



HG METAL MANUFACTURING LIMITED

(Company Registration No. 199802660D)
(Incorporated in the Republic of Singapore)

PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE OF SHARES

1. INTRODUCTION

The Board of Directors of HG Metal Manufacturing Limited ("**Company**") wishes to announce that the Company proposes to undertake a renounceable non-underwritten rights issue ("**Rights Issue**") of up to 99,188,412 new Shares ("**Rights Shares**"), at an issue price of S\$0.20 for each Rights Share ("**Issue Price**"), on the basis of two (2) Rights Shares for every five (5) existing shares ("**Shares**") in the capital of the Company held by Entitled Shareholders (as defined below) as at the books closure date to be determined ("**Books Closure Date**"), fractional entitlements to be disregarded.

The Company has appointed Oversea-Chinese Banking Corporation Limited ("**OCBC Bank**") as the Manager for the Rights Issue.

2. RIGHTS ISSUE

2.1 Proposed Terms of the Rights Issue

The Rights Shares are proposed to be offered on a renounceable basis to shareholders of the Company ("**Shareholders**") whose registered addresses with the Company or The Central Depository (Pte) Limited ("**CDP**") as the case may be, are in Singapore as at the Books Closure Date, or who have, at least five (5) market days prior to the Books Closure Date, provided to the Company or CDP as the case may be, addresses in Singapore for the service of notices and documents ("**Entitled Shareholders**") on the basis of two (2) Rights Shares for every five (5) Shares held by Entitled Shareholders as at the Books Closure Date, at the Issue Price, being S\$0.20, fractional entitlements to be disregarded.

The Issue Price of \$0.20 represents a discount of approximately 57% to the closing price of S\$0.465 per Share on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 22 November 2006, being the last trading day of the Shares on SGX-ST prior to the date of this Announcement.

As at the date of this Announcement, the issued share capital of the Company comprises

176,216,160 Shares. There are 44,054,040 outstanding warrants exercisable into Shares ("**Warrants**") and an outstanding convertible loan of S\$10.0 million pursuant to a convertible loan agreement with OCBC Bank ("**Convertible Loan**") convertible into 27,700,831 Shares as at the date of this Announcement. Assuming that all the Warrants are exercised and the Convertible Loan is converted into new Shares on or before the Books Closure Date, up to 99,188,412 Rights Shares will be issued pursuant to the Rights Issue.

The Rights Shares are payable in full upon acceptance and/or application. The Rights Shares, when allotted and issued, will rank *pari passu* in all respects with the then existing Shares, except that the Rights Shares will not be entitled to the special cash dividend of 4.0 cents declared by the Company for the financial year ended 30 September 2006 ("**Special Dividend**").

2.2 Eligibility of Shareholders to Participate in the Rights Issue

For practical reasons and in order to avoid any violation of the securities legislation applicable in countries other than Singapore, the Rights Shares will NOT be offered to Shareholders with registered addresses outside Singapore as at the Books Closure Date and who have not, at least five (5) Market Days prior thereto, provided to the Company, the Share Registrar or CDP, as the case may be, addresses in Singapore for the service of notices and documents ("**Foreign Shareholders**"). Entitlements to Rights Shares which would otherwise accrue to Foreign Shareholders will, if practicable, be sold "nil-paid" on the SGX-ST after dealings in the provisional allotments of Rights Shares commence, and the net proceeds arising therefrom will be dealt with in accordance with the terms set out in the offer information statement ("**Offer Information Statement**") to be issued for the Rights Issue.

Entitled Shareholders will be at liberty to accept, decline renounce or trade their provisional allotments of Rights Shares and are eligible to apply for additional Rights Shares in excess of their provisional allotments under the Rights Issue. Entitlements which are not allotted or taken up for any reason (including any fractions of a Rights Share) will be aggregated and issued to satisfy applications, if any, for excess Rights Shares or otherwise disposed of or dealt with in such manner as the Directors may, in their absolute discretion, deem fit in the interests of the Company. In the allotment of excess Rights Shares, preference will be given to Shareholders for the rounding of odd lots, and Directors and substantial shareholders of the Company will rank last in priority.

The terms and conditions of the Rights Issue may be subject to such changes as the Directors may deem fit. The final terms and conditions of the Rights Issue (including the option to elect to utilise the Special Dividend to subscribe for the Rights Shares) will be contained in the Offer Information Statement to be despatched by the Company to Entitled Shareholders in due course.

2.3 Availability of Election Option

Subject to the approval of Shareholders for the Special Dividend at the annual general meeting to be convened, Entitled Shareholders will be given an option to elect to utilize all or part of their Special Dividend to subscribe for the Rights Shares. For illustrative purposes only, an Entitled Shareholder who holds 10,000 Shares as at the Books Closure Date will be entitled:-

- (a) to receive the Special Dividend of 4.0 cents in respect of each Share, which

amounts to S\$400 that is receivable by him; and

- (b) to accept his provisional allotment of 4,000 Rights Shares at S\$0.20 each, which amounts to S\$800 that is payable by him.

Such Entitled Shareholder may elect to utilize the whole of his Special Dividend of S\$400 to subscribe for his provisional allotment of Rights Shares, in which event he will receive 4,000 Rights Shares and pay an additional S\$400 in cash if he has elected to accept all the Rights Shares which are provisionally allotted to him.

3. PURPOSE OF THE RIGHTS ISSUE AND USE OF PROCEEDS

3.1 Purpose of the Rights Issue

The Rights Issue has been proposed to strengthen the capital base of the Company, to reward shareholders for their loyalty and continuing support for the Company, and to provide funds for the group's general working capital purposes and to finance expansion of its business through acquisitions as and when opportunities arise.

The Directors also believe that the Rights Issue will give Shareholders an opportunity to re-invest their Special Dividend at a discount to the current trading price of the Shares and further participate in the future growth and development of the group.

3.2 Use of Proceeds

The estimated gross proceeds of the Rights Issue after taking into account the Special Dividend are expected to be approximately S\$7.0 million assuming none of the outstanding Warrants are exercised and the Convertible Loan is not converted into new Shares on or before the Books Closure Date, and approximately S\$9.9 million assuming all the outstanding Warrants are exercised and the Convertible Loan is converted into new Shares on or before the Books Closure Date. Assuming that only the Undertaking Shareholders utilise the full amount of their Special Dividend to subscribe for their full entitlements of 22,770,245 Rights Shares (based on the issued share capital of the Company of 176,216,160 Shares as at the date of this Announcement), the gross proceeds of the Rights Issue raised from the Undertaking Shareholders will be approximately S\$[] million.

The Company intends to utilize the net proceeds of the Rights Issue, after taking into account the Special Dividend, for general working capital purposes and to finance expansion of its business through acquisitions as and when opportunities arise.

Pending the deployment of the net proceeds from the Rights Issue, the net proceeds may be deposited with banks and/or financial institutions, invested in short-term money markets and/or marketable securities, as the Directors may deem appropriate in the interests of the Company.

4. UNDERTAKINGS

The following Shareholders (collectively the “Undertaking Shareholders”) have irrevocably undertaken to the Company to elect to utilize the full amount of their Special Dividend to subscribe for the Rights Shares and to subscribe for their full entitlements of 22,770,245 Rights Shares under the Rights Issue:-

Undertaking Shareholder	Number of Shares held	% of issued share capital	Number of Rights Shares	% of Rights Issue ⁽²⁾
Lingco Marine Pte Ltd ⁽¹⁾	14,350,000	8.14	5,740,000	8.14
Tian Chye Heng	12,658,666	7.18	5,063,466	7.18
Tan Chan Too	12,181,615	6.91	4,872,646	6.91
Tan Ah Bee	10,475,333	5.94	4,190,133	5.94
Sia Ling Sing ⁽¹⁾	7,260,000	4.12	2,904,000	4.12
	56,925,614	32.30	22,770,245	32.30

Notes:-

- (1) Sia Ling Sing holds 30.17% in the share capital of Lingco Marine Pte Ltd and is therefore deemed interested in the Shares held by Lingco Marine Pte Ltd by virtue of Section 7 of the Companies Act, Cap 50, of Singapore.
- (2) Computed as a percentage of 70,486,464 Rights Shares based on the issued share capital of the Company of 176,216,160 Shares as at the date of this Announcement.

In view of the aforesaid undertakings from the Undertaking Shareholders, the availability of the election option and the attractive discount of the Rights Shares to the market price of the Shares, the Company has decided to proceed with the Rights Issue on a non-underwritten basis.

In addition, the Undertaking Shareholders have irrevocably undertaken to the Company to vote all of their respective shareholdings in the Company in favour of the Rights Issue at the extraordinary general meeting to be convened to seek approval of the Shareholders for the Rights Issue.

5. APPROVALS

The Rights Issue is subject to, *inter alia*, the following:-

- (a) in-principle approval of the SGX-ST for the listing and quotation of the Rights Shares on the Official List of the SGX-ST;
- (b) approval of Shareholders at the Extraordinary General Meeting; and
- (c) lodgment of the Offer Information Statement with the Monetary Authority of Singapore.

An application will be made by the Company to seek the approval of the SGX-ST for the listing and quotation of the Rights Shares on the SGX-ST. A circular to Shareholders containing, *inter alia*, the notice of the Extraordinary General Meeting and details of the

Rights Issue will be despatched to Shareholders in due course. Subject to the fulfillment of the conditions set out in (a) and (b) above, the Offer Information Statement will be lodged with the Monetary Authority of Singapore and despatched to Entitled Shareholders in due course.

BY ORDER OF THE BOARD

Foong Lee Heng
Company Secretary

23 November 2006