



HG METAL MANUFACTURING LIMITED

(Company Registration No. 198802660D)

Financial Statements and Dividend Announcement for Financial Period Ended 31 March 2011 ("2Q/1H2011")

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

1(a)(i) Consolidated Statement of Comprehensive Income together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group			Group		
	2Q2011 S\$'000	2Q2010 S\$'000	% (+/-)	1H2011 S\$'000	1H2010 S\$'000	% (+/-)
Revenue	60,148	40,489	49	105,531	131,217	(20)
Cost of sales	(52,253)	(37,793)	38	(92,043)	(114,734)	(20)
Gross profit	7,895	2,696	193	13,488	16,483	(18)
Other operating income	686	641	7	1,811	7,620	(76)
Distribution expenses	(496)	(386)	28	(864)	(930)	(7)
Administrative expenses	(2,451)	(1,795)	37	(4,224)	(5,780)	(27)
Other operating expenses	(2,980)	(2,966)	0	(2,607)	(5,905)	(56)
Finance expenses	(273)	(881)	(69)	(769)	(2,292)	(66)
Share of joint venture profits	-	-	-	-	223	nm*
Share of associate profits	936	1,885	(50)	1,744	2,515	(31)
Profit/ (loss) before tax	3,317	(806)	nm*	8,579	11,934	(28)
Income tax credit (expense)	(33)	186	nm*	126	(935)	nm*
Net profit / (loss) for the period	3,284	(620)	nm*	8,705	10,999	(21)
Other comprehensive income						
Currency translation adjustments	(31)	213	nm*	(121)	248	nm*
Share of other comprehensive income of associate	(35)	-	-	(36)	-	nm*
Other comprehensive income for the period, net of tax	(66)	213	nm*	(157)	248	nm*
Total comprehensive income for the period	3,218	(407)	nm*	8,548	11,247	(24)
Profit / (loss) attributable to:						
Equity holders of the Company	3,265	(651)	nm*	8,637	8,053	7
Non-controlling interests	19	31		68	2,946	
	3,284	(620)	nm*	8,705	10,999	(21)
Total comprehensive income attributable to:						
Equity holders of the Company	3,218	(3,388)	nm*	8,523	8,258	nm*
Non-controlling interests	-	2,981		25	2,989	
	3,218	(407)	nm*	8,548	11,247	(24)

*nm denotes not meaningful

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

	Group		Group	
	2Q2011 S\$'000	2Q2010 S\$'000	1H2011 S\$'000	1H2010 S\$'000
Allowance for doubtful debts	(3)	(6)	(22)	(555)
Amortisation of computer software	(42)	(42)	(83)	(83)
Amortisation of customer relationship	-	-	-	(246)
Depreciation	(546)	(539)	(1,092)	(1,411)
Dividend Income from quoted investment	5	10	5	10
Fair value (loss) gain on investment held for trading	(105)	120	(200)	210
Fair value gain (loss) on derivatives, net	(1,846)	-	116	223
Foreign exchange gain (loss), net	428	206	700	(830)
Gain on disposal of subsidiary	-	-	-	6,373
Interest on borrowings	(273)	(881)	(769)	(2,292)
Loss on disposal of shares in an associate	-	(1,910)	-	(1,910)
Loss on sale of property, plant and equipment	-	(9)	-	(53)
Writeback of allowance for doubtful debts	-	30	-	54

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1(b)(i) Statements of Financial Position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	31.03.2011 S\$'000	30.09.2010 S\$'000	31.03.2011 S\$'000	30.09.2010 S\$'000
Non-current assets				
Property, plant and equipment	31,872	32,173	24,087	23,753
Intangible assets	350	434	308	384
Investment in subsidiaries	-	-	12,520	12,520
Investment in associates	34,671	32,963	713	713
	66,893	65,570	37,628	37,370
Current assets				
Investment held for trading	180	380	-	-
Inventories	82,193	62,504	71,685	49,733
Trade and other receivables	31,723	30,310	39,669	36,159
Cash and cash equivalents	9,933	5,108	5,260	1,165
	124,029	98,302	116,614	87,057
Current liabilities				
Trade and other payables	37,911	31,458	34,675	27,216
Finance lease payables	98	150	-	39
Bank borrowings	23,420	25,297	20,990	20,168
Provision for taxation	13	19	-	-
Derivative financial instruments	5,448	1,048	5,448	1,048
	66,890	57,972	61,113	48,471
Net-current assets	57,139	40,330	55,501	38,586
Non current liabilities				
Finance lease payables	296	477	-	129
Bank borrowings	3,229	4,512	1,451	2,097
Deferred taxation	296	297	-	-
	3,821	5,286	1,451	2,226
	120,211	100,614	91,678	73,730
Capital and reserves				
Share capital	122,779	111,730	122,779	111,730
Other reserves	2,139	2,253	2,527	2,527
Accumulated losses	(6,775)	(15,412)	(33,628)	(40,527)
Equity attributable to equity holders of the Company	118,143	98,571	91,678	73,730
Non-controlling interests	2,068	2,043	-	-
Total equity	120,211	100,614	91,678	73,730

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

	As at 31 March 2011			As at 30 September 2010		
	Secured S\$'000	Unsecured S\$'000	Finance lease S\$'000	Secured S\$'000	Unsecured S\$'000	Finance lease S\$'000
Repayable within one year	20,626	2,794	98	20,532	4,765	150
Repayable after one year	-	3,229	296	-	4,512	477
Total	20,626	6,023	394	20,532	9,277	627

Details of collaterals

The Group's borrowings of approximately S\$20.6 million is secured by way of fixed and floating charge over all assets of the Company, legal mortgage over properties of the Company and fixed deposits pledged to banks by Malaysian subsidiaries.

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1(c)(i) Consolidated Statement of Cash Flows, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		Group	
	2Q2011 S\$'000	2QFY2010 S\$'000	1H2011 S\$'000	1H2010 S\$'000
Cash flows from operating activities				
Profit / (loss) before tax	3,317	(806)	8,579	11,934
Adjustments for:				
Depreciation of property, plant and equipment	546	539	1,092	1,411
Loss on disposal of property, plant and equipment	-	9	-	53
Amortisation of computer software	42	42	83	83
Allowance for doubtful debts, net	3	(24)	22	501
Bad debts recovered	183	(5)	-	(5)
Fair value loss / (gain) on derivatives, net	1,846	-	(116)	(223)
Fair value loss / (gain) on investment held for trading	105	(120)	200	(210)
Interest expense	273	881	769	2,292
Interest income	-	-	(3)	-
Dividend income from quoted investment	(5)	(10)	(5)	(10)
Share of joint venture results	-	-	-	(223)
Share of associates results	(936)	(1,885)	(1,744)	(2,515)
Amortisation of customer relationship	-	-	-	246
Gain from disposal of subsidiary	-	-	-	(6,373)
Foreign currency realignment	295	(505)	447	(583)
Operating cash flow before working capital changes	5,669	(1,884)	9,324	6,378
Working capital changes:				
Fixed deposits pledged	(8)	(32)	(17)	(44)
Inventories	(19,899)	9,628	(19,648)	24,810
Trade and other receivables	(5,733)	2,623	(1,133)	(4,765)
Trade and other payables	14,968	(9,467)	5,587	(20,994)
Cash (used in) generated from operations	(5,003)	868	(5,887)	5,385
Interest expense paid	(273)	(881)	(769)	(2,292)
Interest income received	-	-	3	-
Income tax refund (paid)	(19)	(23)	121	(61)
Net cash flows (used in) generated from operating activities	(5,295)	(36)	(6,532)	3,032
Cash flows from investing activities				
Net cash outflow from disposal of a subsidiary	-	-	-	(9,527)
Dividend income received from an associate	-	1,702	-	1,702
Dividend income received from quoted investment	5	10	5	10
Proceeds from disposal of property, plant and equipment	-	1	14	232
Purchase of property, plant and equipment	(320)	(3,138)	(838)	(5,874)
Proceeds from sale of shares in an associate	-	17,383	-	17,383
Net cash flows used in investing activities	(315)	15,958	(819)	3,926
Cash flows from financing activities				
Net proceeds from / (repayment of) bank borrowings	5,492	(13,709)	(3,016)	(14,204)
Proceeds from issue of new shares in the Company	-	-	15,565	-
(Repayment of) / proceeds from finance lease payables	(189)	95	(233)	(90)
Net cash flows generated from (used in) financing activities	5,303	(13,614)	12,316	(14,294)
Net change in cash and cash equivalents	(307)	2,308	4,965	(7,336)
Cash and cash equivalents at beginning of the period	9,620	6,199	4,348	15,843
Cash and cash equivalents at end of period	9,313	8,507	9,313	8,507

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1(c)(ii) Note to the Consolidated Statement of Cash Flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise:

	Group	
	As at 31 Mar 2011 S\$'000	As at 31 Mar 2010 S\$'000
Cash and bank balances	9,313	8,507
Fixed deposits	620	574
	9,933	9,081
<i>Less</i> : Fixed deposits pledged with banks ⁽¹⁾	(620)	(574)
Cash and cash equivalents per consolidated cash flow statement	9,313	8,507

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

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1(d)(i) Statements of Changes in Equity (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 Reserve	Share Option Reserve	Fair Value Reserve	Premium Paid On Acquisition	Currency Translation Reserve	Accumulated Profits / (Losses)	Total	Non-controlling 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 2010	111,730	2,527	-	1	-	(275)	(15,412)	98,571	2,043	100,614
Other comprehensive income for the financial period	-	-	-	(1)	-	(113)	-	(114)	(43)	(157)
Profit for the financial period	-	-	-	-	-	-	8,637	8,637	68	8,705
Issuance of ordinary shares	11,049	-	-	-	-	-	-	11,049	-	11,049
Balance as at 31 March 2011	122,779	2,527	-	-	-	(388)	(6,775)	118,143	2,068	120,211

Group	Attributable to equity shareholders of the Company									
	Share Capital	Capital Reserve	Share Option Reserve	Fair Value Reserve	Premium Paid On Acquisition	Currency Translation Reserve	Accumulated Profits / (Losses)	Total	Non-controlling 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	-	-	-	-	-	205	-	205	43	248
Profit for the financial period	-	-	-	-	-	-	8,053	8,053	2,946	10,999
Disposal of a subsidiary	-	-	(17)	-	539	44	-	566	(33,852)	(33,286)
Balance as at 31 March 2010	111,730	2,527	-	-	-	(44)	(4,876)	109,337	1,642	110,979

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Company	Share Capital	Capital Reserve	Accumulated Profits / (Losses)	Total
	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 October 2010	111,730	2,527	(40,527)	73,730
Profit for the period	-	-	6,899	6,899
Issuance of ordinary shares	11,049	-	-	11,049
Balance as at 31 March 2011	122,779	2,527	(33,628)	91,678
Balance as at 1 October 2009	111,730	2,527	(27,989)	86,268
Loss for the period	-	-	(838)	(838)
Balance as at 31 March 2010	111,730	2,527	(28,827)	85,430

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 was no change in the Company's share capital during the 2nd quarter financial period ended 31 March 2011.

In November 2010, the Company granted a call option to Oriental Castle Sdn. Bhd ("OCS"), to subscribe for 153,000,000 (or such other number representing 14% of the enlarged share capital of the Company after the exercise of the Call Option) new ordinary shares in the capital of the Company at an exercise price of S\$0.095 for each option share. The call option is expiring on 19 July 2011.

The Company issued 60,000,000 warrants to United Overseas Bank Limited and Oversea-Chinese Banking Corporation Limited. The warrants carry the rights to subscribe for shares at an exercise price of S\$0.1248 per share for a period of 3 years from 23 November 2009.

As at 31 March 2011 and 31 March 2010, there were 60,000,000 and 122,049,369 outstanding warrants respectively. 62,049,369 warrants expired during the financial year ended 30 September 2010.

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.

	31 March 2011	30 September 2010
Total number of issued shares	939,521,962	775,671,962

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether figures have been audited or reviewed, and in accordance with which auditing standard or practice.

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

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

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Not Applicable

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 Group has applied the same accounting policies and methods of computation to the financial statements for the current financial year and the most recent audited annual financial statements for the financial year ended 30 September 2010.

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

The Group has adopted the new or revised Singapore Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") which became effective for the current financial year, where applicable. The adoption of these FRS and INT FRS did not result in any substantial changes to the Group's accounting policies and there is no material impact on the financial statements of the Group since 30 September 2010.

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

	Group		Group	
	2Q2011	2Q2010	1H2011	1H2010
Earnings/(loss) per ordinary shares:				
(a) Basic (cents)	0.36	(0.08)	0.96	1.04
(b) Diluted (cents)	0.30	(0.07)	0.78	0.81

(a) Earnings per share were calculated based on weighted average number of shares of 898,559,462 during the period ended 31 March 2011 and 775,671,962 number of shares as at 31 March 2010.

(b) Diluted earnings per share were calculated based on adjusted weighted average number of shares during the period.

Adjusted weighted average number of shares as of 31 March 2011 and 31 March 2010 were 1,105,025,087 and 999,201,059 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	
	31.03.2011	30.09.2010	31.03.2011	30.09.2010
Net asset value per ordinary share (cents)	12.57	12.71	9.76	9.51

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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**

Results for 2Q2011 Vs 2Q2010

Revenue and Gross Profit

The Group's revenue increased by S\$19.6 million (49%) to S\$60.1 million in 2Q2011, from S\$40.5 million in 2Q2010, and gross profit increased by S\$5.2 million (193%) to S\$7.9 million in 2Q2011, from S\$2.7 million in 2Q2010. The gross profit margin improved to 13.1% in 2Q2011 from 6.7% in 2Q2010.

The jump in revenue and gross profit was mainly due to increased sales volumes and higher selling prices.

Distribution, Administrative, Other Operating and Finance Expenses

Distribution and administrative expenses increased in line with the increased sales in 2Q2011, as compared to 2Q2010.

Administrative expenses increased by S\$0.7 million (37%) to S\$2.5 million in 2Q2011, from S\$1.8 million in 2Q2010.

Recorded in other operating expense in 2Q2011 was the fair value loss on the financial derivatives (warrants and call option), amounting to S\$1.8 million. Whereas the other operating expenses recorded in 2Q2010 was mainly due to the S\$1.9 million loss from sale of BRC shares.

Finance expenses were reduced by S\$0.6 million (69%), to S\$0.3 million in 2Q2011 from S\$0.9 million in 2Q2010, as the Group repaid its term loan facilities.

Profitability

The Group recorded a net profit after tax of S\$3.3 million in 2Q2011, compared to a loss of S\$0.6 million for 2Q2010.

The Group made a net profit of \$4.2 million in 2Q2011 after excluding BRC's contribution of \$921k and fair value losses of \$1.8 million on warrants and call option. This compares to 2Q2010, when the Group made a loss of \$2.5 million excluding BRC's contribution.

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Results for 1H2011 Vs 1H2010

The Group recorded a net profit after tax of S\$8.7 million in 1H2011, compared to S\$11.0 million for 1H2010. BRC Asia Limited (“BRC”) ceased to be a subsidiary of the Group from December 2009, its financials have not been consolidated into the Group since 2Q2010.

The adjusted net profit after tax of the Group increased to S\$6.9 million in 1H2011 from a S\$1.3 million loss in 1H2010. The adjustments are the contributions from BRC, gain on disposal of BRC shares in 1Q2010, loss on disposal of shares in an associate in 2Q2010 and fair value gain on warrants and call option with details as shown below :

	1H2011 S\$'000	1H2010 S\$'000
Profit after tax	8,705	10,999
Adjustments for:		
Contribution from BRC	(1,703)	(7,603)
Gain on disposal of subsidiary , BRC in 1Q2010. The disposal is result of transfer of BRC's Share to HG Metal Pte Ltd's shareholders	-	(6,373)
Loss on disposal of shares in an associate (BRC) In Q2 2010		1,910
Fair value gain on warrants and call option (net)	(116)	(223)
Adjusted profit after tax	6,886	(1,290)

Balance Sheet

As at 31 March 2011, the Group's inventory balance increased to S\$82.2 million in line with the Group's focus on regaining market share. However, inventory turnover improved to 144 days as at 31 March 2011, from 207 days as at 30 September 2010.

Trade and other receivables was S\$31.7 million as at 31 March 2011, compared to S\$30.3 million as at 30 September 2010. Debtor-turnover was around 48 days, which is within the general credit period extended to customers.

With the decline in bank borrowings, the Group's gearing ratio remains low at 0.23 times as at 31 March 2011. This is due to the full settlement of the term loan which was granted to the Company.

Cash Flow Statement

The Group's cash and cash equivalents was S\$9.3 million as at 31 March 2011, compared to S\$4.4 million as at 30 September 2010.

S\$6.5 million of net cash flows used in operating activities in 1H2011 as a result of increase in inventory and receivables balance. Cash used in operation was partly funded by S\$15.6 million of issuance of new shares in November 2010.

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

Not applicable.

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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

Steel mills across the globe are experiencing upward cost pressure due to the rising cost of raw materials, such as iron ore. However, lacklustre demand in Europe and North America has limited the ability of steel mills passing on the higher costs.

Asia remains the best trading market for steel products, with potential demand growth and firm prices. Locally, demand for steel is predominantly driven by the construction and shipbuilding industries, which are major end users of the Group's products. According to the Building and Construction Authority of Singapore, the domestic construction sector is projected to sustain its growth momentum into 2011, with demand set to reach between S\$22 billion to S\$28 billion.

The Group increased the percentage of high value items in its inventory, as it expands its product range in both standard and non-standard steel products. Going forward, the Group will continue to maintain its prudent purchasing policy and inventory management.

1. 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/recommended, a statement to that effect.

No dividend has been declared.

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13. Interested persons transactions

Name of interested persons	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)*		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)*	
	1H 2011 S\$'000	1H 2010 S\$'000	1H 2011 S\$'000	1H 2010 S\$'000
Sales				
Chye Hin Hardware Pte Ltd	-	-	1,387 97	-
Oriental Sheet Piling Pte Ltd	-	-		-
Purchases				
Chye Hin Hardware Pte Ltd	-	-	3,779	-
Oriental Steel Pipe Sdn Bhd	-	-	2,662	-
Plan B Pte Ltd	-	-	1,212	-
Other Charges				
Chye Hin Hardware Pte Ltd	-	-	43	-

* The above includes all transactions regardless of value

The Company had at its Extraordinary General Meeting on 4 March 2011 obtained approval from its shareholders for a general mandate for transactions falling within the types of Interested Person Transactions, particulars of which are set out in paragraph 2.5 of the Circular with the Interested Persons.

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 unaudited financial results for the quarter ended 31 March 2011 to be false or misleading in any material respect.

On behalf of the Board,

Mr Goh Kian Sin
Managing Director

13 May 2011