



HG METAL MANUFACTURING LIMITED
(Company Registration No. 198802660D)

RESPONSE TO SGX QUERIES ON THE COMPANY'S FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2022 ("1H2022")

Capitalised terms which are not defined in herein shall have the meanings ascribed to them in the Company's announcement dated 8 August 2022 (the "Announcement").

The Board of Directors (the "**Board**") of HG Metal Manufacturing Limited (the "**Company**" and together with its subsidiaries the "**Group**") refers to the queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 30 August 2022 in respect of the Company's financial statements for the half-year ended 30 June 2022 ("**1H2022**") and sets out its responses as follows:

Query 1:

In respect of the Group's Current Inventories of S\$50,563,000, please provide information on the Group's inventory turnover days.

Company's response to Query 1:

The Group's inventory turnover days for 1H2022 is 136 days.

Query 2:

In respect of the Group's Current Trade and other receivables of S\$44,818,000, please disclose:

- (i) a breakdown of the Group's receivables;
- (ii) details of the Group's underlying transactions of its other receivables and the terms of the transactions;
- (iii) the Company's plans to recover the trade and other receivables;
- (iv) whether they are major customer(s) and whether the Company continues to transact with these customer(s);
- (v) What were the actions taken to recover the trade and other receivables;
- (vi) The Board's assessment of the recoverability of the remaining trade and other receivables.

Company's response to Query 2:

- (i) & (ii) The breakdown of the Group's trade and other receivables and details of the underlying transactions are presented in below:

	30 June 2022	Details of underlying transactions
	S\$'000	
Trade receivables	42,397	Supply of goods and services
Less: allowance for impairment	(3,457)	Impairment of trade receivables
Total trade receivables	38,940	
Advance payment to suppliers	5,269	Advance payment for purchase of goods and services, majority of which relates to purchase of inventories and fixed asset
Deposits	444	Rental and utilities deposit
Other receivables	197	Rental receivables
Less: allowance for impairment	(32)	Impairment for rental receivables
Total other receivables	5,878	
Total trade and other receivables	44,818	

The general terms of other receivables are as follows:

- (a) Advance payment to suppliers and other receivables would be settled according to the agreed contractual terms.
 - (b) Deposit paid would be refundable upon termination of services or contract.
- (iii) & (v) The Group has taken the following steps and actions to recover its trade and other receivables:
- (a) The Group has established credit assessment, credit review and collection procedures for trade receivables. The Group monitors and reviews its trade receivables ageing closely and follows up with respective sales personnel in charge and customers regularly on collection matters.
 - (b) When it is deemed necessary, the Group will hold back delivery of goods to customers until the old debts have been settled.
 - (c) Where appropriate, the Group's CEO will personally follow up and meet with those slow paying customers to pursue outstanding trade receivables.
 - (d) The majority of outstanding receivables are in respect of amount owing to a subsidiary company where the customers are insured by third party insurance.
 - (e) In addition to the above, the Group will initiate legal action to recover any severely delinquent debt.
- (iv) As at 30 June 2022, approximately 20% of the Group's trade receivables were due from 3 major customers and the Group currently continues to trade with these customers.
- (vi) The management reviewed and made specific allowances for debt balances of credit impaired customers. For the remaining outstanding balances, management estimated the Expect Credit Losses in accordance with the requirements of SFRS(I) 9 Financial Instruments, taking into account its consideration of past due balances, recent historical payment patterns and default patterns over a period, debtors' financial ability to repay, existence of disputes, economic environment and forecast of future macroeconomic conditions where the debtors operate and any other available information concerning the creditworthiness of debtors. The Board has assessed the management's examination of the recoverability of trade and other receivables and is of the view that the remaining trade and other receivables are recoverable. Notwithstanding this, the Board will continue to monitor the progress of the collectability of these receivables.

Query 3:

Please disclose a breakdown of Current trade and other payables amounting to S\$13,177,000. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Company's response to Query 3:

The breakdown of Trade and Other Payables is as follows:

	30 June 2022
	S\$'000
Trade payables-third parties	5,979
Other payables	7,198
Trade and other payables	13,177

The nature and aging of Other Payables:

	Current	1 to 6 months past due	> 6 months past due	
	S\$'000	S\$'000	S\$'000	S\$'000
Deposit from customers	390	-	-	390
Accrued operating expenses	2,507	-	-	2,507
Other payables - third parties	927	700	95	1,722
Amount due to a shareholder of a subsidiary in Myanmar	-	-	1,542	1,542
GST payables	1,037	-	-	1,037
Other payables	4,861	700	1,637	7,198

Save as disclosed above, no counterparties are related parties.

Query 4:

While it is noted that bank borrowings increased mainly due to increase in trade financing for stock purchase, please explain the significant increase of S\$17,355,000 in current bank borrowings of the Group from S\$9,892,000 as at 31 December 2021 to S\$27,247,000 as at 30 June 2022.

Company's response to Query 4:

The increase in the Group's current bank borrowings was mainly due to increase in trust receipts borrowing to finance stock purchases. A breakdown of the current bank borrowings is provided in below:

	31 December 2021	30 June 2022	Variance
Current (Secured)	S\$'000	S\$'000	S\$'000
Trust receipts	6,181	23,467	17,286
Construction Loans	2,255	1,860	(395)
Bridge loans	977	990	13
Terms loans	479	930	451
	9,892	27,247	17,355

Query 5:

It is noted that the Company has a net cash outflow from operating activities of S\$10,638,000 and a net profit of S\$7,704,000 for the financial period ended 30 June 2022. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial period.

Company's response to Query 5:

The Group's net cash outflow used in operating activities of S\$10,638,000 mainly relate to funds deployed to finance the purchase of fixed assets and inventories to support current and future sales activities, taking into consideration the expected market demand, existing sales order book and possible supply chain disruption concerns that may influence procurement planning decision. This had led to increase in inventories, trade and other receivables as well as higher repayment to suppliers, resulting in net cash outflow used in operating activities for the financial period ended 30 June 2022.

The Company wishes to highlight that included in the net increase in trade and other receivables of S\$6.6 mil is an amount of S\$5.2 million which relate to advance payment to suppliers for purchase of inventories and fixed asset.

Query 6:

Given the Group's significant liabilities of S\$64,696,000 and cash and cash equivalents of only S\$25,610,000, please disclose the Board's assessment on:-

- (i) whether the Company's current assets are adequate to meet the Company's short term liabilities of \$27,247,000, including its bases of assessment; and
- (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's response to Query 6:

- (i) The Group's current assets and current liabilities were valued at S\$132.2 million and S\$43.9 million respectively as at 30 June 2022. The Group therefore had a net current assets of S\$88.3 million as at 30 June 2022. In view of its strong net current assets position, the Group is confident that it will be able as to meet its short term liabilities of \$27,247,000 in relation to its outstanding bank borrowings.
- (ii) The Group has been making regular repayment to its banks and trade creditors and fulfilled all its repayment obligations using proceeds from its operations. The Group continues to step up its trade receivables collection efforts and optimize its inventory holding to ensure that it will continue to fulfill all its significant payment obligations in the next 12 months.

Query 7:

Please provide explanations for each of the following:-

- (i) a decrease of S\$1,399,000 in non-current right-of-use assets of the Group from S\$11,460,000 as at 31 December 2021 to S\$10,061,000 as at 30 June 2022; and
- (ii) a decrease of S\$1,059,000 in non-current investment securities of the Group from S\$7,671,000 as at 31 December 2021 to S\$6,612,000 as at 30 June 2022.

Company's response to Query 7:

- (i) The movement in the Group's non-current right-of-use assets leading to a net decrease of S\$1,399,000 is presented in below:

	ROU assets
	S\$'000
At 31 December 2021	11,460
Additions	256
Depreciation	(766)
Termination of lease	(975) *
Exchange differences	86
As At 30 June 2022	10,061

* Being reversal of over provision for reinstatement cost for the property at 30 Jalan Buroh, Singapore 619486 in view of the Group's decision for not renewing the lease by end the year.

- (ii) A decrease of S\$1,059,000 in non-current investment securities of the Group from S\$7,671,000 as at 31 December 2021 to S\$6,612,000 as at 30 June 2022 was mainly due to a reclassification of the non-current portion of the investment securities to current assets during 1H2022, based on the maturity period of the relevant investment securities.

By Order of the Board

Foo Sey Liang
Executive Director

1 September 2022