



## HG METAL MANUFACTURING LIMITED

(Company Registration No. 198802660D)

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### RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 ("FY2020")

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The Board of Directors (the "**Board**") of HG Metal Manufacturing Limited (the "**Company**" and together with its subsidiaries the "**Group**") refers to the questions raised by certain shareholders of the Company and the Securities Investors Association (Singapore) ("**SIAS**") on the Group's FY2020 Annual Report, and wishes to respond to those substantial and relevant questions raised as follows:

#### **A) The Group's Myanmar Operations**

##### **1) Update of the Group's operations and staffing situation in Myanmar**

The Group's main operating entity in Myanmar is First Fortune International Co. Ltd ("**FFI**"). FFI currently has a headcount of 49.

In line with the overall slowdown of business activities in Myanmar, FFI's operations have been impacted and sales activities have declined due to suspension of a number of construction projects across Myanmar.

At the moment, FFI has adopted a "work-from-home" policy, whereby non-essential staffs are only required to report to work for critical purposes, such as taking delivery of incoming shipment, loading and delivery of goods to customers.

##### **2) How the Group is supporting its customers in Myanmar**

The Company is supporting its local customers by conducting sales on cash basis. These sales and delivery logistics are still feasible as majority of our staff are residing at the staff dormitory located within the Company's factory premises or in nearby townships in Yangon city.

##### **3) How the Group is communicating with the staff members in FFI**

The Group maintains regular communication with FFI's management team for the purposes of : (i) reporting of business activities; (ii) review or provide guidance for day-to-day operational and corporate affairs; and (iii) making business decisions.

Despite occasional disruption in communication means, the Group is still able to communicate with our Myanmar office on a daily basis via (i) Email, (ii) Online Audio/Video calls, (iii) Online Messaging, and (iv) International call.

**B) The Group's Business Strategies**

**1) The Group's return on assets has ranged from 0.44% to 0.91% in the three profitable years out of the past five years (Page 10 of the Annual Report). Has the Board reviewed the long-term performance of the Group and the returns achieved?**

The Board is constantly concerned with the long term performance and strategic direction of the Group. This is attested by the following:

- (i) Turnaround from loss scenario from FY2017 and FY2018 to the current profitable situation in FY2019 and FY2020
- (ii) Dispose of non-core assets to investment in overseas country
- (iii) Maintain profitability trend in a pandemic year, FY2020.

The returns on assets have been steadily improving in FY2019 and FY2020. The Company will continue to take action to further improve the return on assets.

**2) Strategy of improving the profitability of the business**

In the last few years, the Group has moved away from being a pure steel stockist to become a one-stop centre offering integrated and tailored solutions to our customers. We are one of the very few market players that are able to offer wide range of structural steel products and customised cut & bend solutions as well as other value-added services.

Since beginning of 2021 the Group has expanded its product range to include the supply of top quality rebars mechanical splice and anchor system to the reinforced concrete construction industry. By doing so, we seek to develop and utilise synergies across business units in providing packaged service offering to our valued customers at competitive price.

**3) Update on the Group's business strategies in view of the Myanmar situation**

The FFI operation has until to-date contributes a small proportion of the Group's overall turnover.

With the expected recovery of the Singapore economy and anticipated increase in demand for construction projects, the Group will continue to increase its marketing efforts to grow its local businesses. In light of the change in business focus implemented since last few years, we saw positive result especially in the growth of the Construction Steel business segment and related value-added services which have contributed positively to the Group's bottom-line.

**C) The Group's Immediate Operational Concerns**

**1) What is the visibility of customers' demand in Singapore?**

Based on current order book on hand and our production capacity, more than 50% of the Group's sales revenue for next 12 months is expected to derive from delivery of goods and services for projects or orders already secured.

**2) How does management manage its sourcing network and lead time for its procurement? Is the Company able to meet the customer's demand with its current inventory?**

The Group with more than 40 years of knowledge and expertise gained in this line of business has developed close working relationship with extensive network of suppliers. Our strong sourcing capabilities have enabled us to make appropriate adjustments to our supplier choice, timing of purchase and shipment, contracting arrangements.

In addition, the Group also maintains close co-operation with local business partners in supporting each other for bulk purchase and supplying goods to each other within shorter lead time.

The Group constantly seeks to optimise its inventory holding in line with its order books on hand, and anticipated market demand. The Group does not foresee any issue in meeting the demands of its customers.

**D) Other Queries**

**1) Thank you for latest dividend. Will the Company give dividend for 2021 also?**

The Board fully recognizes the importance to reward its shareholders for their loyalty and support. However, any dividend distribution for FY2021 will depend on the Group's profitability and cash flow position, taking into consideration the Group's operating cash and business expansion requirements.

**2) How is steel price? Past, now, future?**

Steel prices remain muted as consumption momentum continued to slow since 2017. Since the 4<sup>th</sup> quarter of 2020, rapid construction and industrial recovery from COVID-19 lockdowns are outpacing capacity restarts, so supplies remain tight resulting in current rising prices. We expect these shortages will not last and prices will retreat over the second or third quarter as supplies normalize.

Downside risk is also high if COVID-19 worsens in the coming months resulting in manufacturing and construction activities becoming idle for extended period of time; if so, steel demand and prices will fall under such circumstances

**By Order of the Board**

Foo Sey Liang  
Executive Director

23 April 2021