



HG METAL MANUFACTURING LIMITED

(Company Registration No. 198802660D)

Financial Statements and Dividend Announcement for Financial Period Ended 31 December 2011 ("1Q2012")

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

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

	Group		
	1Q2012	1Q2011	%
	S\$'000	S\$'000	(+/-)
Revenue	71,973	45,383	59
Cost of sales	(67,115)	(39,790)	69
Gross profit	4,858	5,593	(13)
Other operating income	283	2,584	(89)
Distribution expenses	(449)	(368)	22
Administrative expenses	(2,505)	(1,773)	41
Other operating expenses	(1,790)	(1,087)	65
Finance expenses	(582)	(496)	17
Share of associate profits	660	809	(18)
Profit before tax	475	5,262	(91)
Income tax (expense) / credit	(14)	159	nm*
Net profit for the period	461	5,421	(91)
Other comprehensive income			
Currency translation adjustments	36	(91)	nm*
Share of other comprehensive income of associate	5	(1)	nm*
	41	(92)	nm*
Other comprehensive income for the period, net of tax			
Total comprehensive income for the period	502	5,329	(91)
Profit attributable to:			
Equity holders of the Company	429	5,372	(92)
Non-controlling interests	32	49	(35)
	461	5,421	(91)
Total comprehensive income attributable to:			
Equity holders of the Company	459	5,304	(91)
Non-controlling interests	43	25	72
	502	5,329	(91)

*nm denotes not meaningful

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

	Group	
	1Q2012 S\$'000	1Q2011 S\$'000
Allowance for doubtful debts	(2)	(19)
Amortisation of computer software	(42)	(42)
Depreciation	(722)	(546)
Fair value loss on investment held for trading	(10)	(95)
Fair value (loss) /gain on derivatives, net	(63)	1,962
Foreign exchange /(loss) gain, net	(214)	272
Interest income	-	3
Interest on borrowings	(582)	(496)
Writeback of allowance for doubtful debts	27	-

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1(b)(i) A 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	
	31.12.2011 S\$'000	30.09.2011 S\$'000	31.12.2011 S\$'000	30.09.2011 S\$'000
Non-current assets				
Property, plant and equipment	32,839	31,938	25,278	24,812
Intangible assets	423	267	390	230
Investment in subsidiaries	-	-	12,520	12,520
Investment in associates	37,332	36,667	713	713
	70,594	68,872	38,901	38,275
Current assets				
Investment held for trading	125	135	-	-
Inventories	108,566	96,732	96,826	86,704
Trade and other receivables	47,256	44,909	53,878	50,457
Cash and cash equivalents	12,736	9,851	5,365	2,773
	168,683	151,627	156,069	139,934
Current liabilities				
Trade and other payables	57,684	42,863	51,910	38,004
Finance lease payables	275	291	190	204
Bank borrowings	42,760	37,840	35,861	32,722
Provision for taxation	96	94	-	-
Derivative financial instruments	392	329	392	329
	101,207	81,417	88,353	71,259
Net-current assets	67,476	70,210	67,716	68,675
Non current liabilities				
Finance lease payables	303	356	76	108
Bank borrowings	454	1,915	454	791
Provision for retirement benefits	-	-	-	-
Provision for reinstatement costs	1,650	1,650	1,350	1,350
Deferred taxation	212	212	-	-
	2,619	4,133	1,880	2,249
	135,451	134,949	104,737	104,701
Capital and reserves				
Share capital	130,046	130,046	130,046	130,046
Other reserves	2,094	2,064	2,527	2,527
Accumulated profits /(losses)	1,133	704	(27,836)	(27,872)
Equity attributable to equity holders of the Company	133,273	132,814	104,737	104,701
Non-controlling interests	2,178	2,135	-	-
Total equity	135,451	134,949	104,737	104,701

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

	As at 31 December 2011			As at 30 September 2011		
	Secured S\$'000	Unsecured S\$'000	Finance lease S\$'000	Secured S\$'000	Unsecured S\$'000	Finance lease S\$'000
Repayable within one year	35,864	6,896	275	32,473	5,367	291
Repayable after one year	-	454	303	-	1,915	356
Total	35,864	7,350	578	32,473	7,282	647

Details of collaterals

The Group's borrowings of approximately S\$35.9 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) A Statement of Cash Flows for the Group, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group	
	1Q2012 S\$'000	1Q2011 S\$'000
Cash flows from operating activities		
Profit / (loss) before tax	475	5,262
Adjustments for:		
Depreciation of property, plant and equipment	722	546
Amortisation of computer software	42	42
Allowance for doubtful debts, net	(25)	19
Fair value loss on investment held for trading	10	95
Fair value loss /(gain) on derivatives, net	63	(1,962)
Interest expense	582	496
Interest income	-	(3)
Share of associates results	(660)	(809)
Foreign currency realignment	24	(15)
Operating cash flow before working capital changes	1,233	3,671
Working capital changes:		
Fixed deposits pledged	(8)	(9)
Inventories	(12,554)	251
Trade and other receivables	(2,322)	4,385
Trade and other payables	14,460	(9,183)
Cash generated from /(used in) operations	809	(885)
Interest expense paid	(582)	(496)
Interest income received	-	3
Income tax (paid) /refund	(12)	140
Net cash flows generated from /(used in) operating activities	215	(1,238)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	-	14
Purchase of property, plant and equipment	(536)	(518)
Purchase of intangible assets	(198)	-
Net cash flows generated from investing activities	(734)	(504)
Cash flows from financing activities		
Proceeds from issue of new shares in the Company	-	15,565
Net proceeds from / (repayment of) bank borrowings	3,537	(8,507)
Repayment of finance lease payables	(69)	(44)
Net cash flows generated from financing activities	3,468	7,014
Net change in cash and cash equivalents	2,949	5,272
Cash and cash equivalents at beginning of the period	9,066	4,348
Cash and cash equivalents at end of period	12,015	9,620

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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 Dec 2011 S\$'000	As at 31 Dec 2010 S\$'000
Cash and bank balances	12,087	9,784
Fixed deposits	649	613
	12,736	10,397
<u>Less</u> : Fixed deposits pledged with banks ⁽¹⁾	(649)	(613)
<u>Less</u> : Bank overdrafts ⁽²⁾	(72)	(164)
Cash and cash equivalents per consolidated cash flow statement	12,015	9,620

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

⁽²⁾ Bank overdrafts are classified as part of current secured borrowings in the consolidated statement of financial position.

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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	Fair Value Reserve	Currency Translation Reserve	Accumulated Profits	Total	Non-controlling Interests	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Balance as at 1 October 2011	130,046	2,527	(9)	(454)	704	132,814	2,135	134,949
Other comprehensive income for the financial period	-	-	-	30	-	30	11	41
Profit for the financial period	-	-	-	-	429	429	32	461
Balance as at 31 December 2011	130,046	2,527	(9)	(424)	1,133	133,273	2,178	135,451

Group	Attributable to equity shareholders of the Company							
	Share Capital	Capital Reserve	Fair Value Reserve	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
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	-	-	-	(68)	-	(68)	(24)	(92)
Profit for the financial period	-	-	-	-	5,372	5,372	49	5,421
Issuance of ordinary shares	11,049	-	-	-	-	11,049	-	11,049
Balance as at 31 December 2010	122,779	2,527	1	(343)	(10,040)	114,924	2,068	116,992

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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 2011	130,046	2,527	(27,872)	104,701
Profit for the period	-	-	36	36
Balance as at 31 December 2011	130,046	2,527	(27,836)	104,737
Balance as at 1 October 2010	111,730	2,527	(40,527)	73,730
Profit for the period	-	-	4,532	4,532
Issuance of call option shares	11,049	-	-	11,049
Balance as at 31 December 2010	122,779	2,527	(35,995)	89,311

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 1st quarter financial period ended 31 December 2011.

Call Option:

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.

On 25 July 2011, the Company issued 76,500,000 shares arising from the exercise of the Call Option. The remaining 50% of the Option Shares (being an additional 76,500,000 shares in the capital of the Company) shall be issued and allotted 7 months from the date of the Exercise (i.e. 18 February 2012), against full payment being made by OCS for such Option Shares.

Warrant:

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.

The outstanding warrants were 60,000,000 as at 31 December 2011 and 30 September 2011.

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 December 2011	30 September 2011
Total number of issued shares	1,016,021,962	1,016,021,962

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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)

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 2011.

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 and revised Singapore Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after 1 October 2011. The revised FRS that is relevant to the Group includes Revised FRS 24 Related Party Disclosures. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities.

The adoption of this revised FRS did not have any significant impact on the financial statements of the Group.

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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	
	1Q2012	1Q2011
Earnings per ordinary shares:		
(a) Basic (cents)	0.04	0.63
(b) Diluted (cents)	0.04	0.62

- (a) Earnings per share were calculated based on number of shares of 1,016,021,962 for the period ended 31 December 2011 and weighted average number of shares of 857,596,962 for the period ended 31 December 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 December 2011 and 31 December 2010 were 1,092,521,962 and 860,190,182 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	
	31.12.2011	30.09.2011	31.12.2011	30.09.2011
Net asset value per ordinary share (cents)	13.12	13.07	10.31	10.30

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 and Gross Profit

The Group's revenue increased by 59% from S\$45.4 million in 1Q2011 to S\$72.0 million in 1Q2012, on the back of higher sales volume which was mainly contributed by distribution and new project business.

However, gross profit margin decreased by 5.6 percentage points from 12.3% in 1Q2011 to 6.7% in 1Q2012 as a result of decline in steel prices.

Other Operating Income

Other operating income declined from S\$2.6 million in 1Q2011 to S\$0.3 million in 1Q2012 mainly due to a fair value gain of S\$2.0 million for warrants and call option recorded in 1Q2011.

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Distribution and Administrative Expenses

Distribution expenses increased from S\$0.4 million in 1Q2011 to S\$0.5 million in 1Q2012 and administrative expenses increased from S\$1.7 million in 1Q2011 to S\$2.5 million in 1Q2012. The increase was mainly due to the expenses incurred on improving of our system to support business expansion and higher staff cost as the group gears up for its development of new businesses.

Other Operating and Finance Expenses

Other operating expenses increased by 65% from S\$1.1 million in 1Q2011 to S\$1.8 million in 1Q2012. The increase was mainly due to higher maintenance cost, depreciation on properties, and a foreign exchanges loss of S\$0.2 million with the appreciation of US dollar against Singapore dollar.

In line with higher business activities, the finance expense increased by 17% from S\$0.5 million in 1Q2011 to S\$0.6 million in 1Q2012.

Balance Sheet

Due to higher level of purchasing to support sales growth, the Group's inventories increased to S\$108.6 million as at 31 December 2011, as compared to S\$96.7 million as at 30 September 2011; trade and other payables increased to S\$57.7 million as at 31 December 2011 as compared to S\$42.9 million as at 30 September 2011.

Non-current liabilities as at 31 December 2011 decreased to S\$2.6 million, compared to S\$4.1 million as at 30 September 2011, as a result of repayment of bridging loan.

Trade and other receivables as at 31 December 2011 was S\$47.3 million as compared to S\$44.9 million as at 30 September 2011. Debtor turnover on an annualized basis were 56 days, which is within the general credit period extended to customers.

The Group's gearing ratio remained low at 0.3 times as at 31 December 2011. Shareholder' equity stood at S\$133.3 million.

Cash Flow Statement

As at 31 December 2011, the Group recorded higher cash and cash equivalents of S\$12.0 million as compared to S\$9.6 million as at 30 September 2011.

With better cash flow management, the Group recorded a positive net cash flow of S\$0.2 million from operating activities in 1Q2012 compared a net cash outflow of S\$1.2 million in 1Q2011. Cash from financing activities amounted to S\$3.5 million in 1Q2012 due to drawdown of trust receipts facilities to cater to higher level of working capital requirements, whereas compared to 1Q2011, cash from finance activities was mainly generated from the proceeds from issue of new share in the Company

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

The second half of 2011 saw increased uncertainty in the global economy. While the steel industry had been recovering following the global financial crisis, the macro economic uncertainties have led to global steel demand growing slower in 2011 than earlier forecasts.

According to the World Steel Association, global crude steel production reached 1,527 megatonnes (“mt”) for the year of 2011. This is an increase of 6.8% compared to 2010 and is a record for global crude steel production. However, growth in steel making capacity has exceeded steel demand and there is now an over-capacity in the global steel sector. Coupled with the rise and fluctuations in raw material costs, global steel prices have been, and are still, undergoing some volatility.

With the global economic risks and uncertainties, the outlook for the global steel industry in 2012 is cautious. The global steel sector is expected to grow, albeit at a lower rate. A bright spot in the industry is the steel demand and consumption in emerging markets like ASEAN, which is expected to rise faster than in developed countries.

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

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/recommended, a statement to that effect.

No dividend has been declared for the reporting period.

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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')		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)*	
	YTD 2012 S\$'000	YTD 2011 S\$'000	YTD 2012 S\$'000	YTD 2011 S\$'000
Chye Hin Hardware Pte Ltd				
Sales	-	552	984	-
Purchases	-	1,656	2,316	-
Other Charges	-	35	198	-
Oriental Sheet Piling Pte Ltd				
Sales	-	-	1,122	-
Oriental Sheet Piling (China)				
Purchase	-	-	2,425	-
Oriental Castle Sdn Bhd				
Other Charges	-	-	17	-

* The above includes all transactions regardless of value

The Company had in its Annual General Meeting on 12 January 2012 obtained approval from its shareholders for the renewal of a general mandate for transactions with certain interested persons. Please refer to the Company's Annual Report 2011 for details. The Company's Annual Report 2011 can be accessed through the Company's website www.hgmetal.com and the website www.sgx.com.

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 December 2011 to be false or misleading in any material respect.

On behalf of the Board,

Mr Goh Kian Sin
Chief Executive Officer

14 February 2012