



## HG METAL MANUFACTURING LIMITED

(Company Registration No. 198802660D)

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### ANNUAL GENERAL MEETING TO BE HELD ON 26 APRIL 2024 - RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

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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 queries received from the Securities Investors Association (Singapore) ("**SIAS**") and has provided the Company's responses in the enclosed appendix for the reference of its shareholders. The Board thanks SIAS for its interest in the Company.

The Company wishes to inform that as at the date of this announcement, the Company has responded to shareholders individually on all non-substantial questions. Other than this, the Company did not receive any substantial and relevant questions from shareholders as at the deadline stated in the Notice of Annual General Meeting ("**AGM**") dated 4 April 2024.

## APPENDIX

### QUESTION 1

On 25 March 2024, the company announced a proposed placement of up to 50.13 million new shares to Green Estee Pte. Ltd (“Estee”) in two tranches, with a placement price of \$0.266 per share. The net proceeds are earmarked for capital expenditure for business growth, general working capital and business expansion.

More importantly, the placement price of \$0.266 per share is substantially below the net tangible asset of \$0.715 per share. The placement price is a hefty 63% discount.

The proposed placement follows a recently concluded placement of 25.1 million shares at \$0.278 per placement share in September 2023 when the NAV per share of \$0.79 as at 30 June 2023, a discount of approximately 65%.

#### **5.4 NTA per Share**

Assuming that the Proposed Placement had been completed on 31 December 2023, the pro forma financial effects on the Group’s NTA per Share would be as follows:

	<b>Before First Tranche Completion</b>	<b>After First Tranche Completion</b>	<b>After Second Tranche Completion</b>
NTA attributable to shareholders <sup>(1)</sup> (S\$’000)	107,501	111,612	120,656
Number of Shares (excluding treasury shares and subsidiary holdings)	150,356,441	166,486,441	200,486,441
NTA per Share (Singapore cents)	71.50	67.04	60.18

(Source: company announcement dated 25 March 2024)

- (i) Can the independent directors (IDs) clarify their role and contribution during the negotiation process for the placements?

#### **Company’s Response:**

**The independent directors reviewed and assessed the terms of these placements (including rationale, identity of placees, needs and requirements of the Company), as well as guided management and professionals on their expectation, and were kept updated by the management and professionals in the negotiations process.**

- (ii) What role did Ms Xiao Xia, the executive director and chief executive officer of the company, play in the negotiation, considering her previous employment with companies related to Estee in 2023?

#### **Company’s Response:**

**Taking into account Ms Xiao Xia’s designation and familiarity with the industry, as well as substantial shareholdings in the Company, she led the discussions with Estee, together with support from the management and professionals.**

**Her previous employment with Estee related companies (which was fully disclosed to the Board) is considered advantageous, as amongst others, it assisted the Board in**

**assessing the financial position, industry position and value proposition of Esteel as placed.**

- (iii) Is the group currently facing financial distress, necessitating substantial placements at a significant discount to the NTA/NAV?

**Company's Response:**

**No.**

**The Board wishes to clarify that the placement price was determined by the volume-weighted average price of S\$0.280 per share based on trades done on SGX-ST on 19 March 2024, which was the full market day immediately preceding the day the placement agreement was signed.**

**This is in line with common market practice at a time when many other counters are trading significantly below NTA/NAV. Save for BRC Asia Ltd., most of the comparable companies in Singapore and Malaysia are trading between 0.2 times and 0.7 times price to NAV (or 30% to 80% discount to NAV).**

**The placements are strategically aimed at positioning the Group for business opportunities in the mid to long term, taking into account its working capital and capital expenditure requirements, and the Company's expectations of geopolitical and market conditions, and trading liquidity of the Company's shares and overall market trading liquidity.**

- (iv) Did the IDs quantify and deliberate on the extent of value erosion resulting from placing out new shares at a 63-65% discount to NAV/NTA? Considering the substantial dilution caused by the placement, did the IDs consider whether potential earnings from growth initiatives might still result in a net-negative outcome for shareholders? The table above clearly illustrates that existing shareholders will suffer from the placement as value is transferred out from existing shareholders to Esteel via the heavily discounted offering.

**Company's Response:**

**The Board considers multiple factors which are salient and pertinent to the Group in determining such placements, including its working capital and capital expenditure requirements, historical share price performance, market conditions (including trading liquidity of the Company's shares and overall market trading liquidity) and challenges, certainty and costs of fundraising, longer term growth opportunities and value creation, synergies with investors, and arm's length negotiations etc.**

**See also response to Q1(iii) above.**

- (v) Did the board also consider how the share price of the company will be depressed by its actions to repeatedly place out shares at substantial discounts to the NAV? How does the board's decisions align with the long-term interests of shareholders, particularly minority shareholders?

**Company's Response:**

**See response to Q1(iii) and (iv) above.**

- (vi) Has the board considered other sources of funding, such as a renounceable rights issue that is more equitable for existing shareholders?

**Company's Response:**

**Yes, the Board has considered other fundraising avenues, and made its decision only after carefully taking into account all relevant considerations.**

**See also response to Q1(iii), (iv) and (v) above.**

Esteel currently holds 8.01 million shares of a 5.33% stake in the company. Should the placement be completed, Esteel will hold approximately 29% of the enlarged shares, just 1% shy of the 30% trigger level of a mandatory offer.

- (vii) Are there concerns that the proposed subscriber, Esteel, also has majority control over BRC Asia Limited which is the group's main supplier? What additional safeguards, if any, are being considered to protect the company and its shareholders from potential conflicts of interest?

**Company's Response:**

**The Company recognises the commercial advantages and synergies of having a closer relationship with its main supplier which is also listed on SGX-ST.**

**The Company also notes that any interested person transactions are subject to compliance with Chapter 9 of the Listing Manual. The board is confident that the compliance of both companies will ensure that all rules and regulations are observed.**

- (viii) How will the strategies of the group change in view of the proposed placement to Esteel?

**Company's Response:**

**The Company intends to leverage on Esteel's industry position, experience and financial strength for the benefit of the Group.**

**QUESTION 2**

For the financial year ended 31 December 2023, apart from a significant change in company ownership, the group successfully wound down its operations in Myanmar, refreshed its management, and reduced its bank borrowings.

- (i) When does management expect to complete the disposal of First Fortune International Company Limited?

**Company's Response:**

**The Company refers to its announcement dated 13 February 2024 in relation to the disposal of First Fortune International Company Limited ("Disposal"). The Disposal under the terms of the Sale and Purchase Agreement ("SPA") took place concurrently with the signing of the SPA. The Group also sought and obtained a waiver by SGX RegCo on 30 January 2024 from the requirement to seek prior shareholders' approval for the Disposal.**

**In this regard, the Company will be seeking shareholders' ratification for the Disposal at the upcoming AGM on 26 April 2024.**

- (ii) With the management stating its intention to channel more resources to Singapore, does it signify that any plans for expansion into other regions have been put on hold, and that the group will maintain a focus on Singapore in the foreseeable future?

**Company's Response:**

**While the Group is open to regional expansion, it will prioritise its Singapore operations at the moment, given the significant opportunities in the market.**

- (iii) What are some of the key operational and financial targets from the workflow improvement initiatives? How does the board envision its role in this regard, particularly considering the lack of experience among the independent directors in steel manufacturing/industry?

**Company's Response:**

Having terminated the operations in Myanmar, the Group has set clear targets to focus on improving internal efficiencies, to increase operational capacity and focus on the Singapore built environment, which offers significant opportunities for steel products.

The Group continues to review its procurement procedures and optimise its inventory holding with a view to lower its average cost of material and improve its cash conversion cycle. In view of the current high interest rates environment, the additional capital raised through the share placement exercises will help the Group to reduce its reliance on debt financing, strengthen its financial position and to support its business expansion needs or invest in new businesses as and when such opportunities arise.

The current Board comprises of professionals with diverse backgrounds, perspectives, skills and experience in enhancing the Board's ability to provide strategic direction, add value and maintain oversight of the management. The NC and Board, having reviewed the Board's composition, are satisfied that the Board members possess attributes that complement and expand the skill set, experience and expertise of the Board as a whole, having regard to the current structure, size, diversity profile and skills matrix of the Board and the needs of the Board. Besides that, the Group's Executive Director and Chief Executive Officer Ms Xiao Xia has more than 20 years of experience in steel and commodity trading. She has good commercial relationships with market and industry players, both locally and in overseas markets and has been one of the key driving forces in helping the Group grow its sales order since her appointment to the position.

- (iv) What was the utilisation rate of the manufacturing facility in Jalan Buroh?

**Company's Response:**

The utilisation rate of the Group's manufacturing facility is a commercially sensitive operational matter. As of to-date, the Company's facility in Jalan Buroh remains operating below its full capacity level. With the initiatives undertaken to improve operational efficiency, the production volume of the manufacturing facility had increased by more than 50% in 2H2023 as compared to 1H2023. The Company will continue to work on improving its operational efficiency and productivity such that the utilisation rate at the facility will reach its optimal level in the foreseeable near future.

- (v) Could the board provide insights into how sustainability considerations are being (meaningfully) integrated into the group's strategy and business model?

**Company's Response:**

The Board is committed in implementing robust strategies and contingency plans to enhance the Group's resilience and ensure sustainable success not only for short-term profits but also long-term success.

The Group reported its sustainability performance in accordance with the Global Reporting Initiative ("GRI") framework and has aligned its climate-related disclosures with the Task Force on Climate-related Financial Disclosure ("TCFD") in the four areas of governance, strategy, risk management, and matrix and targets.

Each year, the Group carries out a new materiality assessment that involves the identification and prioritisation of sustainability topics to ensure that its sustainability initiatives incorporate Environmental, Social and Governance ("ESG") topics that hold the utmost significance to the Group's business. The materiality assessment serves as a strategic analysis, enabling us to discern the areas where the Group's operations exert the most substantial influence on the economy, environment, and society, and vice versa. Further to this, the Company ensures that our governance structure helps the Group in implementing its sustainability strategy across the business, manage goal-setting and

**reporting processes, strengthen relations with external stakeholders, and ensure overall accountability.**

**As part of the Group's sustainability initiatives, the Board evaluates the previous year's performance, benchmarks its targets against peers' performance, emphasising strategy enhancement and long-term business growth. Presently, the Group is actively formulating a comprehensive sustainability roadmap, shaping the foundation for forthcoming sustainable endeavours. As part of this initiative, the Group is committed to reviewing and refining sustainability strategies and targets to establish clear and comprehensive initiatives aimed at achieving sustainability goals. Specific targets and timelines are set and integrated into management and operational processes as appropriate.**

**For more details of the Group's ESG topics, please refer to the latest sustainability report published in the 2023 Annual Report.**

### **QUESTION 3**

At the annual general meeting scheduled to be held on 26 April 2024, the company is seeking shareholders' approval to re-elect all four directors, including Mr Ong Hwee Li, Ms Ong Lizhen, Daisy and Ms Ng Chuey Peng as independent directors. The biographies of the directors can be found on pages 12 and 13 of the annual report. Details of directors seeking re-election can be found on pages 96 to 101.

Mr Ong is the chief executive officer of SAC Capital Private Limited and advises private and listed companies on a wide range of transactions including listings, take-overs, M&A, capital raising, as well as corporate strategy and investments. Ms Ong Lizhen, Daisy and Ms Ng Chuey Peng both hold accountancy degrees.

The announcement of appointment of Mr Ong Hwee Li is shown below.

**CHANGE - ANNOUNCEMENT OF APPOINTMENT::APPOINTMENT OF INDEPENDENT NON-EXECUTIVE CHAIRMAN**

Date Of Appointment

22/06/2023

Name Of Person

Ong Hwee Li

Age

50

Country Of Principal Residence

Singapore

The Board's comments on this appointment (including rationale, selection criteria, board diversity considerations, and the search and nomination process)

Upon the recommendation of the Nominating Committee and the Board, which had reviewed the qualification and experience of Mr Ong Hwee Li ("Mr Ong"), the Board of Directors approved his appointment as the Independent Non-Executive Chairman, Chairman of Nominating Committee and member of Remuneration Committee and Audit and Risk Committee of the Company.

The Board considered Mr Ong to be independent for the purpose of Rule 704(8) of the Listing Manual.

Whether appointment is executive, and if so, the area of responsibility

Non-Executive

Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)

Independent Non-Executive Chairman

Chairman of Nominating Committee

Member of Remuneration Committee

Member of Audit and Risk Committee

Professional qualifications

Bachelor of Business (Banking & Finance), Monash University

Chartered Valuer and Appraiser

- (i) Would the board elaborate further on the rationale, selection criteria, board diversity considerations and the search and nomination process, that led to the appointments of Mr Ong Hwee Li, Ms Ong Lizhen, Daisy and Ms Ng Chuey Peng, as required in the SGX template?

**Company's Response:**

**The appointments of the independent directors took into account, amongst others, their familiarity with the listing rules and capital and debt markets, relevant professionalism, expertise, experience and competencies (including bilingualism), commercial relationships with market players as well as reputations.**

**For more information, please also refer to pages 62 to 64 of the Company's FY2023 Annual Report NC, which sets out its search and nomination process, as well as the Company's Board Diversity Policy and Director Nomination Policy, which are available on the Company's website (<https://hgmetal.listedcompany.com/board-diversity-policy.html>).**

- (ii) What were the selection criteria used to shortlist and appoint the chairman of the board and the board committees?

**Company's Response:**

**See response to Q3(i) above.**

**For more information, please also refer to page 67 of the FY2023 Annual Report, which sets out objective criteria approved by the Board to shortlist and appoint the chairman of the board and the board committees, which may include integrity, diversity,**

**independent mindedness, possession of the relevant skills required or skills needed to complement the existing Board members, ability to commit the time and effort to carry out his or her responsibilities, track record of good-decision making, relevant experience and financial literacy.**

- (iii) To help shareholders make informed decisions on the re-election resolutions, could each of the three independent directors provide their perspectives on the dilutive placements and outline their respective strategies for contributing to the long-term success of the group?

**Company's Response:**

**Please see responses to Q1 above.**

**The independent directors are committed to contributing to the long term success of the Group by diligently applying their respective professionalism, expertise, competencies and experience independently for the benefit of the Group and to maximise stakeholders' interest.**

- (iv) Has the nominating committee reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?

**Company's Response:**

**The NC is satisfied with the current competency matrix of the Board, and will remain mindful to review and assess such needs on an ongoing basis.**

- (v) With the three independent directors having accounting and banking/finance background, is the board considering adding directors with strong operational/technical track records with hands-on experience?

**Company's Response:**

**See responses to Q2 (iii) and Q3(iv) above.**

**BY ORDER OF THE BOARD**

Xiao Xia  
Executive Director and Chief Executive Officer

19 April 2024