imports more expensive which may impact upon CMI's profitability, conversely a strengthening of the Australian dollar may impact on the Company's sales in US dollars. Where appropriate CMI enters into hedging arrangements to manage this risk.

### Domestic tariff policy

Australian government policy in relation to tariff reduction may affect the sales and profitability of domestic customers of CMI whose products compete against imported goods.

### Competition

CMI is subject to general competition. Price discounting by competitors, in an attempt to increase their market share, could impact adversely on CMI's profitability. CMI has sought to minimise the impact of price competition through its quality and time critical manufacturing capabilities.

### Loss of supply arrangements

The loss of any supply arrangements with any of CMI's major customers or the loss by those customers of their market position may impact adversely on the profitability of CMI.

### **Industrial relations**

The majority of CMI's employees are members of trade unions. These employees are generally covered by enterprise bargaining agreements, which periodically come up for renegotiation and renewal. In the past, CMI has experienced industrial disputes and will continue to structure operations and pursue other workplace change initiatives designed to improve the performance of its divisions. Disputes regarding these initiatives, and other business improvement initiatives, could lead to strikes or other forms of industrial action (e.g. bans and limitations) that could disrupt CMI's operations, raise costs and reduce CMI's revenues and profits. The outcome of such disputes could also limit CMI's ability to implement such initiatives, resulting in a loss of relative competitiveness.

### **Occupational health and safety**

CMI faces the risk of workplace injuries, which may result in workers' compensation claims, related common law claims, potential occupational health and safety prosecutions and increased costs of insurance. The Company has in place a range of practices and policies which seek to provide a safe and healthy working environment for its employees, customers, visitors and the community.

### **Product liability exposure**

The testing, marketing and sale of CMI's products entails an inherent risk of product liability, and there can be no assurance that product liability claims will not be asserted against the Company. However, the Company has taken out appropriate insurance to minimise this risk.

### **Environmental regulation**

CMI's operations are subject to various environmental regulations governed by state, federal and local legislation. The impact of the business is constantly reviewed to ensure it complies with and exhibits best practice within the following areas of environmental regulation: air, water, noise, hazardous chemicals and contaminated land waste.

### **Component sourcing**

Some components of CMI's products are sourced from overseas. A material change in CMI's component sourcing arrangements could have an adverse impact on the Company. Risks include:

- any change in existing relationships could have an adverse impact on the ability of CMI to source appropriate components at reasonable cost;
- any change in quote arrangements may impact the sourcing of CMI's products, thereby impacting the profitability of the Company; and
- any change in the terms and conditions of overseas supply contracts or in the political or economic environment could adversely impact overseas supplies.

### **Support of existing and emerging industry standards**

Industry standards governing the manufacture of CMI's products may affect the operations of the Company. In the event that such industry standards change, this could affect the legality, marketability and competitiveness of CMI's products.

### **Overseas expansion**

Expansion into overseas markets is subject to a wide variety of risk factors not mentioned above. Changes to market conditions, laws, or specific cultural issues may all impact adversely on the profitability of CMI or its ability to fulfil any requirements.

CMI's expansion into overseas markets has been in response to obtaining contracts in those regions. CMI has established distribution facilities in the US and manufacturing facilities in New Zealand as part of its risk management strategy in relation to such risks as transportation, supply and currency.

## 5. Risk Factors

### **Infrastructure**

The Company and customers of the Company are dependent upon uninterrupted supply of gas and electricity. Where such services to the Company are interrupted, the Company's sales and ability to manufacture may be affected.

### **Reliance on key personnel**

The day to day operations of CMI are conducted through a number of key personnel. CMI's future success will be influenced by the combined service of these key personnel and the ability of CMI to attract other suitably qualified personnel in the future.

Whilst the Company has in place service contracts and executive equity plans, there can be no assurance that CMI can retain the services of key personnel or attract other suitably qualified personnel in the future. Loss of key personnel could adversely affect CMI's financial performance.

### **The health of local, state, national and international economies**

An outbreak of hostilities, major escalation of existing hostilities or outbreak of war or substantial terrorist action may cause a slow down of the Australian and/or other international economies.

The Company may be adversely affected by a protracted slowdown of the Australian economy or other international economies with which CMI deals or in which CMI operates.

## 5.3 General investment risks

### **General economic conditions**

CMI's operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates, could be expected to have a corresponding adverse impact on the Company's operating and financial performance.

## 5.4 Risks associated with Class A Shares

An analysis of some of the specific risks associated with the Class A Shares is shown below:

### **Financial market conditions**

The market price of Class A Shares may fluctuate due to various factors, including general movements in the Australian and international equity markets, investor perceptions, worldwide economic conditions, interest rate movements and other factors beyond the control of CMI and its Directors. The market price of Class A Shares may be more sensitive than Ordinary Shares to changes in interest rates. Increases in relevant interest rates may adversely affect the market value of Class A Shares, and Class A Shares could trade on ASX at a price below their current trading price. The market price of Class A Shares may fluctuate due to movements in global equity markets as a result of hostilities and other terrorist activity.

### **Liquidity of trading in Class A Shares**

The market for Class A Shares may be less liquid than the market for Ordinary Shares.

### **Ability to pay dividends**

Dividends on Class A Shares are expected to be payable to Shareholders quarterly in arrears in March, June, September and December of each year.

Whilst the payment of dividends is subject to sufficient profits being available and the discretion of the Board, it is the Directors' current intention that CMI will pay dividends of not less than 14¢ per annum in accordance with the dividend rights set out in the summary of the rights attaching to Class A Shares in section 8.2 of this Prospectus.

**Franking**

Dividends payable on Class A Shares are expected to be fully franked, however they may not be. If a dividend does not have attached the maximum franking credit allowed (ie is not fully franked), the dividend will be increased to compensate for the unfranked amount in accordance with the formula set out in the terms of Class A Shares. The amount of franking credit that may be attached to a dividend is dependent upon the Australian corporate tax rate, which may change.

**Ranking**

Class A Shares are not debt instruments. Consequently, upon any winding up of CMI, holders of Class A Shares will rank behind creditors of CMI, but in priority to Ordinary Shareholders. In the event of a shortfall of funds on a winding up, there is a risk that holders of Class A Shares will not receive a full return of capital or any dividend due and unpaid at that time.

**Taxation considerations**

Investors should be aware that any future change in Australian tax law, including changes in interpretation or application of the law by the courts or taxation authorities of Australia, may affect the taxation treatment of the acquisition, holding or disposal of Class A Shares. Shareholders should consult their own professional taxation adviser to obtain definitive advice on the taxation consequences of investment in Class A Shares.

**Future securities issues**

CMI is entitled to issue further Class A Shares that rank equally with the Class A Shares issued under this Prospectus without the approval of the holders of Class A Shares. In addition, CMI may also issue other securities that rank for dividend payment or on a winding up of CMI, equally or behind Class A Shares offered under this Prospectus without the approval of holders of Class A Shares. CMI may also issue other securities with the same or different terms and conditions as Class A Shares. No prediction can be made as to the effect, if any, that such future issues of securities by CMI may have on the market price of Class A Shares.

# 6. Taxation Report



## Tax

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CMI Limited  
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Our ref CMI/CLT-06TaxReport1027-  
BTL.doc

27 October 2006

Dear Sirs

## Taxation Report

This report has been prepared for inclusion in the Prospectus in connection with the Buy-back of Ordinary Shares in CMI Limited.

In this report, capitalised terms take on the same meaning as those set out in the Glossary of this Prospectus.

### 1. Scope of our report

We have been requested to prepare a taxation report for inclusion in the Prospectus. The report will only address the Australian capital gains tax (CGT) and income tax implications for Australian resident Ordinary Shareholders who beneficially hold their shares on capital account and who participate in the Buy-back. The report does not address the potential tax implications where shares are held on revenue account. In addition, this report does not address the taxation implications for those Ordinary Shareholders who do not participate in the Buy-back.

Our report is based on current taxation law as at the date of this report. We note that the tax law is frequently being changed, both prospectively and retrospectively. Our report will not be updated to take account of subsequent changes to the tax legislation, case law, rulings and determinations issued by the Australian Commissioner of Taxation or other practices of taxation authorities.

We are, of course, unable to give any guarantee that our interpretation will ultimately be sustained in the event of challenge by the Australian Commissioner of Taxation.

Importantly, please note that the taxation information in this report is of a general nature only. The tax implications for investors may differ depending on their particular circumstances. Accordingly, we recommend that CMI Limited Ordinary Shareholders seek their own professional advice on the implications for themselves.

KPMG Tax is not licenced to provide financial product advice under the Corporations Act and taxation is only one of the matters that must be considered when making a decision on a financial product. You should consider taking advice from an Australian Financial Services Licence holder before making any decision on a financial product.

## 2. Background

Our understanding of the arrangement, in broad terms, is as follows:

- CMI Limited will Offer to Buy-back up to 90% of each Shareholder's Ordinary Shares. In consideration for this, the Company will provide \$1.20 cash and 1 Class A Share for every 2 Ordinary Shares bought back. Where an odd number of Ordinary Shares is held, in respect of any single remaining Ordinary Shares, the Company will provide \$1.20 cash and 1 Class A Share.
- The Offer is based on the market values of Class A Shares and Ordinary Shares as at 31 August 2006 of \$1.16 and \$1.18 respectively – refer to section 2.4 of this Prospectus.
- The Class A Shares hold preferential rights to receive dividends and capital returns, and carry limited voting entitlements.
- Due to the nature of the transaction, the Buy-back will represent an “off market Buy-back” under the Corporations Act.
- The full amount of cash provided will be debited against share capital.
- The amount attributable to the Class A Shares to be issued will, to the extent necessary, involve a reallocation of amounts within the share capital accounts.
- A dividend of 6 cents per Ordinary Share will be paid prior to the Offer.
- As at 30 June 2006, CMI has retained earnings of approximately \$17 million (after providing for the announced dividends of 6 cents per Ordinary Share and 3.5 cents per Class A Share).
- CMI currently has approximately \$6 million of franking credits (on a tax paid basis).

## 3. Taxation implications of the proposed Buy-back for Australian residents

The Buy-back should, in our opinion, have the following Australian taxation consequences for Australian resident taxpayers who hold their Ordinary Shares on capital account.

The Commissioner of Taxation has been requested to confirm the income tax consequences for Australian resident Ordinary Shareholders set out at Parts 3.1 to 3.2 below in a Class Ruling.

As regular dividends have been paid by CMI to Ordinary Shareholders, we will not be commenting on the receipt of the proposed fully franked dividend on the Ordinary Shares, which is expected to be paid on 2 November 2006.

### 3.1 Buy-back of Ordinary Shares

The Buy-back of Ordinary Shares will represent CGT event A1 under the *Income Tax Assessment Act 1997* (“the 1997 Act”). The Shareholders will make a capital gain to the extent that the capital proceeds received exceed the cost base in the Ordinary Shares bought back. Conversely, where each Shareholder's reduced cost base is more than the capital proceeds received, they will make a capital loss.

Under Division 16K of the *Income Tax Assessment Act 1936* (“the 1936 Act”), as the full amount of the cash and Class A Shares issued will be debited against the Share Capital account, no amount of the Buy-back consideration will represent a dividend. Therefore, the full amount received in relation to the Buy-back will be used to determine the capital gains tax consequences for Ordinary Shareholders.

The capital proceeds will represent the sum of the amount of money in addition to the market value of the Class A Shares received by the Ordinary Shareholders. Where this amount is less than the market value of the Ordinary Shares bought-back, the market value of the Ordinary Shares will represent the capital proceeds received by Shareholders.

For individuals, complying superannuation funds and trusts, where the Ordinary Shares have been held for at least 12 months prior to the Buy-back, the discount capital gain method should be available to reduce the amount of any gain that will be subject to tax. For individuals and trusts, the discount is 50% of the gain, resulting in 50% of the gain being subject to tax. For superannuation funds, the discount is 33 <sup>1</sup>/<sub>3</sub>%, resulting in 66 <sup>2</sup>/<sub>3</sub>% of the gain being subject to tax.

# 6. Taxation Report



In respect of Ordinary Shares acquired prior to September 1999, the indexation method applies for those Ordinary Shareholders that are not eligible to use the discount capital gain method (refer to previous paragraph). In addition, individuals, complying superannuation funds and trusts are able to choose the indexation method in respect of Ordinary Shares acquired prior to September 1999. Under the indexation method, the CGT cost base is indexed (note that indexation ceased with effect from 30 September 1999).

### **3.2 Application of Section 45B and 45C**

In our opinion, Section 45B of the 1936 Act should not apply to the Buy-back, such that no amount to be received by Ordinary Shareholders will be deemed to represent an unfranked dividend under Section 45C of the 1936 Act. As stated above, a Class Ruling request has been lodged with the Commissioner of Taxation to confirm this position.

### **3.3 Availability of Rollover Relief**

No rollover relief will be available to Ordinary Shareholders that realise a capital gain from participating in the Buy-back. This is as a result of the following:

- Not all Ordinary Shares will be bought back. This is an initial requirement for rollover relief under Section 124-E of the 1997 Act; and
- Ordinary Shareholders will not receive Ordinary Shares in another company as a result of the Buy-back. This is an initial requirement for rollover relief under both Section 124-G and 124-M of the 1997 Act.

### **3.4 CGT cost base of Class A Shares**

The Class A Shares will represent CGT assets. The CGT cost base of the Class A Shares will depend on the market value of the Ordinary Shares at the time they are bought-back.

Where the market value of the Ordinary Shares is equal to or less than the cash and market value of the Class A Shares issued, the first element of the CGT cost base and reduced cost base for the Ordinary Shareholders of their Class A Shares will be the market value of the Class A Shares on the date of issue pursuant to subsection 110-25(2) (b) and section 110-55 of the 1997 Act.

Where the market value of the Ordinary Shares bought-back is greater than the cash and market value of the Class A Shares issued, the first element of the CGT cost base and reduced cost base for the Ordinary Shareholders of each Class A Share will be the market value of the two Ordinary Shares bought back less \$1.20, pursuant to subsection 110-25(2) (b) and section 110-55 of the 1997 Act.

The acquisition date for the Class A Shares received under the Buy-back will be the date of allotment of those shares, which is proposed to be 12 December 2006. This will be relevant for those Class A Shareholders who are entitled to the CGT discount where the Class A Shares are subsequently held for a period of at least 12 months.

### **3.5 Example of tax implications for an Australian resident individual CMI Limited Ordinary Shareholder on the top marginal rate of tax plus Medicare levy**

This example is based on the following assumptions:

- 1,000 CMI Limited Ordinary Shares were acquired in December 2000 for \$1.00 per share;
- The shares are held for investment purposes (i.e. on capital account);
- The current market value of an Ordinary Share is \$1.20;
- The market value of a Class A Share is also \$1.20;
- No incidental costs were incurred to acquire the Ordinary Shares, nor have there been any non-deductible costs of holding the Ordinary Shares; and
- The discount capital gain method is to be used.



The Buy-back represents a CGT event and the capital gain is calculated as follows:

Capital proceeds received	Cash – 1,000/2 @ \$1.20	600	
	Class A Shares – 1,000/2 @ \$1.20	<u>600</u>	1,200
Less: CGT cost base of CMI Limited Shares (1,000 @ \$1.00)			<u>(1,000)</u>
Capital Gain prior to discount			200
50% discount applied			<u>(100)</u>
Net capital gain taxable			100
Tax payable (\$100 @ 46.5%)			<u>46.50</u>

**3.6 Example of tax implications for an Australian resident company CMI Limited Ordinary Shareholder purchased on 1 December 1993**

This example is based on the following assumptions:

- 1,000 CMI Limited Ordinary Shares were acquired in July 2003 for \$1.00 per share;
- The shares are held for investment purposes (i.e. on capital account);
- The current market value of an Ordinary Share is \$1.20;
- The market value of a Class A Share is also \$1.20; and
- No incidental costs were incurred to acquire the Ordinary Shares, nor have there been any non-deductible costs of holding the Ordinary Shares.

The Buy-back represents a CGT event and the capital gain is calculated as follows:

Capital proceeds received	Cash – 1,000/2 @ \$1.20	600	
	Class A Shares – 1,000/2 @ \$1.20	<u>600</u>	1,200
Less: CGT cost base of CMI Limited Shares (1,000 @ \$1.122*)			<u>(1,122)</u>
Net Capital Gain taxable			78
Tax payable (\$78 @ 30%)			<u>\$23.40</u>

\* The company is able to index the cost base of the shares (based on the Consumer Price Index (CPI) as they were acquired prior to September 1999. The amount of the indexed cost base is calculated as follows:

Indexed Cost Base	=	Cost base of share	x	$\frac{\text{CPI Index as at 30 September 1999}}{\text{CPI Index for Quarter in which shares acquired}}$	
	=	\$1.00	x	$\frac{123.4}{110.0}$	= \$1.122
CPI Index as at 30 September 1999			-	123.4	
CPI Index for period including July 1993			-	110.0	

**4. Holding Class A Shares**

For Ordinary Shareholders who participate in the Offer, the following tax implications will apply in respect of the Class A Shares held after allotment.

For income tax purposes, including CGT, the date of allotment of the Class A Shares under the Buy-back will be the acquisition date.

# 6. Taxation Report



## 4.1 Receipt of dividends

The Class A Shares will be “equity interests” for tax purposes under Division 974 of the 1997 Act. Any distributions paid on the Class A Shares will represent dividends for taxation purposes.

The receipt of a dividend by each Class A Shareholder will constitute assessable income for Australian resident taxpayers, subject to gross-up and allowance of a tax offset against tax payable for the amount of the franking credit attached to the dividend.

For Australian resident individuals and superannuation funds, any excess of franking credits over tax payable will be refundable.

In order to be entitled to the franking credits, Class A Shareholders must have held their shares at risk for at least 45 days (not counting the day on which the shares were acquired). An exception to this rule applies for individuals who, in relation to all dividends received during a year of income, have less than \$5,000 of franking credits.

Where the 45 day rule is not satisfied in respect of Class A Shares, the cash component of the dividend will be taxed to the Class A Shareholder as if it was an unfranked dividend – there is no need to gross-up the dividend for the franking credits and there is no entitlement to claim a tax offset for the franking credits.

For those Ordinary Shareholders who are trustees of discretionary trusts, where the Ordinary Shares were acquired prior to 3pm on 31 December 1997 and no family trust election has been made in respect of the trust, adverse implications may arise in respect of the entitlement to franking credits. Specifically, the trust will not be able to satisfy the 45-day rule in respect of the Class A Shares and, consequently, only those individual beneficiaries who have less than \$5,000 of franking credits in a year will be eligible for the franking benefits. If you are the trustee of a discretionary trust, we recommend that you seek professional advice on the implications of accepting the Offer.

## 4.2 Subsequent sale of the Class A Shares

In respect of the Class A Shares to be allotted under the Buy-back:

- they will be CGT assets;
- the acquisition date will be the date of allotment; and
- the first element of the CGT cost base and reduced cost base will be the amount taken into account as part of the proceeds for the disposal of the Ordinary Shares (refer to part 3.4 above for further details).

Upon a subsequent sale of the Class A Shares, a capital gain will be made to the extent that the capital proceeds received exceed the cost base in the Class A Shares sold. Conversely, where the reduced cost base is more than the capital proceeds received, a capital loss will be incurred.

Where the Class A Shares are sold at least 12 months after the date of allotment, the CGT discount capital gain method will be available to reduce the taxable amount of any capital gain for individuals, complying superannuation funds and trusts.

## 5 Other matters

While KPMG has given its consent to the inclusion of this report into the Prospectus, please note that this does not extend to any assurance or guarantee in respect of the successful operation or performance of the Buy-back. Accordingly, KPMG’s consent should not be taken as an endorsement or recommendation.

Yours faithfully

Trevor Pascall  
Partner

# 7. Financial Information

## 7.1 Summary balance sheets

A summary of the Company's reported balance sheet as at 30 June 2006 and pro-forma balance sheet as at 30 June 2006 adjusted for the proposed Buy-back is shown in the table on page 24.

The pro-forma consolidated balance sheet has been based on the consolidated balance sheet of CMI as at 30 June 2006.

CMI is seeking to buy back up to 90% of each Ordinary Shareholder's Ordinary Shares. CMI currently has 35,859,654 Ordinary Shares on issue. Given that entities associated with Max Hofmeister will not participate in the Buy-back, the maximum number of Ordinary Shares to be bought back is 29,504,361 Ordinary Shares.

The pro-forma balance sheet assumes a 100% participation in the proposed Buy-back, adjusted for the non-participation of entities associated with Max Hofmeister.

On page 25, is a table outlining the potential balance sheet impact of the proposed Buy-back based on various assumed participation rates.

## 7. Financial Information

Balance Sheet	30/06/06 Reported 000's	30/06/06 Pro-forma 000's @ 91.42% Buy-back Participation <sup>1</sup>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3,461	3,461
Trade and other receivables	55,267	55,267
Inventories	42,337	42,337
<b>TOTAL CURRENT ASSETS</b>	<b>101,065</b>	<b>101,065</b>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	100	100
Other financial assets	-	-
Property, plant and equipment	61,876	61,876
Goodwill	6,309	6,309
Other intangible assets	24,215	24,215
Deferred tax assets	209	209
Other	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>92,709</b>	<b>92,709</b>
<b>TOTAL ASSETS</b>	<b>193,774</b>	<b>193,774</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	32,872	32,872
Borrowings	7,610	7,610
Current tax payables	406	406
Provisions	11,746	11,746
<b>TOTAL CURRENT LIABILITIES</b>	<b>52,634</b>	<b>52,634</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	45,325	63,028
Deferred tax liabilities	5,625	5,625
Provisions	2,205	2,205
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>53,155</b>	<b>70,858</b>
<b>TOTAL LIABILITIES</b>	<b>105,789</b>	<b>123,492</b>
<b>NET ASSETS</b>	<b>87,985</b>	<b>70,282</b>
<b>EQUITY</b>		
Issued Capital	67,999	50,296
Reserves	(144)	(144)
Retained earnings	20,130	20,130
<b>TOTAL EQUITY</b>	<b>87,985</b>	<b>70,282</b>

1. Reflects acceptance by all Ordinary Shareholders other than entities associated with Max Hofmeister.

### Balance Sheet Impact at Various Participation Rates

Balance Sheet Classification 000's	% Participation					
	0%	10%	20%	30%	50%	91.42% <sup>1</sup>
<b>NON-CURRENT LIABILITIES</b>						
Borrowings	45,325	47,261	49,198	51,134	55,007	63,028
<b>EQUITY</b>						
Issued Capital	67,999	66,063	64,126	62,190	58,317	50,296

1. Reflects acceptance by all Ordinary Shareholders other than entities associated with Max Hofmeister.

# 8. Material Agreements

## 8.1 Key documents

The Board considers that certain agreements relating to CMI are significant to the Offer, the operations of CMI or may be relevant to investors. A description of material agreements or arrangements, together with a summary of the more important details of each of these agreements is set out below.

## 8.2 Constitution

The rights attaching to ownership of Shares in CMI are detailed in CMI's Constitution which may be inspected during normal business hours at the registered office of CMI. The following is a summary of the major provisions.

### Meeting procedures

The ASX and each Shareholder and Director of the Company is entitled to receive 28 days' notice of and attend any general meeting of the Company. The Company is obliged to convene and hold an annual general meeting.

### Rights of Ordinary Shareholders

Subject to restrictions on voting from time to time affecting any class of shares in the Company, and any restrictions imposed by the Corporations Act, the shares in the Company carry the right to cast one vote on a show of hands and, on a poll, one vote for each fully paid share held, and for each partly paid share held, a vote having the same proportionate value as the proportion to which the shares have been paid up. Voting may be in person or by proxy, attorney or representative.

### Dividends

Subject to the rights of or restrictions on the holders of shares created or raised under any special arrangements as to dividends, the Board may from time to time determine to pay a dividend, which is payable on all shares in proportion to the amount of capital paid up on the shares. No dividends are payable except out of the profits of the Company.

### Variation of rights

The Company can issue shares with preferred, deferred or other special rights, obligations or restrictions, as the Board may determine. The rights and restrictions attaching to a class of shares in the Company can only be altered with the consent in writing of shareholders with at least 75% of the votes in the class, or by special resolution passed at a separate meeting of the holders of the shares of that class.

Subject to the requirements of the Listing Rules and the Corporations Act, the Company need not issue share certificates.

### Forfeiture of shares

The Company is empowered to forfeit shares in relation to which calls have been made or deemed to have been made and which remain unpaid in accordance with the Constitution, the Listing Rules and the Corporations Act.

### Right to refuse registration of transfer

The Board may only refuse to register a transfer of securities of the Company as permitted by the Listing Rules or the SCH Business Rules.

## **Directors' remuneration**

The Constitution of the Company contains the following provisions concerning remuneration of the Directors:

### ***Remuneration of Directors***

*13.3(a) Subject to rule 13.3(b), the Directors are to be paid out of the funds of the Company as remuneration for their services as Directors, such sum accruing from day to day as the Company in general meeting determines to be divided among them in such proportion and manner as they agree or in default of agreement equally.*

*13.3(b) Subject to rule 17.1, the Directors' remuneration for their services as Directors is by fixed sum and not a commission on or percentage of profits or operating revenue and may not be increased except at a general meeting where particulars of the proposed increase have been given to the shareholders in the notice convening the meeting.*

### ***Remuneration of Directors for Extra Services***

*13.4 Any Director who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a Director, or who at the request of the Board engages in any journey on the business of the Company, may be paid extra remuneration as determined by the Board.*

### ***Travelling and Other Expenses***

*13.5 Every Director is, in addition to any other remuneration provided for in these rules, entitled to be paid from Company funds all reasonable travel, accommodation and other expenses incurred by the Directors in attending meetings of the Company or of the Board or of any Committees or while engaged on the business of the Company.*

### ***Retirement Benefits***

*13.6 Any Director may be paid a retirement benefit, as determined by the Board, in accordance with the Law and the Listing Rules. The Board is authorised to make arrangements with any Director with respect to the payment of retirement benefits in accordance with this rule.'*

## **Company seal**

The Company may, but need not, adopt a company seal and if it does do so, it need not affix the seal to any document even a deed, as permitted by the Corporations Act.

## **Partial takeover bids**

The Company may prohibit registration of transfers purporting to accept partial takeover bids unless and until a resolution of the Company has been passed approving the offers in accordance with the provisions of the Constitution.

## **Indemnities**

The Company must indemnify current and past directors, secretaries and executive officers of the Company against any liability incurred by them by virtue of their holding office as, and acting in the capacity of, director, secretary or executive officer, other than a liability owed to the Company or a related body corporate of the Company or a pecuniary penalty order or compensation order or where the liability does not arise out of conduct in good faith. Indemnities also apply to employees in circumstances designated under the Constitution.

The Company may also pay insurance premiums for officers and employees in certain circumstances but not where the liability arises out of a wilful breach of duty in relation to the Company or an improper use of position or inside information.

## 8. Material Agreements

### Terms of Class A Shares

The terms of the Class A Shares as provided in the Constitution are set out in full below.

#### *Dividends*

30.2 The holder of each Class A share is entitled to a quarterly dividend ('Dividend') calculated in accordance with the following formula:

$$\text{Dividend} = \frac{\text{Dividend Rate}}{4}$$

*Dividend Rate* is for each year, ending on the anniversary of the Allotment Date, at such rate as determined by the Directors, but in any event, not less than 14¢ each year.

#### *Franking of Dividends*

30.3 If any Dividend is not franked to 100% under Part IIIAA of the Tax Act (or any provisions that revise or replace that Part) ('Applicable Franking Rate'), the Dividend will be calculated in accordance with the following formula:

$$\frac{D}{1 - [T_i \times (1-f)]}$$

Where:

*D* is the Dividend calculated under rule 30.2;

*T<sub>i</sub>* is the Australian corporate tax rate applicable to the franking account of the Company from which the Dividend will be franked, expressed as a decimal; and

*f* is the Applicable Franking Rate, expressed as a decimal to four decimal places.

#### *Payment of Dividend*

30.4 The payment of a Dividend is subject to:

- (a) the Directors, at their discretion, declaring the Dividend to be payable; and
- (b) there being funds legally available for the payment of dividends.

#### *Non-Cumulative Dividends*

30.5 If and to the extent that all or any part of a Dividend is not paid because of the provisions of rule 30.4, the holder has no claim in respect of such non-payment.

#### *Dividend Payment Dates*

30.6 Subject to this rule 30.6, Dividends will be payable on the Class A share in arrears on that day being 3 months after the Allotment Date and thereafter quarterly.

#### *Record Dates*

30.7 A Dividend is only payable to those persons registered as holders of Class A shares at the date on which the books of the Company close for Class A share holders in respect of each relevant Dividend.

#### *No Entitlement to Other Dividends*

30.8 Class A shares shall have a preferential right to a Dividend determined in accordance with rules 30.2 and 30.3 in priority to holders of Ordinary Shares as to the payment of dividends but shall, subject to payment of such Dividend under rules 30.2 and 30.3, have no other entitlement to any dividend which may be determined to be paid to holders of Ordinary Shares.

### **Ranking**

30.9 *Class A shares shall rank equally amongst shares in that class in all respects.*

### **Return of capital**

30.10 *If there is to be a return of capital on a winding up of the Company, holders of Class A shares will be entitled to receive, out of the assets of the Company available for distribution to holders of shares, in respect of each Class A share held, a cash payment equal to the sum of:*

- (a) the amount of any Dividend (whether declared or not) calculated on a daily basis (assuming a 365 day year) throughout the period from and including the date of the preceding Dividend Payment Date to the date of commencement of the winding-up; and*
- (b) the Face Value,*

*before any return of capital is made to holders of Ordinary Shares or any other class of shares ranking behind the Class A shares.*

*Class A shares do not confer on their holders any right to participate in profits or property except as set out in the provisions of Rule 30.*

### **Shortfall on Winding Up**

30.11 *If, upon a return of capital, there are insufficient funds to pay in full the amounts referred to in rule 30.10 and the amounts payable in respect of any other shares in the Company ranking as to such distribution equally with the Class A shares on a winding-up of the Company, the holders of the Class A shares and the holders of any such other shares will share in any distribution of assets of the Company in proportion to the amounts to which they respectively are entitled.*

### **Participation in Surplus Assets**

30.12 *The Class A shares do not confer on their holders any further right to participate in the surplus assets of the Company on a winding-up.*

### **Restrictions on Dividends and Other Issues**

30.13 *The Company must not, without approval of a special resolution passed at a separate meeting of holders of the Class A shares:*

- (a) declare or pay a cash dividend or make any distribution on any share capital over which the Class A shares rank in priority for participation in profits if the Dividend payable in either of the four quarterly periods immediately preceding the cash dividend or distribution has not been paid or otherwise satisfied in full; or*
- (b) issue shares ranking in priority to the Class A shares but the Directors are at all times authorised to issue such further Class A shares ranking equally with any existing Class A shares and, subject to required shareholder approvals, to give effect to the conversion or variation of rights to other classes of Company shares on issue which may convert into Class A shares or which may have rights (as varied) identical or similar to Class A shares.*

### **Takeovers and Schemes of Arrangement**

30.14 *If a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors, or the Directors recommend a member's scheme of arrangement, the Directors will use reasonable endeavours to procure that equivalent takeover offers are made to Class A shares holders or that they participate in the scheme of arrangement.*

### **Participation in New Issues**

30.15 *Class A shares will confer rights to subscribe for new securities in the Company or to participate in any bonus issues, to the same extent as Ordinary Shares.*

## 8. Material Agreements

### *Voting rights for Class A shares*

30.16 *The holder of a Class A Share is not entitled to vote at any general meeting of the Company except in the following circumstances:*

- (a) *on a proposal:*
  - (i) *to reduce the share capital of the Company;*
  - (ii) *that affects rights attached to the Class A shares;*
  - (iii) *to wind up the Company; or*
  - (iv) *for the disposal of the whole of the property, business and undertaking of the Company;*
- (b) *on a resolution to approve the terms of a buy-back agreement;*
- (c) *during a period in which a Dividend or part of a Dividend on the Class A shares is in arrears; or*
- (d) *during the winding up of the Company.*

*In any circumstance where the holder of Class A shares may vote at a general meeting of the Company, each Class A Share shall entitle the holder to one vote.*

### *Listing*

30.17 *The Company must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure, at its own expense, listing of the Class A shares on the ASX and/or on each of the stock exchanges on which the other Ordinary Shares of the Company are listed, following the Effective Date.*

### *Amendments to the terms of issue*

30.18 *Subject to complying with all applicable laws, the Company may without the authority, assent or approval of Class A shareholders amend or add to these terms of issue if such amendment or addition is, in the opinion of the Company:*

- (a) *of a formal, minor or technical nature;*
- (b) *made to correct a manifest error; or*
- (c) *not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the holders of the Class A shares.*

### *Interpretation*

30.19 *The following expressions shall have the following meanings:*

*'Allotment Date'* means the date in respect of which a CPS shall have been allotted or have deemed to have been allotted by the Company. In any other instance, 21 August shall be deemed the relevant date and month on which a Class A Share is allotted (notwithstanding the date of actual allotment) for the purposes of determining the yearly Dividend Rate applicable at the time of allotment;

*'Dividend Payment Date'* means each date on which a Dividend is payable in accordance with rule 30.6 whether or not a Dividend is paid on that date;

*'Face Value'* means \$1.20 per Class A share in respect of a CPS which shall have been converted into a Class A share. In any other instance, where the term 'Face Value' is relevant, then, in the absence of any other definition or meaning, it shall mean the issue price paid or payable on the issue of such share;

*'Franking Rate'* in relation to a Dividend, means the franking percentage (within the meaning of Part IIIAA of the Tax Act or any part that replaces or revises that part) of the Dividend, expressed as a decimal;

*'Ordinary Share'* means an ordinary share in the capital of the Company;

**Tax Act** means:

- a) *the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 as the case may be as amended and a reference to any section of the Income Tax Assessment Act 1936 includes a reference to that section as rewritten in the Income Tax Assessment Act 1997;*
- (b) *any other Act setting the rate of income tax payable; and*
- (c) *any regulation promulgated thereunder.*

### **8.3 Documents available for inspection**

Copies of the following documents are available for inspection during normal office hours at the registered office of the Company for 13 months after the date of this Prospectus:

- (a) the constitution of CMI;
- (b) the consents to the issue of this Prospectus.

# 9. Additional Information

## 9.1 Incorporation

CMI was registered in Queensland on 19 December 1990.

CMI has a financial year end of 30 June.

## 9.2 Disclosing Entity Requirements

Having taken such precautions and having made such enquiries as are reasonable, the Directors believe that CMI has complied with the general and specific requirements of ASIC as applicable from time to time throughout the 12 months before the issue of this Prospectus which required CMI to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market.

CMI as a disclosing entity under the Corporations Act, states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) as a listed company, CMI is subject to the Listing Rules which require continuous disclosure of any information the Company has to ASX which a reasonable person would expect to have a material effect on the price or value of its Shares;
- (c) copies of documents lodged with ASIC in relation to CMI may be obtained from, or inspected at the offices of ASIC;
- (d) it will provide a copy of each of the following documents, free of charge, to any person on request in the application period in relation to this Prospectus:
  - (i) annual report for the period ended 30 June 2006 being the last financial report of CMI lodged with the ASIC before the issue of this Prospectus;
  - (ii) any other financial report, and any documents under Section 713 of the Corporations Act, lodged with the ASIC in relation to CMI in the period from lodgement of the financial report referred to in paragraph (i) above until the issue of this Prospectus; and
  - (iii) any documents used to notify ASX of information relating to CMI during that period in accordance with the Listing Rules as referred to in Section 713 of the Corporations Act.

Copies of all documents lodged in relation to CMI can be inspected at the head office of the Company, Level 4, 240 Margaret Street, Brisbane, Queensland during normal office hours.

The Directors rely upon section 712(3) of the Corporations Act with the inclusion by reference of material referred to above for full disclosure of relevant information to Shareholders for the purposes of section 711 of the Corporations Act, including the nature and extent of any directors' interests or of persons identified in section 711(4) of the Corporations Act.

## 9.3 Litigation

CMI is not involved in any material legal or arbitration proceedings nor, so far as the Company is aware, are any such material proceedings pending or threatened against the Company.

## 9.4 Consents and disclaimers of responsibility

None of the parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement made in this prospectus is based, except as specified below. Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for, any part of this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that party, as specified below.

McCullough Robertson has given, and has not withdrawn, its written consent to be named as lawyers to the Company in the form and context in which it is named.

KPMG has given, and not withdrawn, its consent to be named as tax advisers in the form and context in which it is named.

## 9.5 Interests of experts and advisers

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- (a) has any interest or has had any interest during the last two years, in the formation or promotion of CMI, or in property acquired or proposed to be acquired by CMI in connection with its formation or promotion, or the Offer of the Shares; and
- (b) no amount has been paid or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person in connection with the services provided by the person in connection with the formation or promotion of CMI, or the Offer of the Shares.

McCullough Robertson has acted as legal adviser to the Company in relation to the Offer and has been involved in undertaking due diligence enquiries and providing legal advice in relation to the Offer. McCullough Robertson will be paid an amount of \$50,000 in respect of these services and may be paid additional amounts in accordance with its normal time based charges.

KPMG has acted as tax advisers to the Company in relation to the Offer and has provided the report set out in section 6 of this Prospectus. KPMG will be paid an amount of \$32,000 in respect of these services and may be paid additional amounts in accordance with its normal time based charges.

## 9.6 Interests of Directors

Other than set out above or elsewhere in this Prospectus:

- (a) no Director or proposed Director of CMI has, or has had in the two years before lodgement of this Prospectus, any interest in the formation or promotion of CMI, or the Offer of Shares, or in any property proposed to be acquired by CMI in connection with information or promotion of the Offer of the Shares; and
- (b) no amounts, have been paid or agreed to be paid and no benefit has been given or agreed to be given, to any Director or proposed Director of CMI either to induce him to become, or to qualify him as a Director, or otherwise for services rendered by him in connection with the promotion or formation of CMI or the Offer of Class A Shares.

## Shareholdings

The Directors of CMI or their associates have a beneficial interest in the following shares and options in CMI:

Director	Ordinary Shares	Class A Shares	Partly Paid Ordinary Shares	Options
Max Hofmeister	3,077,031	369,089	750,000	1,000,000
John Johnson	150,000	20,000	-	-
Warren Hill	2,564	20,250	-	200,000
Maurice Maughan	6,000	-	-	-

Holders of CMI options and Partly Paid Ordinary Shares are not entitled to participate in the Offer in respect of those options or Partly Paid Ordinary Shares.

## 9. Additional Information

### Participation in Offer

Entities associated with Max Hofmeister currently hold 3,077,031 Ordinary Shares and 750,000 Partly Paid Shares and will not participate in the Buy-back.

The table below shows the capital structure of CMI should the percentage of Ordinary Shareholders specified accept the Offer to have 90% of their Ordinary Shares bought back.

	10% participation	20% participation	30% participation	50% participation	91.42% <sup>2</sup> participation
Ordinary Shares on issue	32,632,285	29,404,916	26,177,547	19,722,810	6,355,293
Class A Shares on issue	27,690,427	29,304,111	30,917,795	34,145,164	40,828,923
% holding in Ordinary Shares by entities associated with Max Hofmeister	9.43%	10.46%	11.75%	15.60%	48.42%

1. In addition to these fully paid ordinary shares, entities associated with Max Hofmeister also hold 750,000 Partly Paid Ordinary Shares. These shares are currently paid to approximately 42% of their issue price. Max Hofmeister is entitled to vote the Partly Paid Ordinary Shares to the extent that they are paid up.
2. Reflects acceptance by all ordinary shareholders other than entities associated with Max Hofmeister.

John Johnson, Maurice Maughan and Warren Hill intend to accept the Offer in respect of a majority of their Ordinary Shares.

### Transactions with related parties

A summary of related party transactions appears in the Annual Report.

### Payments to Directors

The constitution of CMI provides that the Directors may be paid, as remuneration for their services, a sum determined from time to time by CMI's shareholders in general meeting, with that sum to be divided amongst the Directors in such manner and proportion as they agree.

The maximum aggregate amount which has been approved by CMI's shareholders for payment to the Directors is \$130,000 per annum. An amount of approximately \$105,000 per annum is to be paid to the Directors for the current year.

### 9.7 Expenses of the Offer

The total estimated expenses of the Offer payable by the Company including ASX and ASIC fees, legal fees, share registry fees, printing costs, public relations costs and other miscellaneous expenses are estimated to be approximately \$100,000.

### 9.8 Electronic Prospectus

This Prospectus is available in electronic form at [www.cmilimited.com.au](http://www.cmilimited.com.au). Any person receiving this Prospectus electronically will on request be sent a paper copy of the Prospectus by CMI free of charge during the period of the Offer.

Applications must be made by completing a paper copy of the Acceptance Form. CMI will not accept Acceptance Forms electronically.

The Acceptance Form may only be distributed attached to a complete and unaltered copy of the Prospectus. The Acceptance Form included with this Prospectus contains a declaration that the investor had personally received the complete and unaltered Prospectus prior to completing the Acceptance Form.

CMI will not accept a completed Acceptance Form if it has reason to believe that the Applicant has not received a complete paper copy or electronic copy of the Prospectus or if it has reason to believe that the Acceptance Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While CMI believes that it is extremely unlikely that during the period of the Offer the electronic version of the Prospectus will be tampered with or altered in any way, CMI can not give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from CMI or a financial adviser.

## **9.9 Privacy**

Upon applying for Shares in the Company, Applicants will be required to provide personal information to CMI directly and/or via the share registry, such as name, address, telephone/fax numbers, tax file number and account details. The Company and the share registry collect, hold and use that personal information to assess Applications, provide facilities and services to applicants and undertake appropriate administration. Access to information may be disclosed by the Company to its agents and service providers on the basis that they deal with such information in accordance with the Privacy Act 1988 as amended. Applications which do not provide the information requested may not be processed. Under the Privacy Act 1988 as amended, Applicants may request access to their personal information held by or on behalf of the Company by contacting the share registry as set out in the Directory.

## **9.10 Authorisation**

This Prospectus is issued by the Company. Each Director has consented to the lodgement of the Prospectus with ASIC.

Dated 27 October 2006



**Max Hofmeister**

Executive Chairman

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