

HG METAL MANUFACTURING LIMITED

(Company Registration Number: 198802660D)
(Incorporated in the Republic of Singapore)

PROPOSED ACQUISITION BY HG METAL INVESTMENTS PTE. LTD. OF 40% STAKE IN MIN DHAMA STEEL STRUCTURES CO. LTD. AND PROPOSED JOINT VENTURE WITH MIN DHARMA HEAVY INDUSTRIAL CO., LTD

1. INTRODUCTION

The Board of Directors ("**Directors**" or "**Board**") of HG Metal Manufacturing Limited ("**Company**", and together with its subsidiaries, "**Group**") wishes to announce that the Company's wholly-owned subsidiary, HG Metal Investments Pte. Ltd. ("**HGM Investments**"), has today entered into:

- (a) a sale and purchase agreement ("**SPA**") with Mutual Profit Trading Limited ("**Vendor**"), pursuant to which HGM Investments will purchase 40% of the shares in the capital of Min Dhama Steel Structures Co. Ltd. ("**JV Company**") ("**Proposed Acquisition**"). Min Dhama Heavy Industrial Co., Ltd. ("**MDHI**") and the Vendor currently hold 60% and 40% of the shares in the JV Company, respectively; and
- (b) a joint venture agreement ("**JVA**") with MDHI and JV Company to manage and regulate the affairs of the JV Company upon, *inter alia*, completion under the SPA as well as to provide for the Additional Subscription (as defined below) in the JV Company by HGM Investments and MDHI, respectively ("**Proposed Joint Venture**"),

(the Proposed Acquisition and the Proposed Joint Venture collectively be referred to as the "**Proposed Transactions**").

2. INFORMATION ON MDHI AND THE JV COMPANY

2.1 MDHI

MDHI, a subsidiary of Mottama Holdings Ltd., is incorporated in Myanmar and ultimately owned and controlled by U Yang Ho and Daw Shout Si. MDHI is an investment holding company and currently does not carry on any operations.

2.2 JV Company

The JV Company is a Myanmar-incorporated company registered under the Myanmar Companies Act, and its principal business includes the manufacture and fabrication of steel structures and parts in Myanmar, including the cutting, bending and assembling of structural steel and metal sheets. The JV Company currently has a share capital of US\$187,500, comprising 1,875 issued and fully paid-up ordinary shares of US\$100 each.

3. PRINCIPAL TERMS OF THE SPA

3.1 Consideration

The purchase consideration for the Proposed Acquisition is US\$75,000 ("**Consideration**"), at a price of US\$100 for each of the 750 shares in the capital of the JV Company. The Consideration shall be satisfied in full on completion of the SPA. The Consideration was calculated based on the existing share capital of the JV Company.

3.2 Conditions Precedent to the SPA

The completion of the SPA is conditional upon, *inter alia*, the following conditions precedent being fulfilled on or before 31 December 2015 (or such other date as the parties may agree in writing):

- (a) HGM Investments having obtained the approval for the Proposed Acquisition and the entry into of the SPA from the shareholders of the Company ("**Shareholders**") at a general meeting;
- (b) all approvals and consents as may be necessary from any third party, governmental or regulatory body or relevant competent authority for the entry into, completion and performance of the SPA by the parties (including approval from the Myanmar Investment Commission ("**MIC**") for the transfer of the 40% shares in the JV Company by the Vendor) being granted or obtained, and being in full force and effect and not having been withdrawn, suspended, amended or revoked, and if such consents or approvals are granted or obtained subject to any conditions, such conditions being reasonably acceptable to the parties;
- (c) the execution, stamping and registration of the standard share transfer form prescribed by the Companies Registration Office of Myanmar ("**CRO**") pursuant to the SPA;
- (d) the execution of the JVA;
- (e) the written resignations of all directors, managers and other officers of the JV Company nominated or appointed by the Vendor (save for such directors or officers as may be agreed between the Vendor and HGM Investments), and registration of the relevant forms with the CRO;
- (f) HGM Investments having duly received all information, documents and/or written confirmations as may be required by (and in such form as may be acceptable to) HGM Investments in order to verify the existence and amount of the cash and bank balances of the JV Company and the sale shares under the SPA (including the review of the JV Company's relevant forms to be registered with the CRO and the JV Company's share register); and
- (g) HGM Investments being satisfied with the results of any due diligence (including non-financial assessment) or valuation undertaken in relation to the JV Company and its assets.

4. PRINCIPAL TERMS OF THE JVA

4.1 Conditions Precedent to the JVA

The obligations of the parties under the JVA are conditional upon, *inter alia*, the following conditions precedent being fulfilled on or before 31 December 2015 (or such other date as the parties may agree in writing):

- (a) approval from the MIC for the JV Company's business and the MIC permit, being obtained by the JV Company;
- (b) the Final Certificate of Incorporation and Permit to Trade from the CRO being obtained by the JV Company;
- (c) all necessary corporate approvals by the board of directors and shareholders of each party approving the Proposed Joint Venture and the entry into of the JVA;

- (d) all relevant registrations, licences, permits and approvals relating to the JV Company's business (including operational licenses and permits) having been obtained and complied with;
- (e) the execution and completion of the SPA, including the due execution, stamping and registration of the share transfer form as contemplated by the SPA being registered with the CRO;
- (f) HGM Investments being satisfied with the results of its due diligence (including non-financial assessment) and valuation undertaken in respect of the JV Company;
- (g) the JV Company holding satisfactory leasehold title to a land of an aggregate of 13.332 acres located in Shwe Pyi Thar Township, Yangon, Myanmar ("**Property**"), which as at the date of this announcement is held by U Yang Ho and Daw Shout Si (collectively, "**Landowners**"), the execution of a lease agreement in respect of the Property between the Landowners and the JV Company (in a form satisfactory to HGM Investments) ("**Lease Agreement**"), and the Lease Agreement being registered with the MIC;
- (h) HGM Investments being satisfied with the valuation of the Property conducted by independent valuers of reputable standing;
- (i) delivery of a written statement by the Landowners to HGM Investments confirming that to the best of their knowledge, there are no claims on taxes from relevant authorities which might have a material adverse effect on the valuation of the Property; and
- (j) there being no legal challenge or stop-work order or protests made by any non-governmental organisations or governmental authorities on the development of the Property prior to the commencement of works on the Property.

4.2 Lease of the Property

Pursuant to the terms of the JVA, the Landowners shall lease the Property (including the buildings erected on and the fixtures and fittings located in or on the Property), which are valued at not less than US\$37,300,000, to the JV Company for a period of 30 years commencing from the date of the Lease Agreement, which may be extended for two 10-year terms upon mutual agreement of the parties. The Property shall be used for the purpose of manufacturing and fabrication of steel structures and parts, including the cutting, bending and assembling of structural steel and metal sheets, being the principal business of the JV Company. All sums payable under the Lease Agreement shall be satisfied in full with the issuance of new shares in the JV Company to MDHI pursuant to the Additional Subscription.

4.3 Additional Subscription

Pursuant to the terms of the JVA, upon the completion of the SPA, HGM Investments and MDHI will subscribe for 249,000 and 373,000 additional shares in the JV Company, respectively, for an aggregate consideration amount of US\$62,200,000 ("**Additional Subscription**"). HGM Investments will satisfy its capital contribution by way of US\$24,900,000 in cash. MDHI will satisfy its capital contribution by procuring the Lease Agreement as stated above.

Subsequent to the Additional Subscription, HGM Investments and MDHI will hold 40% and 60% of the shares in the capital of the JV Company, respectively.

4.4 Board of Directors of the JV Company

The board of directors of the JV Company shall consist of five (5) directors, and the chairman of the board shall be appointed by MDHI. HGM Investments has the right to nominate three (3) directors and MDHI has the right to nominate two (2) directors.

The quorum for all board meetings of the JV Company shall be two (2) directors, one of which shall be a director nominated by HGM Investments and one of which shall be a director nominated by MDHI. In the event of a change of control of HGM Investments, the parties may in good faith discuss any changes to the board composition. Unless otherwise required by applicable laws, or as agreed between HGM Investments and MDHI, all resolutions and questions arising at any board meeting of the JV Company shall be decided or adopted by a simple majority of the votes of directors present and voting. The chairman of the board will not have a second or casting vote at any meeting of the board in the event of a tied vote or deadlock.

4.5 Key Management of the JV Company

The managing director, general manager and finance controller of the JV Company shall be appointed by HGM Investments.

4.6 Shareholders' Meetings and Resolutions of the JV Company

The quorum for all general meetings of the JV Company shall be two (2) shareholders present in person or by proxy, of which one (1) shall be a representative of HGM Investments, and there shall be one (1) vote for every share. A shareholders' resolution in writing of the JV Company shall be signed by at least two (2) shareholders representing in the aggregate at least 61% of the total number of shares.

4.7 Undertakings of Joint Venture Partners

MDHI shall use its best endeavours to assist the JV Company to obtain the necessary licences, permits or approvals in Myanmar in relation to the business of the JV Company in manufacturing and fabrication of steel structures and parts at the Property, and undertakes to transfer into the JV Company all existing businesses, customers, technology capabilities and the relevant management know-how in relation to the foregoing business of the JV Company. MDHI also undertakes that the Landowners will observe and perform its covenants under the Lease Agreement, and in the event of any breach or unilateral termination of the Lease Agreements by the Landowners, the JV Company will be deemed to have appointed HGM Investments or its nominee as its legal representative with the right to bring an action against the Landowners.

MDHI shall ensure that U Yang Ho and Daw Shout Si shall not transfer their ownership and control in MDHI without obtaining written consent from HGM Investments.

5. RATIONALE FOR THE PROPOSED ACQUISITION AND JOINT VENTURE

The Group's businesses range from distribution of steel, production of construction steel and providing value-added services and tailored solutions for our customers, and we currently operate in Singapore and Malaysia.

The Group has been looking for new markets to generate additional income streams and diversify its revenue base by, amongst others, expanding into complementary business areas within the steel product value chain.

Since the opening up of Myanmar to the outside world after long years of self-imposed isolation, political and economic developments have continued at extraordinary rate. According to the World Bank, Myanmar's economy is forecast to grow at average rate of 7.8% to 8.5% over the next two years, driven by continued economic reforms and large investments into infrastructure projects. The burgeoning and growing construction and infrastructure development sector is expected to increase demand for steel-related products and services such as steel structure fabrication.

Venturing into the Myanmar steel market through the Proposed Transactions will provide the Group with a good opportunity to achieve such objectives and the Group's presence in Myanmar will serve as an anchor platform for further opportunities to expand the Group's regional presence in Southeast Asia.

6. METHOD OF FUNDING AND FINANCIAL EFFECTS

6.1 Method of Funding

The Proposed Transactions, including the Consideration under the SPA of US\$75,000 and HGM Investments' capital contribution pursuant to the Additional Subscription under the JVA of US\$24,900,000, will be funded by internal sources.

6.2 Financial Effects

The financial effects of the Proposed Transactions on the Group set out below have been prepared based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2014 ("FY2014") and based on the following assumptions:

- (i) the financial effects are purely for illustrative purposes only and do not represent any projection of the actual future financial performance or financial position of the Group after the Proposed Transactions;
- (ii) for the purpose of computing the financial effects of the Proposed Transactions on the net tangible assets ("NTA") per share of the Group, the Proposed Transactions are assumed to have been completed on 31 December 2014; and
- (iii) for the purpose of computing the financial effects of the Proposed Transactions on the earnings per share of the Group ("EPS"), the Proposed Transactions are assumed to have been completed on 1 January 2014.

NTA

Based on the above assumptions, the Group's investment in the Proposed Transactions would have no impact on the NTA per share of the Group as the JV Company is a newly established company which has yet to commence operations, as presented in the table below.

	FY2014	Assuming completion at the end of FY2014
NTA (S\$'000)	134,760	134,760
NTA per Share (S\$)	0.11	0.11

EPS

Based on the above assumptions, the Group's investment in the Proposed Transactions would have no impact on the EPS per share of the Group as the JV Company is a newly established company which has yet to commence operations and there are no net profits attributable to the JV Company, as presented in the table below.

	FY2014	Assuming completion at the beginning of FY2014
Profit/(Loss) attributable to Shareholders (S\$'000)	(16,090)	(16,090)
Earnings/(Loss) per Share (Singapore cents)	(1.46)	(1.46)

Share Capital

As at the date of this announcement, the issued and fully paid-up share capital of the Company is S\$158,049,780 comprising 1,282,853,962 ordinary shares (excluding treasury shares). After

the Proposed Transactions, the issued and fully paid-up share capital of the Company will remain the same.

7. MAJOR TRANSACTION

The relative figures in respect of the Proposed Transactions computed on the bases set out in Rule 1006(a) to (d) of the listing manual of the Singapore Exchange Securities Trading Limited ("**Listing Manual**") are as follows:

Rule 1006	Bases	Relative figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value	Not applicable to an acquisition of assets
(b)	The net profits attributable to the assets acquired or disposed of, compared with the Group's net profits	Not applicable as the JV Company has yet to commence operations
(c)	The aggregate value of the consideration given or received, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares ⁽¹⁾	63.1
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no equity securities are to be issued by the Company as consideration

Note:

- (1) This represents the aggregate of US\$24,975,000 (or the equivalent of S\$34,785,180 at today's exchange rate of US\$1 to S\$1.3928), being the Consideration under the SPA of US\$75,000 and HGM Investments' capital contribution pursuant to the Additional Subscription under the JVA of US\$24,900,000, as a percentage of the Company's market capitalisation of S\$55.2 million as at 12th October 2015, being the day on which the JVA and SPA were signed.

As the relative figure under Rule 1006(c) of the Listing Manual exceeds 20%, the Proposed Transactions constitutes a "major transaction" for purposes of Chapter 10 of the Listing Manual. Accordingly, the Proposed Transactions are subject to the approval of the Shareholders of the Company.

8. EXTRAORDINARY GENERAL MEETING

A circular to Shareholders ("**Circular**") setting out, *inter alia*, the terms of the Proposed Transactions and the notice of extraordinary general meeting to be convened, will be despatched to Shareholders in due course. In the meantime, Shareholders are advised to refrain from taking any action in relation to their shares which may be prejudicial to their interests until they or their advisers have considered the information and the recommendations to be set out in the Circular.

9. SERVICE CONTRACTS

There are no directors who are proposed to be appointed as director of the Company in connection with the Proposed Transactions. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

10. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling Shareholders of the Company has any interest, direct or indirect, in the Proposed Transactions.

11. DOCUMENTS FOR INSPECTION

Copies of the JVA and the SPA are available for inspection at the registered office of the Company at 15 Jurong Port Road, Singapore 619119 during normal business hours for a period of three (3) months commencing from the date of this announcement.

BY ORDER OF THE BOARD

FOO SEY LIANG
Executive Director

12th October 2015