



HG METAL MANUFACTURING LIMITED

(Company Registration No. 198802660D)

Financial Statements and Dividend Announcement for Financial Year Ended 31 December 2009 ("1Q FY2010")

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF YEAR AND FULL YEAR RESULTS

1(a)(i) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

Consolidated Income Statement

	Group		
	1Q FY2010 S\$'000	1Q FY2009 S\$'000	% (+/-)
Revenue	90,728	182,023	(50)
Cost of sales	(76,941)	(174,991)	(56)
Gross profit	13,787	7,032	96
Other operating income	7,185	900	698
Distribution expenses	(544)	(932)	(42)
Administrative expenses	(3,984)	(3,190)	25
Other operating expenses	(3,145)	(6,571)	(52)
Finance expenses	(1,411)	(4,147)	(66)
Share of joint venture profits	223	666	(66)
Share of associate profits	629	-	nm*
Profit / (loss) before tax	12,740	(6,242)	(304)
Income tax expense	(1,121)	(100)	nm*
Net profit / (loss) for the period	11,619	(6,342)	(283)
Other comprehensive income:			
Currency translation adjustments	35	(30)	nm*
Fair value loss on available for sale financial assets	-	(7)	nm*
Other comprehensive income for the period, net of tax	35	(37)	(193)
Total comprehensive income for the period	11,654	(6,379)	(283)
Profit / (loss) attributable to:			
Equity holders of the Company	8,703	(6,415)	(236)
Minority interest	2,916	73	
	11,619	(6,342)	
Total comprehensive income attributable to:			
Equity holders of the Company	11,647	(6,419)	(281)
Minority interest	7	40	
	11,654	(6,379)	

*nm denotes not meaningful

Capital Reduction in a subsidiary, HG Metal Pte Ltd (“HGMPL”)

At an Extraordinary General Meeting held on 26 October 2009, the shareholders of HGMPL approved the following:

- (i) Capitalisation of advances from shareholders of \$17,056,000; and
- (ii) Capital reduction of paid-up capital of \$46,356,000 from the cancellation of 31,756,000 ordinary shares. The capital reduction was satisfied by the transfer of 281,927,000 ordinary shares in its subsidiary, BRC Asia Limited (“BRC Asia”), to the shareholders.

The High Court of Republic of Singapore had granted approval to HGMPL on 30 October 2009. The transfer of BRC Asia’s shares to the shareholders in connection to the capital reduction was completed on 26 November 2009. Accordingly, HGMPL became a wholly-owned subsidiary of HG Group and BRC Asia ceased to be a subsidiary of the Group.

The Group has accounted for the above transaction as a deemed disposal of a subsidiary in accordance with FRS 27, Consolidated and Separate Financial Statements, and accounted for its remaining interests in BRC Asia as an investment in associate.

1(a)(ii) Notes to the Consolidated Income Statement

	Group	
	1Q FY 2010	1Q FY 2009
	S\$'000	S\$'000
Interest income	-	19
Interest on borrowings	(1,411)	(4,147)
Depreciation	(872)	(1,014)
Allowance for doubtful debts	(549)	-
Writeback of allowance for doubtful debts	24	88
Foreign exchange loss, net	(1,036)	(3,513)
Loss on sale of property, plant and equipment	(43)	(2)
Amortisation of computer software	(42)	(38)
Amortisation of customer relationship	(246)	-
Fair value gain (loss) on derivatives, net	223	(1,400)
Fair value gain on investment held for trading	90	400
Gain on deemed disposal of subsidiary	6,373	-

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year :

	Group		Company	
	31.12.2009	30.09.2009	31.12.2009	30.09.2009
	S\$'000	S\$'000	S\$'000	S\$'000
Non current assets				
Property, plant and equipment	43,538	60,569	20,262	18,389
Intangible assets	559	26,236	499	538
Investment in subsidiaries	-	-	12,520	12,520
Investment in associates	48,225	646	713	713
Investment in joint venture	-	9,467	-	-
Available for sale financial assets	-	28	-	-
	92,322	96,946	33,994	32,160
Current assets				
Investment held for trading	360	270	-	-
Inventories	88,684	140,511	71,665	78,407
Trade and other receivables	33,269	84,730	61,861	59,078
Prepaid expenses	178	307	18	80
Cash and cash equivalents	6,741	16,373	1,248	1,387
	129,232	242,191	134,792	138,952
Current liabilities				
Trade and other payables	44,216	99,123	42,140	42,887
Finance lease payables	195	769	-	-
Bank borrowings	49,698	71,778	38,391	38,179
Provision for taxation	738	3,878	267	267
Deferred revenue	-	1,541	-	-
Derivative financial instruments	-	723	-	-
	94,847	177,812	80,798	81,333
Net current assets	34,385	64,379	53,994	57,619
Non current liabilities				
Finance lease payables	260	1,265	-	-
Bank borrowings	14,545	19,568	2,647	3,339
Provision for retirement benefits	-	786	-	-
Deferred taxation	516	6,688	172	172
	15,321	28,307	2,819	3,511
	111,386	133,018	85,169	86,268
Capital and reserves				
Share capital	111,730	111,730	111,730	111,730
Other reserves	2,306	1,712	2,527	2,527
Accumulated losses	(4,226)	(12,929)	(29,088)	(27,989)
Equity attributable to equity holders of the Company	109,810	100,513	85,169	86,268
Minority interests	1,576	32,505	-	-
Total equity	111,386	133,018	85,169	86,268

1(b)(ii) Aggregate amount of group's borrowings and debt securities :

	As at 31 December 2009			As at 30 September 2009		
	Secured S\$'000	Unsecured S\$'000	Finance lease S\$'000	Secured S\$'000	Unsecured S\$'000	Finance lease S\$'000
Repayable in one year or less	33,716	15,982	195	3,933	67,845	769
Repayable after one year	8,169	6,376	260	9,244	10,324	1,265
Total	41,885	22,358	455	13,177	78,169	2,034

Details of collaterals:

The Group's borrowings of approximately \$41.9 million is secured by way of fixed and floating charges over all assets of the Company, legal mortgage over properties of the Group and fixed deposits pledged to banks by Malaysian subsidiaries.

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	1Q FY2010 S\$'000	1Q FY2009 S\$'000
Cash flows from operating activities		
Profit / (Loss) before tax	12,740	(6,242)
Adjustments for non cash items:		
Depreciation of property, plant and equipment	872	1,014
Amortisation of computer software	42	38
Loss on disposal of property, plant and equipment	43	2
Allowance / (Writeback) for doubtful debts, net	525	(88)
Fair value (gain) loss on derivatives, net	(223)	1,400
Fair value gain on investment held for trading	(90)	(400)
Interest expense	1,411	4,147
Interest income	-	(19)
Share of joint venture results	(223)	(666)
Share of associate results	(629)	-
Share option expense	-	22
Amortisation of customer relationship	246	-
Deemed gain from disposal of subsidiary	(6,373)	-
Foreign currency realignment	-	21
Operating profit (loss) before working capital changes	8,341	(771)
Working capital changes:		
Fixed deposits pledged	(12)	(14)
Inventories	15,181	53,941
Trade and other receivables	(7,352)	28,225
Trade and other payables	(11,527)	(53,139)
Cash generated from operations	4,631	28,242
Interest expense paid	(1,411)	(4,147)
Interest income received	-	19
Income tax paid	(38)	(100)
Net cash generated from operating activities	3,182	24,014
Cash flows from investing activities		
Net cash outflow from deemed disposal of a subsidiary	(9,527)	-
Proceeds from disposal of property, plant and equipment	231	69
Purchase of property, plant and equipment	(2,850)	(5,393)
Purchase of intangible assets	-	(44)
Acquisition of minority interests	-	(14,734)
Net cash used in investing activities	(12,146)	(20,102)
Cash flows from financing activities		
Net repayment of bank borrowings	(495)	(36,154)
Proceeds from issuance of shares in a subsidiary	-	3,311
Repayment of finance lease payables	(185)	(216)
Net cash used in financing activities	(680)	(33,059)
Net change in cash and cash equivalents	(9,644)	(29,147)
Cash and cash equivalents at beginning of the period	15,843	49,482
Cash and cash equivalents at end of period	6,199	20,335

Note to the Consolidated Cash Flow Statement:

With the capital reduction and transfer of BRC Asia's shares, HGMPL's interest in BRC Asia reduced from 85.62% to 43.67% and BRC Asia ceased to be a subsidiary of HG Group. With the cessation of BRC Asia as a subsidiary, the Group will account for its investment in BRC Asia using the equity method in accordance with FRS 28 Investments in Associates.

The net identifiable assets and liabilities of BRC Asia as at date of deemed disposal were as follows:

	30-Nov-09 S\$'000
Property, plant and equipment	18,900
Intangible assets	25,389
Investment in joint venture	9,691
Available for sale financial assets	28
Trade and other receivables	58,452
Inventories	36,645
Cash and cash equivalents	9,527
	<u>158,632</u>
Bank borrowings	(28,167)
Trade and other payables	(28,653)
Derivative financial instruments	(500)
Provision for taxation	(4,281)
Deferred tax liability	(6,115)
	<u>(67,716)</u>
Net identifiable assets	<u>90,916</u>
Net cash outflow arising on deemed disposal: Cash and cash equivalents of subsidiary	<u>9,527</u>

Group cash and cash equivalents comprise the following:

	Group	
	As at 31 Dec 2009 S\$'000	As at 30 Sep 2009 S\$'000
Cash and bank balances	6,199	15,843
Fixed deposits	542	530
	6,741	16,373
Fixed deposits pledged with banks ⁽¹⁾	(542)	(530)
Cash and cash equivalents per consolidated cash flow statement	6,199	15,843

⁽¹⁾ The Group's Malaysian subsidiaries have fixed deposits pledged with banks to secure credit facilities granted to them.

1(d)(i) A statement (for the issuer and group) showing all changes in equity, together with a comparative statement for the corresponding period of the immediately preceding financial year

Group	Attributable to equity shareholders of the Company									
	Share Capital	Capital Reserves	Share Option Reserves	Fair Value Reserves	Premium Paid On Acquisition	Foreign Currency Translation Reserves	Accumulated Profits / (Losses)	Total	Minority Interests	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 October 2009	111,730	2,527	17	-	(539)	(293)	(12,929)	100,513	32,505	133,018
Other comprehensive income for the financial period	-	-	-	-	-	28	-	28	7	35
Profit for the financial period	-	-	-	-	-	-	8,703	8,703	2,916	11,619
Deemed disposal of a subsidiary	-	-	(17)	-	539	44	-	566	(33,852)	(33,286)
Balance as at 31 December 2009	111,730	2,527	-	-	-	(221)	(4,226)	109,810	1,576	111,386

Group	Attributable to equity shareholders of the Company									
	Share Capital	Capital Reserves	Share Option Reserves	Fair Value Reserves	Premium Paid On Acquisition	Foreign Currency Translation Account	Accumulated Profits / (Losses)	Total	Minority Interests	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 October 2008	78,202	2,527	-	-	-	(120)	55,938	136,548	14,483	151,031
Other comprehensive income for the financial period	-	-	-	(5)	-	-	-	(5)	(32)	(37)
(Loss) Profit for the financial period	-	-	-	-	-	-	(6,415)	(6,415)	73	(6,342)
Employee share option scheme: - value of employee services	-	-	16	-	-	-	-	16	6	22
Incorporation and acquisition of subsidiaries	-	-	-	-	-	-	-	-	(3,656)	(3,656)
Capitalisation of advances from shareholders in a subsidiary	-	-	-	-	-	-	-	-	14,697	14,697
Balance as at 31 December 2008	78,202	2,527	16	(5)	-	(120)	49,523	130,144	25,571	155,715

Company	Share Capital	Capital Reserves	Accumulated Profits / (Losses)	Total
	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 October 2009	111,730	2,527	(27,989)	86,268
Loss for the period	-	-	(1,099)	(1,099)
Balance as at 31 December 2009	111,730	2,527	(29,088)	85,169
Balance as at 1 October 2008	78,203	2,527	44,291	125,021
Loss for the period	-	-	(7,135)	(7,135)
Balance as at 31 December 2008	78,203	2,527	37,156	117,886

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

There is no change in the Company's share capital during the 1st quarter financial period ended 31 December 2009

As at 31 December 2009 and 31 December 2008, there were 122,049,369 and 58,591,452 outstanding warrants respectively.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at end of the immediately preceding year.

	As at 31 December 2009	As at 30 September 2009
Total number of issued shares	<u>775,671,962</u>	<u>775,671,962</u>

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

The figures have not been reviewed or audited by the auditors.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited financial statements have been applied

Except as disclosed in Note 5 below, the Company had adopted the same accounting policies and methods of computation as in the most recently audited financial statements for the financial year ended 30 September 2009.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

On 1 October 2009, the Group adopted the new or revised Singapore Financial Reporting Standards (FRS) that are effective in this financial year.

FRS 1: Presentation of Financial Statements – Revised presentation

The revised FRS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all non-owner changes in equity, either in one single statement, or in two statements.

The Group has elected to present items of income and expenses and components of other comprehensive income in one statement.

FRS 27: Consolidated and Separate Financial Statements – Revised

The revised FRS 27 introduces the following changes:

- A change in the ownership interest of a subsidiary that does not result in a loss of control to be accounted for as an equity transaction;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in the profit or loss.

The Group has complied with the revised FRS 27 in accounting for the loss of control in BRC Asia as a result of capital reduction.

FRS 103: Business Combinations – Revised

The revised FRS 103 introduces the following changes:

- transaction costs will be expensed immediately;
- consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will be recognised in profit or loss;
- the Group to elect for each acquisition of business, whether to measure non-controlling interest at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets; and
- the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss when a business is acquired in stages.

The adoption of the revised standard does not have significant impact on the Group's financial results.

FRS 108: Operating Segments

FRS 108 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker.

The required disclosures will be made accordingly in the full year financial statements of the Group.

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	G r o u p	
	3 m t h s e n d e d 3 1 . 1 2 . 2 0 0 9	3 m t h s e n d e d 3 1 . 1 2 . 2 0 0 8
E a r n i n g s p e r o r d i n a r y s h a r e s :		
(a) B a s i c (c e n t s)	1 . 1 2	(1 . 5 1)
(b) D i l u t e d (c e n t s)	0 . 8 9	(1 . 1 0)

Earnings per share is calculated based on weighted average number of shares during the period. Weighted average number of shares as of 31.12.2009 and 31.12.2008 are 775,671,962 and 424,714,561 shares respectively.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	Group		Company	
	31.12.2009	30.09.2009	31.12.2009	30.09.2009
Net asset value per ordinary share (cents)	14.16	12.96	10.98	11.12

Net asset value per ordinary share is calculated based on 775,671,962 shares.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of any significant factors that affected the turnover, costs and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. Any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Revenue

The Group's revenue for 1Q FY2010 declined by 50% from \$182.0 million in 1Q FY2009 to \$90.7 million because of lower trading activities and weak demand for steel products.

Gross Profit

The Group's gross profit increased from \$7.0 million in 1Q FY2009 to \$13.8 million in 1Q FY2010 due to increase in gross profit margin from 4% in 1Q FY2009 to 15% in 1Q FY2010. Increase in gross profit margin was attributable to the recovery of steel prices and lower inventory costs.

Other Operating Income

Due to the recognition of a gain of \$6.4 million from the deemed disposal of BRC Asia as a result of the transfer of BRC Asia's shares to HGMPL's shareholders, the Group's other operating income in 1Q FY2010 increased by 698% from \$0.9 million in 1Q FY2009 to \$7.2 million in the current financial period.

Distribution, Administrative, Other Operating and Finance Expenses

Distribution expenses of the Group decreased by 42% from \$0.9 million in 1Q FY2009 to \$0.5 million in 1Q FY2010, in line with lower revenue.

Administrative expenses of the Group increased by 25% from \$3.2 million in 1Q FY2009 to \$4.0 million in 1Q FY2010. The increase was mainly due to provision of directors' profit sharing in current financial period.

Other operating expenses of the Group for the year decreased by 52% from \$6.6 million in 1Q FY2009 to \$3.1 million in 1Q FY2010. The decrease was mainly due to the reduction in foreign exchange loss as a result of depreciation of United States Dollar against Singapore Dollar.

Finance expenses decreased by 66% from \$4.1 million in 1Q FY2009 to \$1.4 million in 1Q FY2010. Decrease was a result of lower borrowings due to the decrease in purchasing activities and repayment of bank borrowings.

Results For The Financial Period

The Group made a profit before tax of \$12.7 million in 1Q FY2010 as compared to a loss before tax of \$6.2 million in 1Q FY2009. This was mainly due to the gain of \$6.4 million recognised as a result of the deemed disposal of BRC Asia and contribution from the Group's manufacturing arm.

Balance Sheet

As at 31 December 2009, the shareholders fund stood at \$109.8 million. As a result of the deemed disposal of BRC Asia, the net assets of BRC Asia was not consolidated in the Group's balance sheet as at 31 December 2009 on a line by line basis.

The Group took steps to reduce its inventory levels significantly from \$140.5 million to \$88.7 million. Trade and other receivables were reduced from \$84.7 million as at 30 September 2009 to \$33.3 million as at 31 December 2009 due to deconsolidation of BRC Asia on a line by line basis.

With the significant decline in bank borrowings and trade and other payables, current liabilities reduced from \$177.8 million as at 30 September 2009 to \$94.8 million as at 31 December 2009.

The Group's gearing improved from 1.26 times as at 30 September 2009 to 0.59 times as at 31 December 2009.

Cash Flow Statement

The Group's cash and cash equivalents was \$6.2 million as at 31 December 2009 as compared to \$20.3 million as at 31 December 2008. The significant decrease was mainly due to lower trading activities and the net cash outflow from deemed disposal of BRC Asia of \$9.5 million.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

Not applicable.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

Due to the uncertain economic outlook, the Group continues to adopt a prudent and conservative approach on inventory management.

Since the middle of 2009, steel prices have improved. However, the demand for construction steel and demand from shipyards are likely to remain sluggish.

On 5 January 2010, the Company announced that it had sold 80,641,080 shares in BRC Asia for a total consideration of \$11.7 million. This will result in a loss of approximately \$1.2 million.

11. Dividend

(a) Current financial period reported on

Any dividend recommended for the current financial period reported on?

None

(b) Corresponding period of the immediately preceding financial year

Any dividend recommended for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared/recommendeded, a statement to that effect.

Not applicable

13. Interested parties transactions

Name of interested persons	1Q FY2010 S\$'000	1Q FY2009 S\$'000
<u>Sales</u>		
Super Marine Supplies Pte Ltd	5	15
Lingco Shipbuilding Pte Ltd	4	-

14. Confirmation by the Board

The directors of the Company confirm that to the best of their knowledge, nothing has come to their attention which may render the financial results for the quarter ended 31 December 2009 to be false or misleading in any material respect.

By Order of the Board

**Chng Hee Kok
Chief Executive Officer
11 February 2010**