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## **HG Metal posts 1Q2012 net profit of S\$0.5 million amidst challenging environment**

- *Revenue grew 59% to S\$72.0 million on higher sales volumes*
- *Expects to complete construction of the final building block at its Jurong Port Road premise in mid 2012*
- *Continues to work on expanding the business prudently and in a measured approach*

### **Financial Highlights**

S\$' million	3 months ended 31 December		Change
	1Q2012	1Q2011	%
Revenue	72.0	45.4	+ 59
Gross Profit	4.9	5.6	- 13
Net Profit	0.5	5.4	- 91

**SINGAPORE – 14 February 2012** – Amidst a challenging business environment, mainboard-listed **HG Metal Manufacturing Limited** 福源金属制造有限公司 (“HG Metal” or the “Group”), one of the largest steel distributors and processors in the region, has posted a net profit of S\$0.5 million for the first quarter ended 31 December 2011 (“1Q2012”).

The Group’s revenue increased 59% to S\$72.0 million as the Group achieved higher sales volume mainly through its distribution business and its new projects business. However, a drop in steel prices resulted in a 13% decline in gross profit to S\$4.9 million, which led to its gross profit margin sliding by 5.6 percentage points from 12.3% in 1Q2011 to 6.7% in 1Q2012.

Other operating income decreased to S\$0.3 million in 1Q2012 from S\$2.6 million in the year-ago period, mainly due to the absence of a fair value gain on financial derivatives. In 1Q2011, the Group had recorded a fair value gain of S\$2.0 million in its other operating income, for its warrants and call option.

As the Group continued to restructure its activities and gear up for the development of new businesses, it also incurred higher staff costs. Other operating expenses increased mainly due to higher maintenance costs as well as depreciation charges on its properties, on top of a small foreign exchange loss.

As a result of the above factors, net profit decreased from S\$5.4 million in 1Q2011 to S\$0.5 million in 1Q2012. For the quarter under review, the Group's basic earnings per share were 0.04 Singapore cents while net asset value was 13.12 Singapore cents as at 31 December 2011.

"The second half of 2011 saw a slowdown in steel consumption and a general decline in steel prices. Nonetheless, the Group still managed to grow our sales volume. To maintain more stable margins going forward, we are working at increasing our value-add to customers. We have also made good progress in executing our growth strategies and improving our system and structure, in areas such as supply chain, in order to support our expansion," said Mr Goh Kian Sin, Chief Executive Officer of HG Metal.

#### **Looking Ahead**

The outlook for steel demand in 2012 is cautious due to the global economy's ongoing financial uncertainty and volatility. Global steel consumption is still expected to grow, albeit at a slower rate. Emerging markets like ASEAN are expected to continue to underpin the growth in the steel sector – a trend that will augur well for HG Metal.

In order to drive sustainable growth, the Group continues to focus on its multi-pronged strategy to expand geographically, diversify its business model, widen its product range and enhance its processing capabilities.

"We will continue to work on expanding the business prudently and in a measured approach, in view of the challenges in the industry. Our growth initiatives, coupled with the strengthening of our corporate infrastructure to support our business expansion, will require time and costs. Although it will take time to reap the benefits of our investment, we firmly believe these investments are essential to lay a stronger foundation and to drive long-term growth for the Group," explained Mr Goh.

In mid 2012, the Group will complete construction of the final building block at its third and new premise at Jurong Port Road.

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#### **About HG Metal**

Founded in 1971, HG Metal Manufacturing Limited (Bloomberg Code: HGM.SP) is a leading steel distributor and processor in the region. With more than 2,000 types of steel products in stock, it also conducts downstream activities and value-added services to provide customised products. It has about 1,000 customers from diversified industries, who are located predominantly in Singapore, Malaysia and Indonesia. With the entry of steel foundation specialist, the Oriental Castle Group, as its major shareholder, coupled with its multi-pronged growth strategy, HG Metal is well-positioned to grow into a niche regional player in steel distribution and processing.

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