HG METAL MANUFACTURING LIMITED
28 Jalan Buroh,
Singapore 619484
T: 6 268 2828
F: 6 268 3838
E: sales@hgmetal.com
www.hgmetal.com

HG METAL MANUFACTURING LIMITED | ANNUAL REPORT 2019

HG METAL

2019 ANNUAL REPORT

CONTENTS

CORPORATE PROFILE

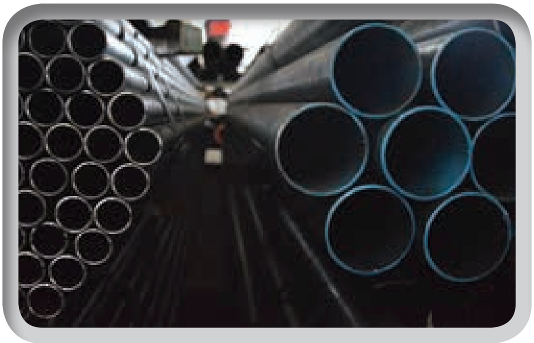
At HG Metal Manufacturing Limited (**"HG Metal"**), we are sturdy like steel, yet flexible enough to understand and meet our clients' unique and changing needs. Change is constant and we believe in always gaining new perspectives to advance with evolving market trends.

With more than 40 years of experience in the industry, we have shaped a strong reputation as one of the largest steel distributors and processors around the region. We add value by bridging the gap between upstream steel producers and end users of steel. Through our three main business units – HG Distribution and HG Construction Steel – we provide one-stop, end-to-end customised solutions for our strong clientele base of more than 1,500.

With more than 750,000 square feet of land area, HG Metal has one of the largest steel warehouse and processing facilities in Singapore and Myanmar, storing more than 3,000 varieties of steel products for a wide range of industries and applications. Armed with an extensive network of suppliers and solid sourcing capabilities, HG Metal offers customised solutions for our regional customer base along the entire supply chain.

HG Metal was listed on Singapore Exchange's SESDAQ, on 21 March 2002 and was upgraded to the Mainboard in May 2004.

OUR BUSINESS



ONE-STOP CENTRE OFFERING INTEGRATED AND TAILORED SOLUTIONS

In today's ever changing and demanding business environment, we strive to provide quality steel products and one-stop customised solutions to meet our clients' steel needs. We offer end-to-end services ranging from distribution services to downstream value-added activities via our three business units.

HG DISTRIBUTION

Under our Distribution business, we provide a wide array of services including wholesale activities, retailing, trading, sourcing of products and distributing steel products to ASEAN countries. We have an extensive and competitively priced portfolio of more than 3,000 types of quality steel products for a wide range of industries and applications, including BCA-compliant materials and higher grade niche products. We take pride in our strong and established sourcing capabilities from an extensive network of suppliers around the world. We also provide value-added services like steel finishing services, product customisation, logistics and local/export shipment.

HG CONSTRUCTION STEEL

To meet the rising demand for construction steel, we offer comprehensive packages that cater to just-in-time production for all forms of construction steel requirements. Our products range from cut-and bend reinforcing bars to deformed bars, and straight re-bars, while our services include customised steel finishing services like galvanising, coating, cutting and drilling, as well as rental of plates and beams. Our state-of-the-art facilities in Singapore and Myanmar boast fully automated cut-and-bend production lines, with an annual production capacity of 95,000 tonnes and 50,000 tonnes respectively.

INTERNATIONAL NETWORK OF SUPPLIERS AND CLIENTS

Over the years, we have established a strong global network of suppliers and clients. Our extensive network of suppliers includes China, Japan, Korea, Turkey, Russia, Ukraine and other Eastern European countries. We also have a large and diversified customer base of more than 1,500 clients from around the world, with our key markets being Singapore, Myanmar, and Indonesia.

LARGE-SCALE COMPREHENSIVE FACILITIES

We have approximately 750,000 sq ft of warehousing and processing facilities located at Jalan Buroh and Myanmar. The facilities have a combined steel storage capacity of 200,000 tonnes and a combine monthly handling capacity (in and out) of 80,000 tonnes.

ENSURING QUALITY, ENHANCING VALUE

At HG Metal, everything we do is driven by our desire to ensure quality and enhance value for our clients. Our large-scale facilities and ability to order steel in bulk ensure that we achieve economies of scale, which enable us to offer competitive prices in the market. Together with our one-stop tailored solutions, extensive procurement network and established geographical reach, these key strengths have helped cement our 40-year position in the steel industry. Supported by highly experienced teams in management, operations and sales, we leverage on our decades of knowledge to deliver steel solutions more efficiently and effectively. From supply chain management, logistics and warehousing operation to quality assurance and dedicated customer service, we go the extra mile to provide greater value for our clients with products of the highest quality.

ADVANCING IN THE MARKET

To strengthen our foothold in the market, we adopt a multi-pronged growth strategy focused on:

- Diversifying our business model to include higher value-added services and direct sales to end-users
- Widening our geographical reach in South East Asia
- Strengthening customer relationships by directly engaging end-users of steel who require large and customised orders for specific projects
- Enhancing our processing capabilities by offering more downstream customisation services
- Provide one stop solutions for fabrication

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

We are pleased to present to you the annual report of HG Metal Manufacturing Limited ("**HG Metal**") for the financial year ended 31 December 2019 ("**FY2019**").

FY2019 FINANCIAL PERFORMANCE

FY2019 was a rewarding year for the Group where in spite of intensifying competition and challenging market conditions, we managed to steer the Group to return to profitability. The commissioning of our new steel rebar Cut & Bend and Fabrication facility in Myanmar in February 2019 and our commitments to transform the businesses of the Group should lay the foundation for the Group to achieve sustainable growth in the coming years ahead.

In FY2019, the Group reported a 21% decline in revenue to S$137.1 million from S$173.9 million in FY2018 as we moved to reduce the weightage of export volume, while actively diverting our resources to drive volume growth for higher margin products in the local market. In particular, the Group's construction steel business segment had reported sturdy volume growth in FY2019. This strategic move to shift our market focus had paid off. In FY2019, we saw the Group's gross profit rose 35% to S$13.3 million from S$9.9 million in FY2018, contributed by higher gross profit margin from local sales.

Meanwhile, other operating income declined by 28% to S$4.9 million in FY2019 from S$6.8 million in FY2018 mainly due to the reduction in warehousing

and rental income of S$1.0 million and the absence of deferred income of S$1.4 million as a result of the adoption of SFRS(I) 16 Leases, but partially offset by the increase in foreign exchange gain and other income of S$0.5 million. The Group's overall operating expenses dipped by S$1.7 million in FY2019 as compared to FY2018 mainly attributed to cost rationalization efforts and the effect of adoption of SFRS(I) 16 Leases. During the year, the Group also recorded a reversal of impairment of financial assets of S$0.2 million as contrast to an impairment loss of S$1.9 million incurred in FY2018. Finance cost on the other hand rose to S$0.9 million in FY2019 from S$0.2 million in FY2018 mainly due to increase in trade financing and lease interest incurred in relation to the adoption of SFRS(I) 16. Consequently, the Group concluded FY2019 with a net profit after tax of S$0.8 million in FY2019, as contrast to a net loss after tax of S$3.9 million in FY2018.

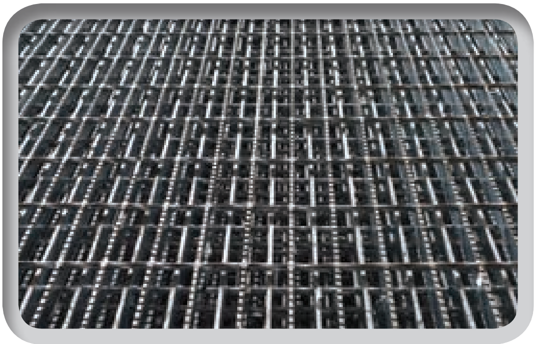
As of financial year end, the Group's bank borrowings increased to S$23.0 million due to increased trade financing for stock purchases and financing of our Myanmar operations. The Group's overall bank balances and fixed deposits position remained healthy. Total bank balances and fixed deposits for the Group increased slightly to S$26.2 million as at 31 December 2019 compared to S$25.7 million as at 31 December 2018.

SIGNIFICANT DEVELOPMENTS

As part of our strategic plan to reposition our business, the Group's subsidiary in Myanmar, First Fortune International Co Ltd (the "**JV Co**") welcomes Tokyo-listed steel trader Hanwa Company Ltd ("**Hanwa**"), a major steel trader with an established presence in the South East Asia region as a new shareholder of the JV Co with effect from 13 December 2019. This followed Hanwa's acquisition of a 10% share in JV Co from one of the existing JV partner, Fortune Peak Investments Pte Ltd. With Hanwa as a new partner in the JV Co, this will allow the JV Co to further strengthen its position in the market. The other parties of the JV include Fortune Peak Investments Pte Ltd and YNJ Company Ltd while our wholly owned subsidiary HG Metal Investments Pte Ltd continues to retain its majority ownership with 51.04% shareholding in the JV Co and is responsible for strategic control over the JV Co as well as the deployment of key management personnel.

Marking our entry as Myanmar's first advanced steel rebar Cut & Bend and Fabrication facility in Yangon, our JV Facility was commissioned on 19 February 2019 and is principally engaged in the business of processing, fabricating and trading of steel rebars and other steel products with an annual processing capacity of 50,000 tonnes. The JV facility currently serves the increasing steel fabrication demands of

MESSAGE TO SHAREHOLDERS



local residential, civil engineering and infrastructure projects around the Yangon region.

Where home market is concerned, we have shifted our office to 28 Jalan Buroh, Singapore 619484 in December 2019 as part of the Group's consolidation efforts to improve operational efficiency. At the same time, the Group had returned the warehouse premise at 13 Jalan Terusan, Singapore 619293 to the landlord upon expiry of the lease agreement in January 2020.

FUTURE PROSPECTS

It was reported by the Building and Construction Authority (BCA) of Singapore in the beginning of this year that local construction demand is expected to remain firm in 2020, ranging between S$28.0 billion and S$33.0 billion.

Public projects alone will account for about 60% of the total projected demand with a strong stable pipeline of infrastructure and transport megaprojects which will translate to between S$17.5 billion and S$20.5 billion in 2020. Meanwhile, the private sector's construction demand is estimated to be between S$10.5 billion and S$12.5 billion, as supported by projects such as redevelopment of en bloc sale sites, recreational developments at Mandai Park, Changi Airport new taxiway and berth facilities at Jurong Port, as well as Tanjong Pagar Terminal.

In spite of the earlier optimistic forecast by the BCA, the unexpected recent global outbreak of COVID-19 has caused damaging effects on the global and Singapore's economies with an economic slowdown likely to ensue as the negative impact spills into almost all industries from tourism to import and export businesses due to travel restrictions.

In view of the evolving situation, we anticipate changes in the macroeconomic landscape to further intensified competition in the steel industry. As such, we will work towards optimising our inventory holding, while we actively mitigate any emerging business risks from time to time.

With the anticipated growth in steel consumption in Myanmar in the coming years, the Group will work towards deepening its market penetration to enlarge our market share in the supply of cut and bend reinforcing steel. Meanwhile, the Group is also making plans to expand into related business such as providing coupler and thread service to caging services so as to support existing business units.

ACKNOWLEDGEMENTS

In closing, on behalf of the Board, we would like to extend our appreciation to our management and staff for their hard work and contribution. To our customers, business associates and shareholders, thank you for your staunch support through the years. Your trust and faith in us will continue to spur us to work harder in bringing value to our stakeholders in the coming year and beyond.

OPERATING & FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS

FY2019 was a milestone year where the Group returned to profitability and continued its expansion into the Myanmar market and at the same time making plans to enlarge the range of products and services to further strengthen our market position.

During the year, the JV Co in Myanmar welcomed the participation of Tokyo-listed steel trader Hanwa Company Ltd ("**Hanwa**") as a new joint venture partner on 13 December 2019. This new strategic partnership with Hanwa, a dominant player in the South East Asian steel market will enable the JV Co to further entrench the JV Co's position in the steel trading and fabrication industry in Myanmar.

REVENUE AND GROSS PROFIT

The Group registered a 21% decrease in revenue for FY2019 to S$137.1 million from S$173.9 million in FY2018. This was mainly due to the significant reduction in export volume subsequent to the move to reduce reliance on export volume and the Group's conscientious efforts in diverting resources to drive volume growth for higher margin products in the local market.

As a result of the higher gross profit margin achieved for local sales, the Group's gross profit increased to S$13.3 million in FY2019 against S$9.9 million in FY2018 with overall gross profit margin enhanced from 5.7% in the previous year to 9.7% in FY2019.

OTHER OPERATING INCOME

Other operating income decreased to S$4.9 million in FY2019 from S$6.8 million in FY2018. This was mainly attributed to the reduction in warehousing and rental income of S$1.0 million and the absence of deferred income of S$1.4 million due to the adoption of SFRS(I) 16 Leases, which were partially offset by a foreign exchange profit of S$0.3 million and once-off gain from disposal of property, plant and equipment of S$0.2 million.

EXPENSES

Selling and distribution expenses fell 22% to S$0.6 million during the reporting year as a result of cost rationalisation efforts and optimisation of our transportation fleet for local deliveries. Meanwhile, administrative expenses increased by 6% to S$9.6 million in FY2019 caused by the increase in staff headcount and salary cost following the opening of our new production facility in Myanmar in February 2019, as well as recruitment of staff to support increase in local sales.

Separately, other operating expenses reduced 23% to S$6.6 million in FY2019 primarily due to the reduction in operating lease expenses following the adoption of SFRS(I) 16 Leases. Additionally, finance costs rose to S$0.9 million in FY2019 due to higher trade financing for inventory purchases, financing of Myanmar operations and interest expenses on lease liabilities recorded under SFS(I) 16 Leases.

PROFITABILITY

Consequently, the Group achieved a net profit after tax of S$0.8 million in FY2019, as contrast to a net loss after tax of S$3.9 million in FY2018.

BALANCE SHEET

As at 31 December 2019, the Group's non-current assets increased to S$54.0 million as compared to S$36.8 million as at 31 December 2018. This was mainly attributed to the recognition of right-of-use assets of S$11.3 million in line with the adoption of SFRS(I) 16 Leases and increase in property, plant and equipment of S$9.3 million, that relates mainly to the redevelopment of warehouse facility in Singapore and the establishment of a steel fabrication plant in Myanmar.

The Group's inventory on hand rose to S$43.1 million as at 31 December 2019 against S$30.9 million as at 31 December 2018. This was mainly attributed to stock replenishment to support the projected growth in local sales volume.

OPERATING & FINANCIAL REVIEW

Separately, trade and other receivables decreased slightly from S$51.2 million as at 31 December 2018 to S$49.3 million as at 31 December 2019 as led by a drop in sales activities, while trade and other payables increased marginally to S$36.0 million as at 31 December 2019 as compared to S$35.5 million as at 31 December 2018.

Bank borrowings increased to S$23.0 million as at 31 December 2019 due to increased trade financing for stock purchases and funding of Myanmar operations. Meanwhile, the increase in lease liabilities arose from the adoption of SFRS(I) 16 Leases and relates mainly to leases of land and building of the Group.

CASH POSITION

Net cash flows used in operating activities was S$4.3 million in FY2019 mainly led by positive operating cashflow before changes in working capital of S$6.2 million, decrease in trade and other receivables of S$3.0 million, as well as increase in trade and other payables of S$0.4 million which were insufficient to offset the increase in inventories of S$12.9 million and decrease in prepaid expenses of S$0.4 million.

Net cash flows used in investing activities for the year was S$3.5 million. This was mainly due to purchase of property, plant and equipment of S$10.4 million, which related mainly to the redevelopment of the warehouse facilities at 28 Jalan Buroh, Singapore 619484 and construction of a new steel fabrication facility in Myanmar. These were partially offset by withdrawal of fixed deposit pledged to a bank of S$7.0 million.

Net cash flows generated from financing activities for FY2019 was S$15.3 million as a result of S$0.8 million contribution of share capital by minority shareholders, whom are the joint venture partners for our steel fabrication plant in Myanmar and net proceeds from bank borrowings of S$19.8 million, which were partially offset by repayment of lease of S$5.3 million.

As at 31 December 2019, the Group's cash and cash equivalents was healthy at S$22.9 million in comparison to S$15.4 million as at 31 December 2018.

KEY FIGURES

REVENUE
S$137.1 million

LIQUIDITY RATIO
1.31x

NET PROFIT
S$0.8 million

BANK BALANCES AND FIXED DEPOSITS
S$26.2 million

EARNINGS PER SHARE
0.59 cents

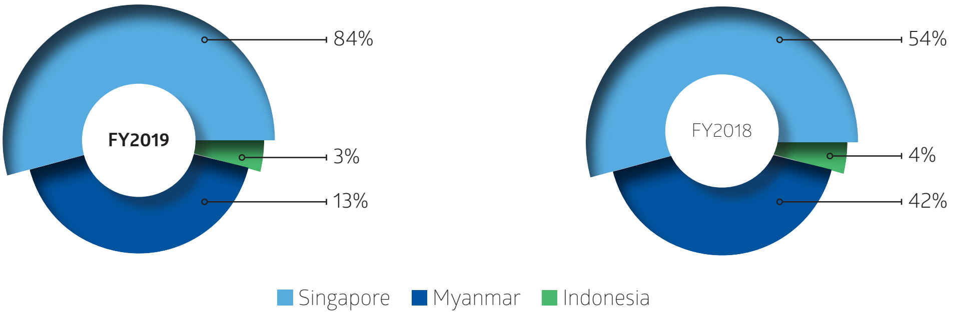
DEBT-TO-EQUITY
0.31x

NET ASSET VALUE PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS
S$0.77

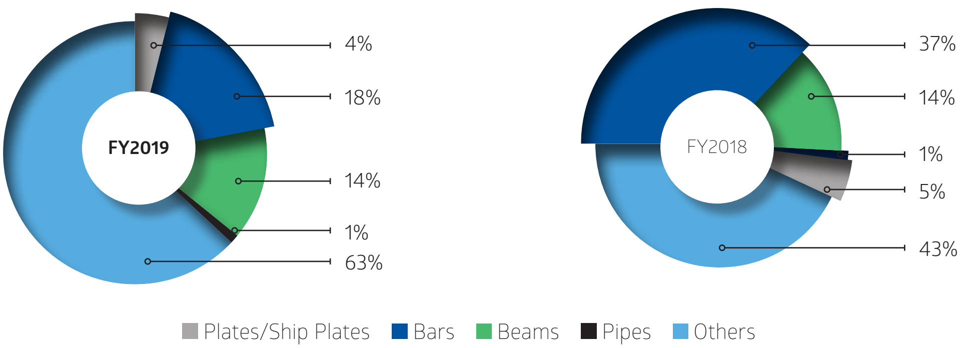
NET ASSET VALUE
S$102.7 million

FINANCIAL HIGHLIGHTS

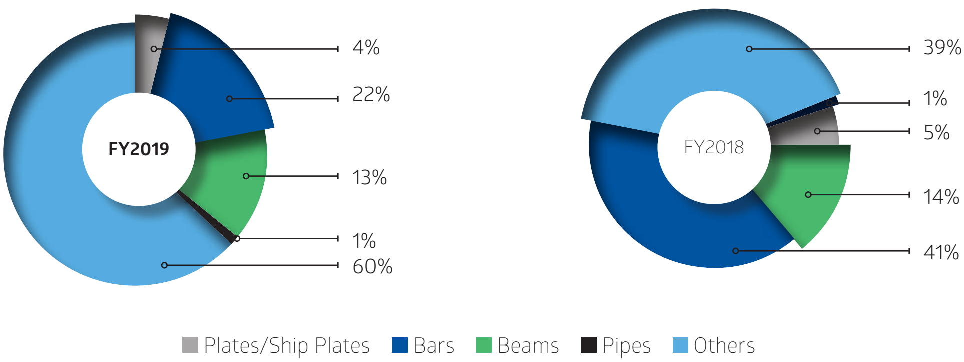
REVENUE BY REGION (%)



REVENUE BY PRODUCT (%)



SALES VOLUME BY PRODUCT (%)



FIVE-YEAR FINANCIAL SUMMARY

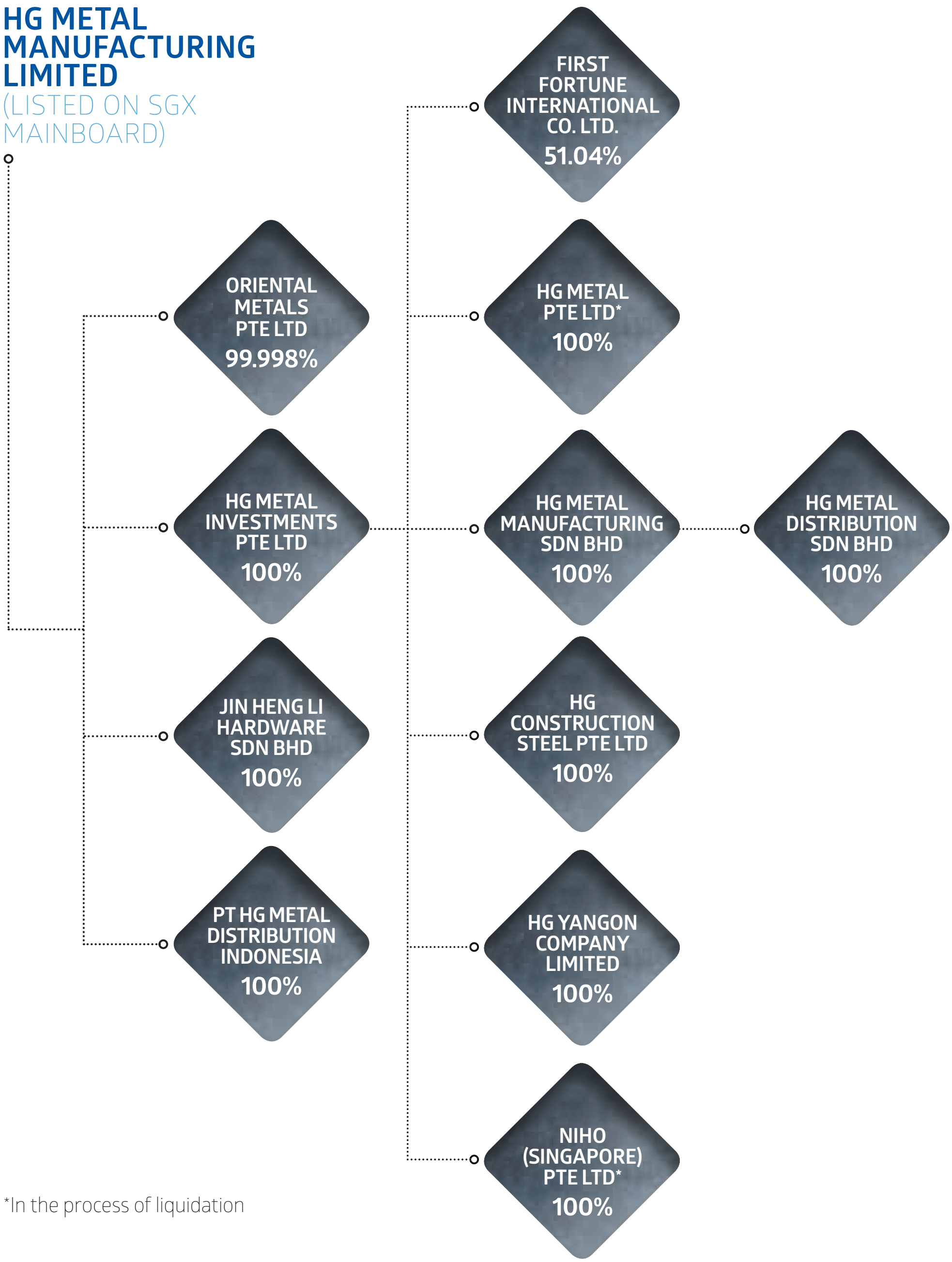
FOR THE YEAR (S$'m)	FY2019	FY2018	FY2017	FY2016	FY2015
Revenue	**137.12**	173.92	162.62	108.53	127.87
Gross Profit	**13.32**	9.87	9.73	6.04	5.02
Profit/(loss) Before Tax	**0.80**	(3.91)	(11.95)	0.90	(5.64)
Net profit/(loss) After Tax	**0.76**	(3.94)	(11.96)	0.91	(5.65)
Profit/(loss) attributable to owners of the Company (PATOC)	**0.76**	(3.95)	(11.93)	0.90	(5.46)
Operating Cash Flow	**(4.34)**	(13.79)	(13.59)	(8.58)	1.67
Cash Flow from Investing	**(3.54)**	(4.37)	27.90	(5.83)	2.49
Free Cash Flow	**(7.88)**	(18.16)	14.31	(14.41)	4.16
AT YEAR END (S$'m)					
Total Assets	**172.82**	144.49	122.84	151.82	152.54
Total Liabilities	**70.15**	41.59	18.63	22.12	23.20
Shareholders' Funds	**98.74**	100.24	104.21	129.43	129.07
Bank Balances and Fixed Deposits	**26.20**	25.72	48.35	37.74	50.51
Total Borrowings[1]	**32.10**	3.42	–	2.34	7.44
Gearing Ratio[2]	**0.06**	–	–	–	–
PER SHARE DATA (Singapore Cents)					
Basic Earnings Per Share[3]	**0.59**	(3.10)	(9.36)	0.70	(4.25)
SHAREHOLDER'S RETURN					
ROE (%) (PATOC/Average Shareholders' Fund)	**0.76%**	(3.85%)	(10.21%)	0.69%	(4.13%)
ROA (%) (Net Profit/Total Assets)	**0.44%**	(2.72%)	(9.74%)	0.60%	(3.70%)
Gross Dividend (Cents)	**nil**	nil	nil	0.50	nil
Share Price at End of Year (S$)	**0.215**	0.265	0.395	0.310	0.039

[1] *Total Borrowings : Bank Borrowings (loan, bills payable) & Lease Liabilities.*

[2] *Gearing Ratio : (Total Borrowings - Bank balances & Fixed deposits)/Shareholders' Funds.*

[3] *On 11 May 2016, the Company completed a share consolidation of every ten existing issued ordinary shares of the Company into one ordinary share and Earnings Per Share for the comparative period for FY2015 had been adjusted for the effects of the share consolidation.*

CORPORATE STRUCTURE



*In the process of liquidation

BOARD OF DIRECTORS

TEO YI-DAR (ZHANG YIDA)

INDEPENDENT NON-EXECUTIVE CHAIRMAN

Mr Teo Yi-Dar (Zhang Yida), a Non-Executive Chairman, was first appointed to the Board on 13 November 2014. He was appointed as Non-Executive Chairman, as well as a member of Audit and Risk Committee, Nominating Committee and Remuneration Committee to the Board with effect from 8 January 2018. Mr Teo was re-designated as an Independent Non-Executive Chairman on 1 January 2019.

Mr Teo started his career as an Engineer with SGS-Thomson Microelectronics in 1996, and he joined Keppel Corporation Ltd's business development division in 1997. In 1999, Mr Teo joined Boston-based Advent International Private Equity Group, commencing his career in the direct investment business. Mr Teo is currently a Private Equity investor, managing buy-outs and direct investments in Asian Companies in the chemical, engineering, manufacturing, industrial and technology sectors.

Mr Teo sits on the boards of various listed companies.

Mr Teo holds two Masters' degrees; Master of Science Degree in Industrial and Systems Engineering (1998) and Master of Science Degree in Applied Finance (2000) from the National University of Singapore. Mr Teo graduated from the same university with a Bachelor of Electrical Engineering (Honours) in 1996.

Mr Teo was accredited as a Chartered Financial Analyst by the CFA Institute in 2001.

Further Information
Date of first appointment as a Director: 13 November 2014
Date of last re-election as a Director: 26 April 2018

Present Directorships (on 31 December 2019):
Listed companies:
Yangzijiang Shipbuilding (Holdings) Ltd. • China Yuanbang Property Holdings Limited • Asia Vets Holdings Limited (F.K.A Smartflex Holdings Ltd) • Denox Environmental & Technology Holdings Limited • Penyao Environmental Protection Co. Ltd.

Others:
Mr Teo also holds directorships in various non-listed companies.

Past Directorships held over the preceding three years
(from 1 January 2017 to 31 December 2019):
Net Pacific Financial Holdings Limited • Baoling Investments Pte Ltd • Bayston Investments Limited • Pleasant Way Analyse Development Limited • SACLP Investments Limited • TFSA Investments Ltd • Value Plus Investment Limited

FOO SEY LIANG

EXECUTIVE DIRECTOR

Mr Foo Sey Liang was appointed to the Board as Executive Director on 10 April 2014. Mr Foo is also the significant investor of the Group. Mr Foo is responsible for developing and monitoring strategies to ensure the long-term financial viability of the Group. Mr Foo has over 20 years of experience in the construction business.

Further Information
Date of first appointment as a Director: 10 April 2014
Date of last re-election as a Director: 26 April 2019

Present Directorships (on 31 December 2019):
Listed companies: Nil

Others:
Mr Foo holds directorships in various non-listed companies.

Past Directorships held over the preceding three years
(from 1 January 2017 to 31 December 2019):
BRC Asia Limited

BOARD OF DIRECTORS

NG WENG SUI HARRY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Ng Weng Sui Harry was appointed to the Board as Independent Director on 10 April 2014. He is the Chairman of the Audit & Risk Committee and a member of the Nominating Committee and Remuneration Committee. Mr Ng is currently the Executive Director of HLM (International) Corporate Services Pte. Ltd., a company providing corporate services and business consultancy.

Mr Ng has more than 30 years of experience in accountancy, audit and finance. He was the Chief Financial Officer and Executive Director of Achieva Limited from October 2008 to April 2010.

Mr Ng sits on the boards of various SGX-listed Companies.

He is currently a Fellow Member of the Institute of Singapore Chartered Accountants and a Fellow of the Association of Chartered Certified Accountants (UK). Mr Ng obtained a Master of Business Administration (General Business Administration) from The University of Hull, UK.

Further Information
Date of first appointment as a Director: 10 April 2014
Date of last re-election as a Director: 26 April 2018

Present Directorships (on 31 December 2019):
Listed companies:
Artvision Technologies Ltd • IEV Holdings Limited • Oxley Holding Limited • Q&M Dental Group (Singapore) Limited

Others:
HLM (International) Corporate Services Pte. Ltd. (Executive Director) • IEV Energy Investment Pte. Ltd. • Singapore Dental Council (member of Audit Committee) • NCC Research Fund (member of Audit Committee) • NCCS Cancer Fund (member of Audit Committee)

Past Directorships held over the preceding three years
(from 1 January 2017 to 31 December 2019): Nil

KESAVAN NAIR
INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Kesavan Nair was appointed to the Board as Independent Director on 17 April 2014. He is the Chairman of the Nominating Committee and Remuneration Committee, and is a member the Audit & Risk Committee. Mr Nair is a practicing Advocate and Solicitor with Bayfront Law LLC in the areas of civil and criminal litigation and corporate law.

Mr Nair is also an Independent Director of various SGX-listed and SGX-Catalist Companies.

Mr Nair graduated from The University College of Wales, Aberystwyth, with a Bachelor of Laws (Honours) in 1988. He was admitted as a Barrister-at Law, Middle Temple in 1990, a Barrister and Solicitor of the Supreme Court of the Australian Capital Territory in 1991 and an Advocate & Solicitor of the Supreme Court of Singapore in 1992.

Further Information
Date of first appointment as a Director: 17 April 2014
Date of last re-election as a Director: 26 April 2017

Present Directorships (on 31 December 2019):
Listed companies:
IEV Holdings Limited • Kitchen Culture Holdings Ltd. • Arion Entertainment Singapore Limited (F.K.A Elektromotive Group Limited) • Artvision Technologies Ltd

Others:
Genvest Pte Ltd • Bayfront Law LLC

Past Directorships held over the preceding three years
(from 1 January 2017 to 31 December 2019):
Genesis Law Corporation

KEY MANAGEMENT PERSONNEL

SHIN TAEYANG
CHIEF EXECUTIVE OFFICER

Mr Shin joined the Group on 15 August 2016 as Managing Director of HG Construction Steel Pte Ltd and was appointed as Chief Operating Officer of the Group on 1 May 2018. Mr Shin was re-designated as Chief Executive Officer of the Group with effect from 1 January 2019. He is responsible for the overall management and operations of the group as well as building and implementing business strategies for the Group.

Mr Shin has more than 13 years of experience in managing company, marketing strategy planning and business development. Prior to joining the Group, he was the Singapore branch representative of a top 3 steel mill and trading company in Korea. Mr Shin brings with him his vast knowledge gained in the steel industry which includes, managing Cut, Bend & Prefabrication production, procurement strategy development, rebar sales forecasting and planning, developing after sales services process and many more.

Mr Shin holds a Bachelor's Degree in Biology & Journalism from Korea University.

SHARON TAY
FINANCIAL CONTROLLER

Ms Tay joined the Group in October 2013 and was appointed as Financial Controller of the Group on 30 January 2015. She is in charge of overseeing finance, accounting, tax and treasury functions of the Group.

Ms Tay has over 20 years of working experience in finance, accounting and auditing. Prior to joining the Group, she had held various management appointments in listed companies and government-related organisations.

Ms Tay holds a Bachelor of Arts (Hons) degree in Accounting and Financial Management from University of Sheffield (UK), and is a Chartered Accountant with the Institute of Singapore Chartered Accountants and a member of the Association of Chartered Certified Accountants (UK).

ROYSTON JOHNS
GENERAL MANAGER (SALES)

Mr Royston Johns joined the Group in May 2016 and was appointed as General Manager (Sales) overseeing the sales and marketing department. He is responsible for the group sales, customer service and business development.

Mr Royston Johns brings with him more than 30 years of experience in sales, customer service, business development, shipping, warehousing and operations in the marine & offshore industries.

Prior to joining the Group, Mr Royston Johns has 9 years of experience in the steel stock holders business with Continental Steel Pte Ltd as a Deputy Head of Sales.

Mr Royston Johns holds a Bachelor's Degree in Business Administration from La Trobe University (Australia), a Diploma in Marketing from Chartered Institute of Marketing (UK), and a Diploma in Sales & Marketing from the Marketing Institute of Singapore.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Teo Yi-Dar (Zhang Yida)
Independent
Non-Executive Chairman

Foo Sey Liang
Executive Director

Ng Weng Sui Harry
Independent Non-Executive
Director

Kesavan Nair
Independent Non-Executive
Director

AUDIT & RISK COMMITTEE

Ng Weng Sui Harry (Chairman)
Kesavan Nair
Teo Yi-Dar (Zhang Yida)

NOMINATING COMMITTEE

Kesavan Nair (Chairman)
Ng Weng Sui Harry
Teo Yi-Dar (Zhang Yida)

REMUNERATION COMMITTEE

Kesavan Nair (Chairman)
Ng Weng Sui Harry
Teo Yi-Dar (Zhang Yida)

COMPANY SECRETARIES

Wee Woon Hong
Srikanth Rayaprolu

REGISTERED OFFICE

28 Jalan Buroh
Singapore 619484

Tel: (65) 6268 2828
Fax: (65) 6268 3838
Web: www.hgmetal.com

SHARE REGISTRAR

M&C Services Private Limited
112 Robinson Road #05-01
Singapore 068902

EXTERNAL AUDITORS

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

Partner-in-charge:
Andrew Tan Chwee Peng
(With effect from financial year
ended 31 December 2016)

INTERNAL AUDITORS

Deloitte & Touche
Enterprise Risk Services Pte Ltd

PRINCIPAL BANKERS

United Overseas Bank Limited
Oversea-Chinese Banking
Corporation Limited

HG METAL MANUFACTURING LIMITED

SUSTAINABILITY REPORT 2019

In accordance to GRI Core Standards

SUSTAINABILITY REPORT

OVERVIEW OF REPORT

As a comprehensive finished metal provider, our organisation stocks, distributes and processes steel products taken from reliable suppliers to be used as construction material in Singapore and around the region. While our role in the value chain is significant, our environmental and social impacts are small due to the nature of our business.

When we embarked on sustainability reporting three years ago, we included our existing governance structure and made new disclosures on environmental and social factors related to our organisation. This year we continue to disclose our organisational sustainability efforts with updates on our materiality assessment and reference to industry benchmarking.

This report presents our sustainability performance for the financial year from 1 January 2019 to 31 December 2019 ("FY2019") with historical performance data ("FY2018" and "FY2017") included for comparison (where applicable).

REPORTING GUIDELINE AND METHODOLOGY

This Sustainability Report has been prepared in accordance with the internationally recognised Global Reporting Initiative ("GRI") Standards – Core option, and is in compliance with the Singapore Exchange Securities Trading Limited ("SGX-ST") Mainboard Listing Rules 711(A) and 711(B) and the SGX Sustainability Reporting Guide. It takes into consideration the primary components of the report content as set out by the Singapore Exchange Securities Trading Limited ("SGX-ST") "Comply or Explain" requirements for sustainability reporting.

The report presents information on the identified Economic, Social and Governance ("ESG") factors which are material to our business and stakeholders, the business practices, performance and targets for each of the identified ESG factors.

The information and data contained in this report are provided in good faith and to the best of our knowledge.

FEEDBACK

We welcome feedback from internal and external stakeholders to improve on our Sustainability Report. For queries and suggestions, please email to corporate@hgmetal.com.

SAR19015412 • HG Metal • 03/04/2020 22:02 • 12_HG Metal_RS_Sustainability Report.indd

SUSTAINABILITY STATEMENT

In the 2019 National Day Rally speech, Prime Minister Lee Hsien Loong said "Climate change may seem abstract and distant for many of us, but it is one of the gravest challenges facing humankind."

While climate change may not have immediate and direct impacts on our business, it is a clear message that responsible organisations and individuals must take into account all actions that have direct or indirect impact on our environment. The consequences of severe weather conditions introduce new risks and create adverse economic and social implications.

At HG Metal, we will look beyond the current environmental, social and governance (ESG) factors through continuous review and improvement on our sustainability efforts. As a long term commitment, our sustainability direction remains anchored to our core business of providing high quality steel products and services, while upholding the best ESG practices.

We adhere strictly to the principles of corporate governance and are committed to a culture of ethics and integrity. We strive to achieve economic performance through a risk management system that covers anti-corruption measures and compliance practices.

Value creation is essential in our sustainability efforts that include our employees, customers and suppliers as key stakeholders in areas of health and safety; education and training; product and service quality; competitive pricing; and marketing and labelling.

With the growing attention on the environment we will participate in new initiatives in addition to our current environment compliance and management practices.

Sincerely

BOARD OF DIRECTORS
HG Metal Manufacturing Limited

SUSTAINABILITY REPORT

STAKEHOLDER ENGAGEMENT

We maintain close communication with our stakeholders, both internal and external as we seek to align their interests with ours, as part of our sustainability journey. As in previous years, we continue to update our stakeholders and seek their valuable feedback through the following engagement channel:

<table>
<tr><th>KEY STAKEHOLDERS</th><th>ENGAGEMENT METHODS</th><th>OBJECTIVES</th></tr>
<tr><td rowspan="5">Investors
Shareholders
Media</td><td>Quarterly results announcements via SGXNET and Company website</td><td>• Provide timely and accurate Company disclosures in accordance to SGX-ST and Singapore Code of Corporate Governance to shareholders and potential investors.</td></tr>
<tr><td>Annual General Meeting and Extraordinary General Meeting</td><td>• Facilitate opportunity for shareholders to put forth questions to the board and management regarding routine and extraordinary business matters.
• Provide opportunity for shareholders to vote on structural changes and stock ownership.</td></tr>
<tr><td>Annual Report via SGXNET, Company website and publication</td><td>• Provide comprehensive and consistent reporting of financial and operational performance; and overview of business strategies, developments and market outlook.
• Sustainability report on ESG disclosures.</td></tr>
<tr><td>News Release Statements via SGXNET</td><td>• Provide information on key development activities.</td></tr>
<tr><td>Site visits and Investor mailbox</td><td>• Enable bi-lateral communications.
• Provide reasonable access to analysts, institutional investors and media to enable broader understanding of Company's business and operating fundamentals based on publicly available information.</td></tr>
</table>

KEY STAKEHOLDERS	ENGAGEMENT METHODS	OBJECTIVES
Regulatory Bodies[1]	Forums and dialogues Networking events Seminars Briefings and consultation	• Update on human capital development. • Report health and safety compliance. • Report environmental and social compliance. • Update on industry regulatory trends.
Trade Associations[2]	Forums and dialogues Networking events Seminars Briefings and consultation	• Update on industry and business trends. • Discuss and update on impacts of government policies.
Customers	Quality Survey (annually)	• Receive feedback on product quality, product knowledge, and customer service standards.
	Meetings and site visits	• Enable bi-lateral communications. • Provide product and service updates.
	Hotline and Company website	• Receive and respond to feedback.
Business Partners[3]	Trade fairs Site visits Company website	• Assess business needs. • Provide Company information. • Provide and receive product and service specifications.
Employees	Town hall meetings	• Enable conversation between CEO and staff.
	Seminars and training (ad hoc)	• Provide skills update. • On-boarding of new staff.
	Toolbox meetings (daily)	• Highlight risks, hazards, incidents. • Communicate safe work procedures. • Allow questions and provide answers. • Record key concerns. • Ensure follow up actions.
	Safety meetings (bi-weekly)	• Provide updates of health and safety
	Performance appraisals (annually)	• Assess work performance against set targets

Notes

[1] *Regulatory Bodies – Ministry of Manpower, National Environment Agency, Building and Construction Authority*

[2] *Trade Associations – Singapore Business Federation, BCI Asia Construction Information, Singapore Structural Steel Society, Singapore National Employer Federation, Singapore China Business Association, Singapore Chinese Chamber of Commerce & Industry, Singapore Metal Machinery, Singapore Iron Works Merchant*

[3] *Business Partners – Suppliers, Distributors, Contractors*

SUSTAINABILITY REPORT

MATERIALITY ASSESSMENT

A review of Materiality Assessment was done through stakeholder questionnaires and material factors such as Economic Performance and Environmental Compliance are determined as Very Important to both the company and our stakeholders.

We consider the relevance and prioritisation of the material topics each year in the context of the prevailing global, economic, and business conditions that will impact our stakeholders.

We rely on the materiality assessment to determine the material ESG factors to be covered in this report. The materiality assessment matrix for FY2019 is presented below.

Impact / Importance to Stakeholders	Not Important	Somewhat Important	Very Important
Very Important			Economic Performance Product Quality Anti-Corruption Ethics and Integrity Occupational Health and Safety management Marketing & Labelling Training & Education Environmental Compliance
Somewhat Important	Energy Water	Materials Stakeholder Engagement Procurement practices Market Presence Customer privacy Non-Discrimination Labour/Management relations Anti-Competitive behaviour Diversity &Equal Opportunity	Customer Health & Safety Governance Structure Socioeconomic Compliance Employment
Not Important	Emissions Supplier Environmental Assessment Freedom of Association & Collective Bargaining Effluents & Waste Security Practices Indirect Economic Impacts Supplier Social Assessment Biodiversity Local Communities Forced or Compulsory Labour Human Rights Assessment Rights of Indigenous People Child Labour	Public Policy	

Impact / Importance to HG Metal

For our third year sustainability reporting, we will be introducing some quantitative metrics for each of the following material factors in comparison with the target set.

MATERIAL TOPICS

MATERIAL TOPICS	IMPACT ON STAKEHOLDERS	2020	2019	
		COMMITMENTS AND TARGETS SET	ACHIEVEMENTS	COMMITMENTS AND TARGETS SET
Product Quality	Product quality is our top priority and is applied throughout the entire chain of our operations from sales, procurement, production and delivery to customers	• To achieve 98% on-time delivery as per customer schedule • To achieve less than 1.5% reject or goods return from customer order • To improve customer satisfaction and achieve at least 85% of customer satisfaction rate from each customer survey	• Achieved 98.3% on-time delivery as per customer schedule • Achieved 0.008% reject or goods return from customer order • Achieved 85% customer satisfaction from each customer survey	• To achieve 98% on-time delivery as per customer schedule • To achieve less than 2% reject or goods return from customer order • To achieve 85% of customer satisfaction from each customer survey
Corporate Governance • Anti-corruption • Ethics and Integrity	Our management and employees observe a strict code of conduct based on our current corporate governance policy including interested party transactions, whistle blowing, risk management and audit controls	• To comply with the Code of Corporate Governance so as to ensure greater transparency and to safeguard the interests of all stakeholders • "Zero-tolerance" on corruption and fraud • Improve staff's awareness of Company's whistle blowing policy and achieve zero case of serious offence	• Code of Conduct available on intranet and included in all employment contracts. • Adherence to internal process for communicating critical concerns. • Abide by Standard Operating Procedures for internal and external business and operational dealings. • Responsible sourcing and Vendor Evaluation Practice • Business Entertainment Policy • Whistle Blowing Policy • Launch of Personal Data Protection Policy (PDPP) • There was no reported case of corruption.	• To comply with the Code of Corporate Governance so as to ensure greater transparency and to safeguard the interests of all stakeholders.

SUSTAINABILITY REPORT

MATERIAL TOPICS	IMPACT ON STAKEHOLDERS	2020	2019	
		COMMITMENTS AND TARGETS SET	ACHIEVEMENTS	COMMITMENTS AND TARGETS SET
Occupational Health and Safety	All permanent employees, contract workers, and visitors are ensured of stringent safety guidelines. Operational staff in our warehouse and production facilities undergo skills training on safe handling of tools and machinery.	• Increase staff awareness of relevant safety legal requirements and code of practices via tool box and safety meetings • Endeavour to minimize risks and hazards in all running projects using the Risk Management System • Improve on workplace health & safety incidents rate	• Daily toolbox meetings • Bi-weekly safety meetings • Mandatory WSQ training • WSH Council bizSAFE Star commitment to risk management system and audit • Workplace Safety and Health Management System (WSHMS) • CCTV and thumb print system at premise entrance and exit to monitor safe operating activities	• Ensure all staff are aware of relevant safety legal requirements and code of practices via tool box and safety meetings • Endeavour to minimize risks and hazards in all running projects using the Risk Management System
Marketing and Labelling	Our product specifications and documentation to and from customers, suppliers, and operational staff are precise and detailed to ensure high product quality and standards	• Maintain good records on product tracking and labelling using HEAT numbers on mill test certificates • Apply appropriate local product tests and accreditation[4] upon client requirements • Follow international guidelines[5] when applicable	• Concise and accurate documentation of all products available in public catalogue and upon demand • Consistent labelling policy and procedure resulting in 0.008% reject rate • Implement Operation Process Management System (OPMS) to improve traceability on Heat number (Mill Certificate) and to reduce human error.	• Record and track products using HEAT numbers on mill test certificates • Apply appropriate local product tests and accreditation[4] upon client requirements • Follow international guidelines[5] when applicable
Education and Training	All staff are trained in their respective areas to perform their current jobs efficiently and effectively, as well as provided skills enhancement for their career development	• Comply with Ministry of Manpower Workplace Safety and Health training • Provide professional and vocational upgrade of courses for all staff • Enable promising staff with leadership potential through talent management programme • Provide equal opportunities to all our employees	• 29 employees attended Safety course • 44 employees attended skill improvement programmes to comply with MOM workplace Safety and Health training • 3 employees attended professional upgrade course. • Due to newly form CERT team, 8 of the team member had been attended 6 courses. • 15 staff promotions	• Comply with Ministry of Manpower Workplace Safety and Health training • Provide professional and vocational upgrade of courses for all staff • Enable promising staff with leadership potential through talent management programme

Notes

[4] Local product tests – SETSCO, BCA compliant

[5] International guidelines – European Standards (EN), American Society for Testing Materials (ASTM), Japanese Industrial Standards (JIS)

PRODUCT & SERVICE QUALITY

Our Management philosophy is to uphold product quality as our top priority and to create value in the supply chains of all customers.

The role that steel plays in urban construction is absolutely crucial as the success of any facility is dependent on the quality of the steel supporting it. Steel is also considered a green product as it is entirely recyclable. Its strength, durability and ease of maintenance has made it the preferred building material for the construction of infrastructures, residential and commercial buildings, transport systems, industrial facilities and ports as the main structures, reinforcements or aesthetic enhancements.

At HG Metal, high quality steel is available in stock and customizable according to our customers' requirements and timelines. In an extremely competitive industry, HG Metal has been able to maintain a brand of trust and reliability as an integrated quality steel provider for over 40 years.

SUSTAINABILITY REPORT

OUR QUALITY STANDARDS

HG Metal has been awarded the ISO 9001:2015 certification for quality management system that meets our customers, statutory and regulatory requirements and satisfaction.

We have a stringent sourcing policy and adopt close professional relationships with our suppliers and business partners in order to deliver the best quality products to our customers on time.

The ISO 9001:2015 certification sets HG Metal ahead of our competitors and industry peers in being able to consistently provide products and services that meet our customers' and applicable statutory and regulatory requirements.

OUR QUALITY POLICY

Our commitment to quality is one of HG Metal's core values and underlying success to our customers' projects and construction developments. Our quality standards aim to enhance customer satisfaction through the effective application of our quality management system, including processes for improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Our quality policy is based on these principles:

- Customer Focus – Ensure that our services are delivered in high quality and able to satisfy needs of our customer
- Commitment to Quality – Establish and maintain quality requirements for our products/services with minimum complaint.

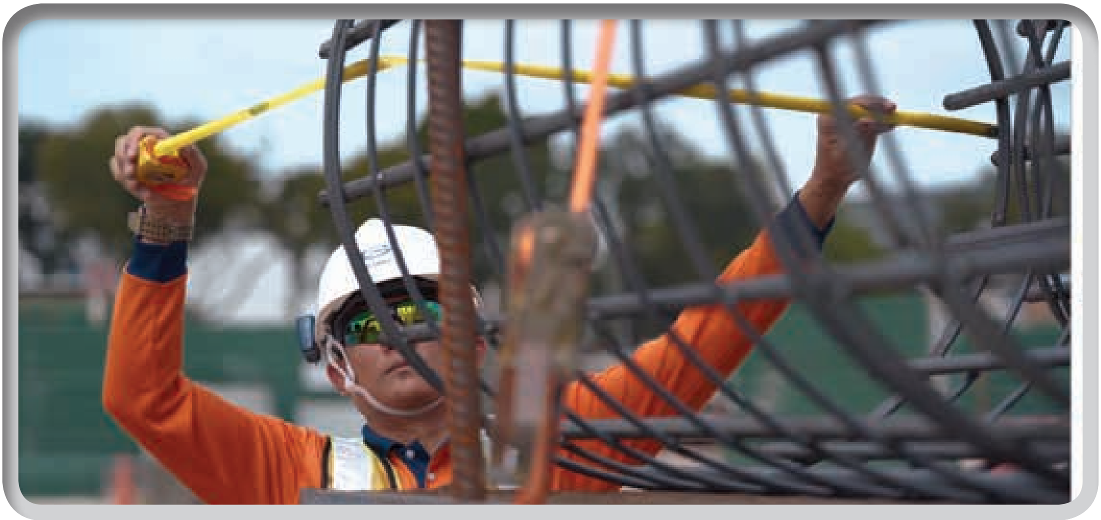
OUR QUALITY OBJECTIVES

QUALITY OBJECTIVES (HG CONSTRUCTION STEEL PTE LTD)	2019	2018	2017
To achieve 98% on-time delivery as per customer schedule.	**98.3%**	98.1%	98.6%
To achieve less than 2% reject or goods return from customer order.	**0.01%**	0.06%	0.07%
To achieve 85% of customer satisfaction rating from each customer survey.	**85%**	89%	86%

Though in FY2019 we achieved the performance target of scoring at least 85% customer satisfaction, the performance result had dipped by 4% from 89% in FY2018 due to an increase in megaprojects which imposed shorter product delivery lead time as one of the project deliverables. We have since then implemented measures to deal with the issue by working on improving our production and delivery efficiency as well as investing in machinery to increase our production capacity.

CUSTOMER SATISFACTION

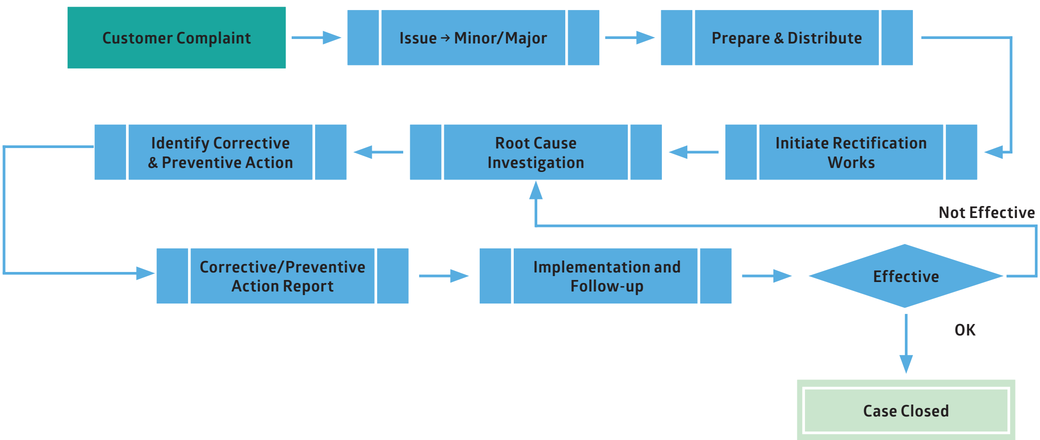
Our quality control system tracks the workflow from the arrival of stocks, throughout the processing of material and to the delivery of finished products. This is to ensure the highest product and service quality achievable for our customers.



SUSTAINABILITY REPORT

Customer Complaint Handling Procedures

Process Flow



We keep our customer projects and all related information confidential and secured. Our team of experienced staff is closely involved in the ordering, customization and delivery processes. Customer orders are professionally managed using strict internal work procedures tied to quality control and assurance systems. Every delivery to our customers must meet their stipulated quality requirements to their satisfaction.

HG Metal takes documentation seriously due to the high dependence on safety in manufacturing and construction projects. Every customer order is fully documented and tracked using SOPs. All products supplied are documented with HEAT numbers from mill test certificates.

Upon client requirements, we will conduct additional product qualifications such as SETSCO testing and Building and Construction Authority (BCA) compliant accreditation. For validation of origins, grades and standards, we follow the guidelines from international standards organisations such as European Standards (EN), American Society for Testing and Materials (ASTM) and Japanese Industrial Standards (JIS).

We constantly listen to our customers and keep ourselves updated with industry developments and trends in order to maintain our position as a leading player for steel in this region.

OUR PEOPLE

HG Metal is fully committed to the wellbeing of our people. As part of this commitment, we have implemented OHSAS 18001, Occupational Health and Safety Assessment Series standard for occupational health and safety management systems. This allows us to implement the best practices and processes in order to attract and retain a skilled and professional workforce to fulfil customers' orders and stakeholders' expectations.

In tandem with good leadership and teamwork, we provide a safe and inclusive work environment for all employees.

Work-life balance, professional development and safe work practices are essential in our employees' well-being and security.

Continuous learning is encouraged and open constructive communications is conducted at all levels and across functional units.

The Company's core values and ethos form an integral part of our corporate culture. Our people observe a strict code of conduct and have access to information and defined channels for feedback.

SUSTAINABILITY REPORT

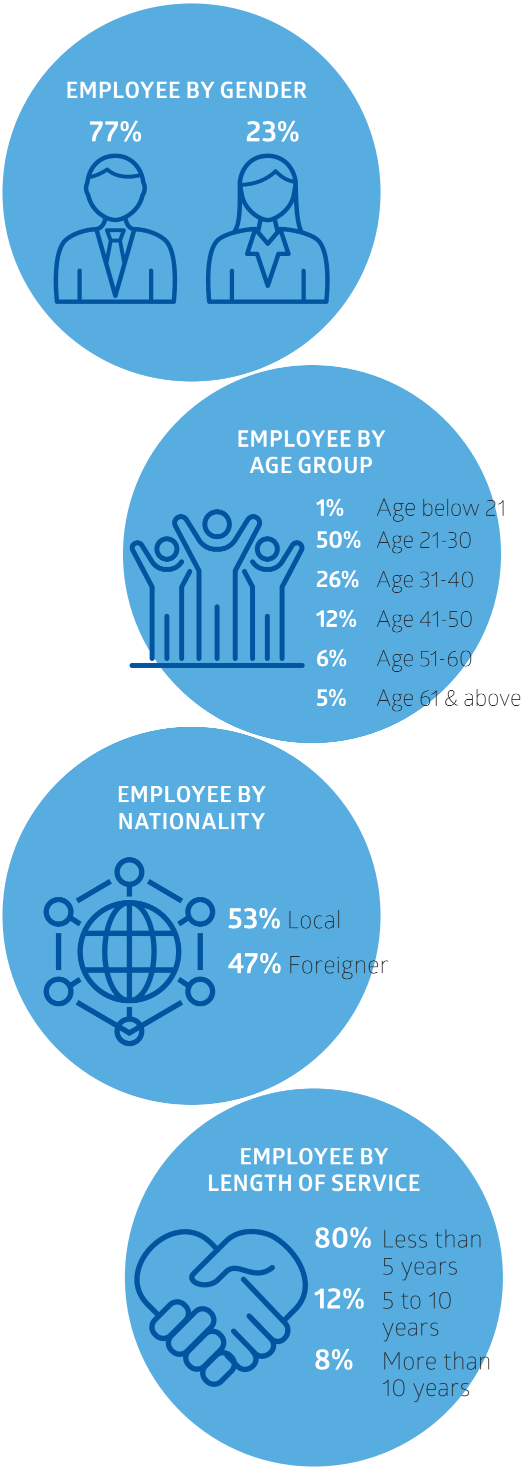
COMMITTING TO RESPONSIBLE EMPLOYMENT

HG Metal embraces responsible employment for over four decades. As a leading steel distributor, we need to uphold our professional and customer-centric approach through our people. Regardless of front-line or workshop staff, our commitment to our employees' welfare and skills development are our top priorities.

Our HR policy aligns closely to the Tripartite Guidelines on Fair Employment Practices (TAFEP) and our employment contracts adhere to the Singapore Employment Act and market practice on salaries, bonuses, working hours, leave, medical benefits, and terms of appointment and termination. In the event of any trade disputes, the Industrial Relations Act provides for the regulation of labour and management relations and the prevention and settlement of trade disputes by collective bargaining and conciliation and arbitration and for tripartite mediation of individual disputes.

Social security savings plan for all Singaporeans and Permanent Residents are covered under the Central Provident Fund (CPF) Scheme. CPF funds can be used for retirement, healthcare, home ownership, family protection and asset enhancement.

The Company provides Group Hospitalization and Surgical Insurance policy as well as Workmen Injury Compensation policy covering medical fees, loss of income and one-time compensation if certified permanent incapability as a result of work-related accident. Employees exposed to high noise levels are given annual hearing tests. Standard medical benefits include annual entitlement for outpatient treatment, health checks and dental care.



SAFEGUARDING OUR HUMAN CAPITAL

In the steel business, safety is of utmost importance as we deal with large and heavy metal objects, equipment and machinery all the time. To ensure a safe and healthy environment for all employees as well as visitors to our facilities, we abide by our Occupational Health and Safety (OHS) Policy and complies with the legal safety requirements and code of practice in the Ministry of Manpower (MOM) Workplace Safety and Health (WSH) Act and the Singapore Civil Defence Force (SCDF) regulations.

Our Occupational Health and Safety Policy

1. Comply with all relevant safety stipulated legal requirements and code of practices.
2. To ensure effective use of Risk Management System so as to control and minimise inherent risks and hazards.

Our Occupational Health and Safety Objectives

1. To ensure that awareness is created to all staff in regards to all relevant safety legal requirements and code of practices via tool box meetings and weekly and monthly safety meetings.
2. To minimise risks and hazards in all running projects using the Risk Management System.

We are awarded the highest level bizSAFE STAR status under the WSH Council programme and are OHSAS 18001 accredited. Together with our ISO 9001 and ISO 14001 certifications on quality and environment management, we are able to achieve a comprehensive workplace health and safety framework that safeguards our most valuable assets – our people.

Our workplace is regularly inspected and our operational processes audited. Employees handling workshop machines must be WSH certified and wear personal protective equipment (PPE). We continue to improve our health and safety environment through pro-active checks and adoption of new or amended regulatory requirements.

With the MOM initiative to improve vehicular safety at workplaces, HG Metal responded to improvement guidelines to our workplace under the Managing Onsite Vehicular Safety (MOVeS) Programme. These improvements include enhanced safety signs and procedures for movement of people and vehicles, traffic control and safe parking practices.

SUSTAINABILITY REPORT

WORKPLACE HEALTH & SAFETY INCIDENTS*	2019	2018
Workplace Injury Rate (WIR)	**6.59%**	5.37%
Accident Frequency Rate (AFR)	**0.001%**	0.002%
Accident Severity Rate (ASR)	**0.05%**	0.03%
Fatality Rate (FR)	**0%**	0%
Disease Incident (DI)	**0%**	0%

* *Based on MOM guidelines*

Workplace Injury Rate (WIR)	=	Number of fatal and non-fatal accidents / Number of employees
Accident Frequency Rate (AFR)	=	Number of workplace accidents / Man-hours worked
Accident Severity Rate (ASR)	=	Number of man-days lost to workplace accidents / Man-hours worked
Fatality Rate (FR)	=	Number of workplace fatalities / Number of persons employed
Disease Incidence (DI)	=	Number of chronic confirmed occupational diseases / Number of employees

We experienced two minor accidents involving hospitalisation for the affected employees. While we have the compliant standard safety checks and practices in place, we will tighten existing measures to avoid future mishaps. In addition, the Company has formed the Company Emergency Response Team (CERT) to mitigate and control workplace emergencies.

INVESTING IN OUR PEOPLE

A rapidly changing and challenging business environment means that we have to entrust our employees with the opportunities to acquire innovative ideas and competitive edge through professional enhancement programmes, market updates, personal development and networking.

In our industry and inherent work conditions, it is absolutely essential that our employees are equipped with right health and safety knowledge and skills through rigorous and regular training courses by government approved institutions.

Our staff development program comprises of three training initiatives:

1. Fulfilling statutory requirements
2. Updating of industry and market trends and developments
3. Upgrading of knowledge and skills for new job roles and work challenges

STAFF DEVELOPMENT PROGRAM	TYPES OF TRAINING
• Occupational First Aid Course WSH (First-Aid) Regulations • Apply Workplace Safety and Health in Construction Sites (Construction Safety Orientation) • Metalworking Safety Orientation	Mandatory for all employees
• Work-at-Height for Worker WSH Regulations • Lorry Crane Operator WSH • Mobile Elevating Work Platform WSH Regulations • Forklift Driver's Training for Factories • Lifting Supervisor Safety WSH	Mandatory for employees requiring WSH certification

Our people have been successful in providing quality standards and fulfilling all business and operational commitments through relevant training, on-the-job experience and continuous learning. We acknowledge talent through our talent management programme.

Staff turnover is low for the entire Company except for functional units such as operations and production that persistently face competition for skilled workers. We promoted 15 employees in recognition of their work performance and 5 employees were awarded for their long-service with the company.

Engaging Local Communities

On 25 May 2019, twenty one of our employees and their family members took part in the Changi Beach Clean-Up programme organised by the Public Hygiene Council. Trash collected included cigarette butts, food wrappers, plastic beverage bottles and paper boxes. It was a rewarding time for our volunteers to see the beach free from litter and be part of the environmental conservation and protection of marine life efforts.

In July 2019, eighteen of our employees participated in a fund-raising event "Race against Cancer ("the **RAC**"). The annual event which was participated by over 7,600 people was organised by Singapore Cancer Society. Over the past 10 years, the RAC events have raised more than $8.2 million to support Singapore Cancer Society (SCS) programmes and services. Besides contributing to the social cause, the participation helps to raise cancer awareness among our staff and to promote engagement with local communities.

ENVIRONMENT EFFORTS

Climate change is no longer a debatable topic. It has become a pressing agenda of many countries for sustainable development. Singapore has announced measures to move to a "low-carbon future" in her efforts to mitigate climate change. *(source: www.channelnewsasia.com/news/singapore/climate-change-threat-singapore-masagos-ipcc-12020762)*

The Carbon Pricing Act (CPA) and its accompanying Regulations came into operation on 1 January 2019.

This affects industrial facilities in two categories –

- Reportable Facility that emits direct greenhouse gas (GHG) equal to or above 2,000 tCO_2e annually must submit an Emissions Report annually.
- Taxable Facility that emits direct GHG equal to or above 25,000 tCO_2e annually must submit a Monitoring Plan and an Emissions Report annually.

Taxable facilities will also have to pay a carbon tax from 1 Jan 2019 onwards for reckonable GHG emissions. The carbon tax is set at a rate of $5 per tonne of GHG emissions (tCO_2e) from 2019 to 2023. Singapore will review the carbon tax rate by 2023, with plans to increase it to between $10 and $15 per tonne of GHG emissions by 2030.

As a forward looking organisation, HG Metal will study the effect of this new regulation pertaining to GHG emissions on our operations and costs.

Our ISO 14001:2015 environmental management system provides the framework for us to achieve the following goals –

- Enhancement of environmental performance
- Fulfilment of compliance obligations
- Achievement of environmental objectives

CARING FOR OUR ENVIRONMENT

As a major player in the steel business, we are involved in the storage, customization and delivery of steel products. As such, our main environmental efforts are to minimize wastage and reduce carbon footprint.

Our operational practices follow the ISO 14001 guidelines for environmental management system (EMS). Our EMS framework aims to minimize negative impact on the environment; comply with applicable laws, regulations, and other environmentally oriented requirements; and maintain the efforts of environmentally-friendly and compliant operations.

Our Environmental Management System Policy

We are committed to continual improvements in its environmental performances and prevention of pollution through establishment of Environmental Management System.

- We strive to implement good Environmental Management System via creating environmental awareness among all employees and provide training in relevant environmental aspects of all activities and services
- We shall comply with regulatory authorities and with applicable environmental legislation and regulations at all times via government websites.

SUSTAINABILITY REPORT

Our Environmental Management System Objectives

- We strive to conduct at least one Environmental Management System training (internal or external) per annum for maintaining good Environmental Management System.
- To update latest EMS requirements via
  a. Nea.gov.sg
  b. Mom.gov.sg
  c. Ecitizen.gov.sg; on a quarterly basis

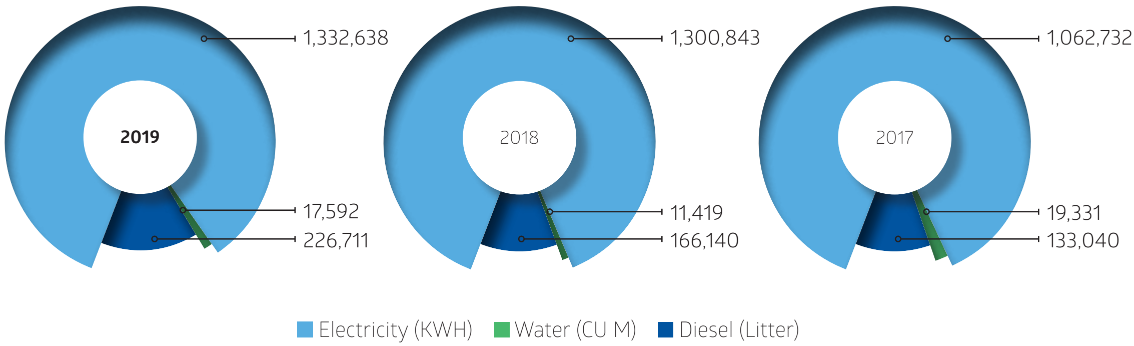
We conduct regular audits on our EMS and rely on good planning practices to maximize our operational capacities and minimize wastage.

Our production team devises the best way for customization with maximum output and minimum offcuts or remnant steel which is used in fabrication of other products. We monitor our scrap volume and constantly work towards reducing material wastage during our production process. As recycling is progressively becoming important to the industry and society in order to manage limited resources efficiently. We seek to reduce our impact on the environment by disposing damaged, defective and metal scraps to licensed waste management contractors for recycling purposes.

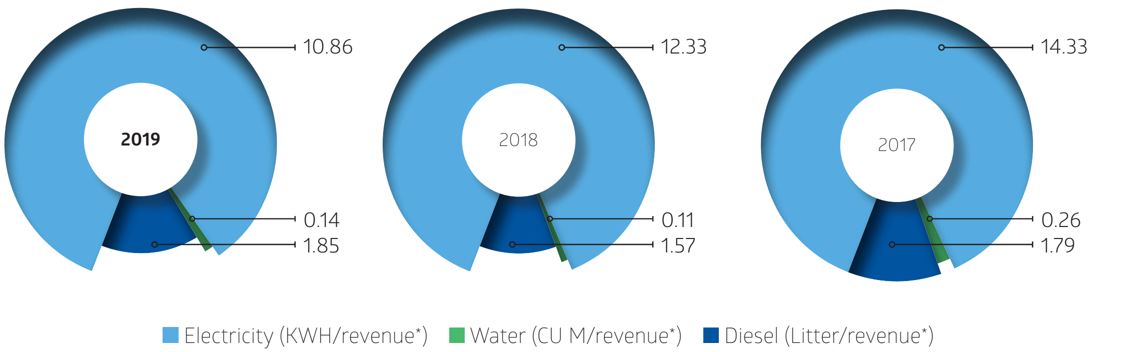
Our delivery service unit works on a fuel efficient route scheduling and practises zero emission when the vehicles are on idle mode. This helps to prevent noise and air pollution in clients' and our own premises.

We understand that in order to minimise the impact on our environment, we need to operate our business operations in a resource efficient and eco-friendly manner, and optimise the use of resources in our business operations. Our employees are encouraged to practise conservation and optimisation of resources in the office building, warehouses and workshops. Low energy consumption appliances and lightings are used throughout our premises. In order to reduce electricity consumption, we choose to install LED lighting in our new office building and warehouse premises.

ENERGY CONSUMPTION



ENERGY INTENSITY



*Net revenue direct attributable to the use of energy

The increase in the energy consumption and intensity in FY2019 was attributed to the increase in manufacturing activities and higher local sales volume that required delivery of goods to customers' place and optimisation of our transportation fleet in order to reduce outsourced logistics services.

In 2020, the Company aims to transit into a low-carbon business by embracing solar energy for its daily business operations. The Company has entered into a 20-years Power Purchase Agreement with a service provider to install solar panels on the rooftop of its new warehouse buildings. The move will help the Company to adopt green energy while at the same time achieve cost saving for its business operations.

SUSTAINABILITY REPORT

GRI CONTENT INDEX

GRI STANDARD	DISCLOSURE	REFERENCE
ORGANIZATION PROFILE		
102-1	Name of the organization	1
102-2	Activities, brands, products and services	1-3
102-3	Location of headquarters	16
102-4	Location of operations	2
102-5	Ownership and legal form	1-3, 12
102-6	Markets served	2
102-7	Scale of the organization	1-3
102-8	Information on employees and other workers	30
102-9	Supply chain	2, 26-28
102-10	Significant changes to the organization's size, structure, ownership, or supply chain	4-6, 12
102-11	Precautionary Principle or approach	26-28
102-12	External initiatives	20-21
102-13	Membership of associations	20-21
STRATEGY		
102-14	Statement from senior decision-maker	19
ETHICS AND INTEGRITY		
102-16	Values, principles, standards, and norms of behavior	19
GOVERNANCE		
102-18	Governance structure	41-73
STAKEHOLDER ENGAGEMENT		
102-40	List of stakeholder groups	20-21, 182-183
102-41	Collective bargaining agreements	31
102-42	Identifying and selecting stakeholders	20-22
102-43	Approach to stakeholder engagement	20-22, Proxy Form, 182-183
102-44	Key topics and concerns raised	20-22, Proxy Form, 182-183

REPORTING PRACTICE		
102-45	Entities included in the consolidated financial statements	12, 123-127
102-46	Defining report content and topic Boundaries	18-24
102-47	List of material topics	22-24
102-48	Restatements of information	Not applicable
102-49	Changes in reporting	Not applicable
102-50	Reporting period	2019
102-51	Date of most recent previous report, if applicable	2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report or its contents	18
102-54	Claims of reporting in accordance with the GRI Standards	Core
102-55	GRI content index	38-40
102-56	External assurance	Not applicable
MANAGEMENT APPROACH		
103-1	Explanation of the material topic and its Boundary	22-24
103-2	The management approach and its components	23-24
103-3	Evaluation of the management approach	23-24
ECONOMIC		
201	Economic Performance	4-11
202	Market Presence	2-6, 26-28
203	Indirect Economic Impacts	26-28
204	Procurement Practices	26-28
205	Anti-Corruption	23
206	Anti-Competitive Behaviour	23
ENVIRONMENTAL		
301	Materials	35-37
302	Energy	35-37
303	Water	35-37
304	Biodiversity	Not applicable
305	Emissions	35-37
306	Effluents and Waste	35-37
307	Environmental Compliance	35-37
308	Supplier Environmental Assessment	35-37

SUSTAINABILITY REPORT

SOCIAL		
401	Employment	30-33
402	Labour/Management Relations	30-33
403	Occupational Health and Safety	31-32
404	Training and Education	24, 30-33
405	Diversity and Equal Opportunity	24, 30-33
406	Non-Discrimination	30
407	Freedom of Association and Collective Bargaining	Not applicable
408	Child Labour	30
409	Forced or Compulsory Labour	30
410	Security Practices	24
411	Rights of Indigenous People	Not applicable
412	Human Rights Assessment	Not applicable
413	Local Communities	33
414	Supplier Social Assessment	28
415	Public Policy	28
416	Customer Health and Safety	26-28
417	Marketing and Labelling	26-28
418	Customer Privacy	26-28
419	Socioeconomic Compliance	26-33

CORPORATE GOVERNANCE REPORT

HG Metal Manufacturing Limited (the "**Company**") and it subsidiaries (the "**Group**") is committed to complying with the Code of Corporate Governance 2018 ("**Code**") so as to ensure greater transparency and to safeguard the interests of shareholders. This report describes the Company's corporate governance practices and activities with specific reference to the Code established by the Singapore Corporate Governance Committee and relevant sections of the Listing Manual issued by the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

BOARD MATTERS

THE BOARD'S CONDUCT OF AFFAIRS

Principle 1
The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the Company.

Provision 1.1 **Directors are fiduciaries who act objectively in the best interests of the company and hold Management accountable for performance. The Board puts in place a code of conduct and ethics, sets appropriate tone-from-the-top and desired organisational culture, and ensures proper accountability within the company. Directors facing conflicts of interest recuse themselves from discussions and decisions involving the issues of conflict.**

The Board of Directors (the "**Board**") comprises 1 Executive Director and 3 Non-Executive Directors. All of the Non-Executive Directors are Independent Non-Executive Directors. The Board's primary role is to protect and enhance long-term shareholder value. To fulfill this, apart from its statutory responsibilities, the Board's principal functions include the following:

(a) approving the Group's corporate and strategic directions taking into account the key investor relations of the Group;

(b) establishing goals for the Management and monitoring the achievement of these goals;

(c) ensuring the quality, effectiveness and integrity of management leadership;

(d) approving annual budgets, investment and divestment proposals;

(e) appointment of Board Directors and key managerial personnel;

(f) ensuring an effective risk management framework is in place to safeguard shareholders' interests and the Group's assets;

(g) reviewing financial performance and implementing financial policies which incorporate risk management, internal controls and reporting compliance;

(h) consider sustainability issues such as environmental and social factors as part of its strategic formulation; and

(i) assuming responsibility for corporate governance.

CORPORATE GOVERNANCE REPORT

Every Director, in the course of carrying out his duties, acts in good faith and considers at all times, the interests of the Group to discharge their duties and responsibilities at all times as fiduciaries in the interest of the Group.

Provision 1.2 **Directors understand the company's business as well as their directorship duties (including their roles as executive, non-executive and independent directors). Directors are provided with opportunities to develop and maintain their skills and knowledge at the company's expense. The induction, training and development provided to new and existing directors are disclosed in the company's annual report.**

Our Directors are provided with extensive background information about our Group's history, mission, values and business operations. Changes to regulations and accounting standards are monitored closely by Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education on Board processes and best practices as well as updates on relevant new laws and regulations. Directors also have the opportunity to visit the Group's operational facilities and meet with Management to gain a better understanding of the business operations. The Company will issue the appointment letters to new Non-Executive Directors and service agreements to Executive Directors (as the case may be) setting out the Directors' duties and obligations. Newly appointed Directors shall also be briefed on the business and organisational structure of the Group and its strategic directions. The Company encourages Directors to attend training courses organized by the Singapore Institute of Directors ("**SID**") or other training institutions in connection with their duties at the Company's expense. The Directors are also provided with updates on the relevant new laws, regulations and accounting standards related to the Group's operating environment through e-mails and regular briefings at the ARC meeting by the Company Secretaries and the external auditor each year. During the financial year ended 31 December 2019 ("**FY2019**"), some Directors attended seminars on corporate governance and SGX compliance organised by ACRA, MAS, SGX and SID.

Provision 1.3 **The Board decides on matters that require its approval and clearly communicates this to Management in writing. Matters requiring board approval are disclosed in the company's annual report.**

The Directors have identified a few areas for which the Board has direct responsibility for decision making, such as:

- approval of the quarterly results announcements;
- approval of the annual report and accounts;
- declaration of interim dividends and proposal of final dividends;
- convening of shareholders' meetings;

CORPORATE GOVERNANCE REPORT

- approval of corporate strategy;
- authorisation of major transactions;
- approval of Board changes and appointments on Board committees;
- increase in investment in businesses and subsidiaries;
- divestment in any of the Group's companies; and
- commitments to term loans and lines of credit from banks and financial institutions by the Company.

The Company has adopted and documented in its internal guidelines the matters that are reserved for Board's approval.

While matters relating in particular to the Company's objectives, strategies and policies require the Board's direction and approval, Management is responsible for the day-to-day operation and administration of the Company in accordance with the objectives, strategies and policies set by the Board.

Provision 1.4 **Board committees, including Executive Committees (if any), are formed with clear written terms of reference setting out their compositions, authorities and duties, including reporting back to the Board. The names of the committee members, the terms of reference, any delegation of the Board's authority to make decisions, and a summary of each committee's activities, are disclosed in the company's annual report.**

To assist the Board in the discharge of its oversight function, certain functions have been delegated to various Board Committees, namely, the Nominating Committee ("**NC**"), the Remuneration Committee ("**RC**") and the Audit & Risk Committee ("**ARC**"), each of which has its own written terms of reference. The minutes of meetings of these committees are circulated among the Board. The composition of the NC, RC and ARC are disclosed under Provisions 4.2, 6.2 and 10.2 respectively.

Formal Board meetings are held at least once every quarter to oversee the business affairs of the Group and approve any financial or business decisions and/or strategies. Where necessary, additional Board meetings are held to deliberate on urgent substantive matters. Telephone and video-conference attendance at Board meetings is allowed under the Company's Constitution. The Board also approves transactions through written resolutions which are circulated to the Board together with all relevant information relating to the proposed transaction.

The agenda for Board and Board Committees meetings is prepared in consultation with the respective Chairman. The agenda and relevant board papers are circulated in advance of the scheduled meetings.

CORPORATE GOVERNANCE REPORT

Provision 1.5 **Directors attend and actively participate in Board and board committee meetings. The number of such meetings and each individual director's attendances at such meetings are disclosed in the company's annual report. Directors with multiple board representations ensure that sufficient time and attention are given to the affairs of each company.**

Please refer to Table A set out on page 69 of this Annual Report for the attendance of the Directors at meetings for FY2019.

The NC reviews and assesses the number of board representations, attendance records, preparedness, participation and candour of each Director in determining whether to nominate a retiring Director for re-election and the contribution of each individual Director to the effectiveness of the Board.

The NC reviews and assesses the time and attention given by the Directors to the Group in accordance with the procedures disclosed in Provision 4.5.

Provision 1.6 **Management provides directors with complete, adequate and timely information prior to meetings and on an on-going basis to enable them to make informed decisions and discharge their duties and responsibilities.**

Directors receive a regular supply of information from Management about the Group so that they are equipped to play as full a part as possible in Board meetings. Detailed Board papers are circulated to all Directors prior to the scheduled meetings so that members may better understand the issues beforehand, allowing for more time at such meetings for questions that members may have. The Board papers provided include background or explanatory information relating to matters to be brought before the Board meeting. Management provides members of the Board with quarterly management accounts, as well as financial, business and corporate matters of the Group timely to enable the Directors to oversee the Company's operational and financial performance. Directors are also informed of any significant developments or events relating to the Company.

Provision 1.7 **Directors have separate and independent access to Management, the company secretary, and external advisers (where necessary) at the company's expense. The appointment and removal of the company secretary is a decision of the Board as a whole.**

All Directors have separate and independent access to the advice and services of the Company Secretaries. The Company Secretaries and/or their representatives attend the Board and Board Committee meetings and assist the Chairman of the Board's and Board Committee's meetings in ensuring that the relevant procedures are followed and that applicable rules and regulations are complied with as well as ensuring good information flow within the Board and its Committees, between key management personnel and the Non-Executive Directors, facilitating orientation and assisting with professional development, if required. The appointment and removal of the Company Secretaries are matters which are to be approved by the Board.

CORPORATE GOVERNANCE REPORT

The Board also has separate and independent access to the Company's key management personnel.

Each Director has the right, at the Company's expense, to seek independent legal and other professional advice concerning any aspect of the Group's operations or undertakings in order to fulfill their duties and responsibilities as Directors.

BOARD COMPOSITION AND GUIDANCE

Principle 2
The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Provision 2.1 **An "independent director" is one who is independent in conduct, character and judgement, and has no relationship with the company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of the company.**

All Directors exercise independent judgement and make decisions objectively in the best interest of the Company. The assessment criteria in the Chairman's assessment of Directors include intensity of participation at meetings, quality of interventions and special contribution.

As of the date of this report, the Board comprises the following Directors:

EXECUTIVE DIRECTOR
Mr Foo Sey Liang

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr Teo Yi-Dar (Zhang Yida) (Independent Non-Executive Chairman)
Mr Kesavan Nair
Mr Ng Weng Sui Harry

The Company does not have any alternate director.

The profiles of the Board members are set out in pages 13 to 14 of this Annual Report.

The composition of the Board is determined in accordance with the following principles:

- to form a strong independent element on the Board, at least one-third of the Board should be Independent Non-Executive Directors;
- the Board should have enough Directors to serve on various committees of the Board without over-burdening the Directors or making it difficult for them to fully discharge their responsibilities;

CORPORATE GOVERNANCE REPORT

- the Board should comprise Directors with a broad range of competencies and expertise; and
- Directors appointed by the Board are subject to election by shareholders at the following Annual General Meeting ("**AGM**") and thereafter, Directors are subject to re-election according to the provisions in the Company's Constitution. Regulation 89 of the Company's Constitution states that one-third of the Directors shall retire from office by rotation.

The NC is responsible for reviewing the independence of each Director based on the guidelines set out in the Code. The NC conducts the review annually and requires each Independent Non-Executive Director to submit a confirmation of independence based on the guidelines provided in the Code.

Based on the confirmation of independence submitted by the Independent Non-Executive Directors and the results of the NC's review, the NC was of the view that each Independent Non-Executive Director is independent in accordance with the Code. As a majority of the Board comprises independent Directors, there is a strong and independent element on the Board and no individual or small group of individuals dominate the Board's decision making.

As at 31 December 2019, no Independent Non-Executive Directors on the Board had served for more than nine years from the date of his initial appointment.

Particulars of interests of Directors who held office at the end of this financial year in shares and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are set out in the Directors' Statement.

Provision 2.2 **Independent directors make up a majority of the Board where the Chairman is not independent.**

The Chairman is independent. During FY2019, the Board had 3 Independent Non-Executive Directors, representing a majority of the Board: Mr Teo Yi-Dar (Zhang Yida), Mr Kesavan Nair and Mr Ng Weng Sui Harry.

Provision 2.3 **Non-executive directors make up a majority of the Board.**

Independent Non-Executive Directors comprise a majority of the Board for FY2019.

Provision 2.4 **The Board and board committees are of an appropriate size, and comprise directors who as a group provide the appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity such as gender and age, so as to avoid groupthink and foster constructive debate. The board diversity policy and progress made towards implementing the board diversity policy, including objectives, are disclosed in the company's annual report.**

CORPORATE GOVERNANCE REPORT

The Board regularly examines its size and, with a view to determining the impact of its number upon effectiveness, decides on what it considers an appropriate size for itself, taking into account the scope and nature of the Company's operations. The Board and NC take into account, inter alia, the Directors' contributions, areas of expertise and scope of work on an annual basis in evaluating whether the Board's composition is adequate. The Board and NC are satisfied that the current Board's size and composition are appropriate for the Group.

While the Board and NC have not implemented a fixed diversity policy, the composition of the Board is reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience to enable Management to benefit from a diverse perspective in reviewing the issues that are brought before the Board. This assists the NC in identifying and nominating suitable candidates for appointment to the Board.

The NC is satisfied that the Board has the appropriate mix of expertise to lead and govern the Group effectively as the Board comprises members with diverse expertise and experience in the steel, finance and legal industries which enables them, in their collective wisdom, to contribute effectively at Board and Board Committee meetings.

Major proposals and decisions made by the Board are subject to majority approval by the members of the Board. The appointment of new Board members, nomination of directors for re-election and review of the Board and individual Directors' performance are carried out by the NC. The remuneration packages of the Executive Director and key management personnel, as well as the Directors' fees payable to the Non-Executive Directors are reviewed by the RC. Members of the ARC, NC and RC are Independent Non-Executive Directors in FY2019. The Board believes that there are sufficiently strong and adequate safeguards to ensure an appropriate balance of power and authority within the spirit of good corporate governance. In addition, all Directors make decisions objectively in the interests of the Company.

Provision 2.5 **Non-executive directors and/or independent directors, led by the independent chairman or other independent director as appropriate, meet regularly without the presence of Management. The chairman of such meetings provides feedback to the Board and/or Chairman as appropriate.**

All Non-Executive Directors, lead by the Independent Non-Executive Chairman, confer regularly with the Executive Director and Management to develop strategies for the Group, review the performance of Management, assess remuneration and discuss corporate governance matters. Where warranted, the Independent Non-Executive Directors meet for discussions before the Board meetings in the absence of Management. The Group's Non-Executive Directors had held periodic conference calls and/or meetings without the presence of Management during FY2019.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3
There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Provision 3.1 **The Chairman and the Chief Executive Officer ("CEO") are separate persons to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for independent decision making.**

During FY2019, Mr Teo Yi-Dar (Zhang Yida) is the Non-Executive Chairman (the "**Chairman**"), while Mr Shin Taeyang is the CEO. Mr Shin Taeyang assumes and bears overall daily operational responsibility for the Group's business. Mr Teo Yi-Dar (Zhang Yida) and Mr Shin Taeyang are not related to each other. There is a clear division of responsibilities between Mr Teo Yi-Dar (Zhang Yida) and Mr Shin Taeyang, which ensures there is a balance of power and authority at the top of the Group.

Provision 3.2 **The Board establishes and sets out in writing the division of responsibilities between the Chairman and the CEO.**

The Chairman plays a key role in promoting high standards of corporate governance, ensures that Board meetings are held when necessary and sets the Board meeting agenda (with the assistance of the Company Secretaries and in consultation with the Executive Director). The Chairman ensures that the Board members are provided with complete, adequate and timely information. The Chairman ensures that procedures are introduced to comply with the Code and ensures effective communication within the Board and with the shareholders.

The Board has delegated the daily operations of the Group to the CEO, who is assisted by the Executive Director. The CEO and Executive Director lead the Management team and executes the strategic plans in alignment with the strategic decisions and goals set out by the Board. They also ensures that the Directors are kept updated and informed of the Group's businesses.

Provision 3.3 **The Board has a lead independent director to provide leadership in situations where the Chairman is conflicted, and especially when the Chairman is not independent.**

The lead independent director is available to shareholders where they have concerns and for which contact through the normal channels of communication with the Chairman or Management are inappropriate or inadequate.

The Company has appointed Mr Teo Yi-Dar (Zhang Yida) as Independent Non-Executive Chairman, and therefore is not required to appoint a lead independent director. Shareholders may contact the Chairman where they have concerns and for which contact through the normal channels of communication with the Management are inappropriate or inadequate.

CORPORATE GOVERNANCE REPORT

BOARD MEMBERSHIP

Principle 4
The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

Provision 4.1 **The Board establishes a Nominating Committee ("NC") to make recommendations to the Board on relevant matters relating to:**

(a) the review of succession plans for directors, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel;

(b) the process and criteria for evaluation of the performance of the Board, its board committees and directors;

(c) the review of training and professional development programmes for the Board and its directors; and

(d) the appointment and re-appointment of directors (including alternate directors, if any.

The Board has delegated to the NC the functions of developing and maintaining a transparent and formal process for the appointment of new Directors, making recommendations for Directors who are due for retirement by rotation to seek re-election at general meeting and determining the independent status of each Director.

The NC is regulated by its terms of reference and its key functions include:

- making recommendations to the Board on new appointments to the Board;
- determining orientation programs for new Directors and recommending opportunities for the continuing training of the Directors;
- making recommendations to the Board on the re-nomination of retiring Directors standing for re-election at the Company's AGM, having regard to the Directors' contribution and performance (e.g. attendance, preparedness, participation and candour);
- ensuring that all Directors submit themselves for re-nomination and re-election at regular intervals and at least every three years;
- determining annually whether or not a Director is independent;
- reviewing the size and composition of the Board with the objective of achieving a balanced Board in terms of the mix of experience and expertise;

CORPORATE GOVERNANCE REPORT

- reviewing the appointment of immediate family members (spouse, child, adopted child, step-child, sibling and parent) of any of the Company's Directors or substantial shareholders to managerial positions in the Company;

- determining whether a Director who has multiple board representations is able to and has been adequately carrying out his duties as Director of the Company;

- reporting to the Board on its activities and proposals (including succession and/or replacements plans for the Chairman, CEO and key management personnel); and

- carrying out such other duties as may be agreed to by the NC and the Board.

The Company's Constitution provides that, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. A retiring Director is eligible for re-election by the shareholders of the Company at the AGM, and prior to nominating a retiring Director for re-election, the NC will evaluate the Director's contribution and performance taking into consideration factors such as attendance, preparedness, participation and candour. The details of the Directors seeking re-election are set out on pages 71 to 73 in this Annual Report.

Provision 4.2 **The NC comprises at least three directors, the majority of whom, including the NC Chairman, are independent. The lead independent director, if any, is a member of the NC.**

As at the date of this report, the NC comprises the following members, all of whom are independent:

Mr Kesavan Nair (Chairman, Independent Non-Executive Director)
Mr Ng Weng Sui Harry (Member, Independent Non-Executive Director)
Mr Teo Yi-Dar (Zhang Yida) (Member, Independent Non-Executive Chairman)

Provision 4.3 **The company discloses the process for the selection, appointment and re-appointment of directors to the Board, including the criteria used to identify and evaluate potential new directors and channels used in searching for appropriate candidates in the company's annual report.**

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills and knowledge, the NC, in consultation with the Board, determines the selection criteria for the position based on the skills and knowledge deemed necessary for the Board to best carry out its responsibilities. Candidates may be suggested by Directors or Management or sourced from external sources. The NC will interview the candidates and assess them based on objective criteria approved by the Board such as integrity, 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 responsibilities, track record of good-decision making, relevant experience and financial literacy. The NC will make a recommendation to the Board on the appointment and the Board then appoints the most suitable candidate who must stand for election at the next AGM of shareholders.

CORPORATE GOVERNANCE REPORT

Provision 4.4

The NC determines annually, and as and when circumstances require, if a director is independent, having regard to the circumstances set forth in Provision 2.1. Directors disclose their relationships with the company, its related corporations, its substantial shareholders or its officers, if any, which may affect their independence, to the Board. If the Board, having taken into account the views of the NC, determines that such directors are independent notwithstanding the existence of such relationships, the company discloses the relationships and its reasons in its annual report.

The NC meets at least once a year. Please refer to the disclosures in Provision 2.1 in relation to the NC's review of Directors' independence.

Provision 4.5

The NC ensures that new directors are aware of their duties and obligations. The NC also decides if a director is able to and has been adequately carrying out his or her duties as a director of the company. The company discloses in its annual report the listed company directorships and principal commitments of each director, and where a director holds a significant number of such directorships and commitments, it provides the NC's and Board's reasoned assessment of the ability of the director to diligently discharge his or her duties.

All Directors are required to attend courses organised by the SID on their duties and obligations as a Director within 1 year from their appointment. In addition, the responsibilities of a Director are clearly delineated in their appointment letter or service agreement (as the case may be).

All Directors declare their board memberships and principal commitments as and when practicable. The details of the listed company directorships and principal commitments of the Board members are set out in pages 13 to 14 of this Annual Report.

The NC has reviewed and is satisfied that all Directors have devoted sufficient time and attention to the affairs of the Group to adequately perform their duties as Directors of the Group after taking into consideration the number of listed company Board representations and their principal commitments. In assessing the capacity of the Directors, the NC takes into consideration the expected and/or competing time commitments of the Directors, size and composition of the Board, and nature and scope of the Group's operations and size.

Currently, the NC does not determine the maximum number of listed company Board representations which a Director may hold as the NC is of the view that it is for each Director to assess his/her own capacity and ability to undertake other obligations or commitments together with serving on the Board effectively. The Board and the NC will review the requirement to determine the maximum number of listed Board representations as and when they deem fit.

CORPORATE GOVERNANCE REPORT

BOARD PERFORMANCE

Principle 5
The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

Provision 5.1 **The NC recommends for the Board's approval the objective performance criteria and process for the evaluation of the effectiveness of the Board as a whole, and of each board committee separately, as well as the contribution by the Chairman and each individual director to the Board.**

The performance criteria recommended by the NC for the Board and Board Committees' evaluation are amongst other criteria, board structure, conduct of meetings, corporate strategy and planning and risk management and internal controls.

The individual directors' assessment parameters recommended by the NC are broadly based on the attendance records at the meetings of the Board and the relevant Board Committees, intensity of participation at meetings, sense of independence, quality of contributions and workload requirements.

Notwithstanding the above, the Company believes that Board performance is ultimately reflected in the performance of the Group and the Company. The Board should ensure compliance with applicable laws and Board members should act in good faith, with due diligence and care in the best interests of the Group and the shareholders. In addition to these fiduciary duties, the Board is charged with two key responsibilities of setting the strategic direction of the Group and ensuring that the Group is ably led. The Board, through the delegation of its authority to the NC, reviews the Board's composition annually to ensure that the Board has the appropriate mix of expertise and experience to lead the Group.

The NC assesses the effectiveness of the Board as a whole, its Board Committees and the contribution of each individual Director to the effectiveness of the Board on an annual basis. Objective performance criteria used to assess the performance of the Board include both quantitative and qualitative criteria. The Board and the NC believe that the financial indicators are mainly used to measure the Management's performance and hence are less applicable to the Board.

Provision 5.2 **The company discloses in its annual report how the assessments of the Board, its board committees and each director have been conducted, including the identity of any external facilitator and its connection, if any, with the company or any of its directors.**

The NC has conducted a Board's performance evaluation as a whole in FY2019 and received the individual directors' self-assessment. The Board's performance evaluation and the individual directors' self-assessment is to assess the effectiveness of the Board as a whole and its Board Committees and the contribution by the Chairman and each individual Director to the effectiveness of the Board on an annual basis.

CORPORATE GOVERNANCE REPORT

In its assessment of the Board's and its Board Committees effectiveness, the NC takes into consideration the frequency of the Board meetings and the Board Committee meetings, the rate at which issues raised are adequately dealt with and the reports from the various committees. In like manner, the NC is able to assess the contribution of each individual Director to the effectiveness of the Board.

No external facilitator was engaged by the Company in FY2019.

REMUNERATION MATTERS

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 6
The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

Provision 6.1 **The Board establishes a Remuneration Committee ("RC") to review and make recommendations to the Board on:**

(a) a framework of remuneration for the Board and key management personnel; and

(b) the specific remuneration packages for each director as well as for the key management personnel.

The Group's remuneration policy is to provide compensation packages at market rates which reward successful performance and attract, retain and motivate Directors and key management personnel.

The RC meets at least once each year and at other times as required.

The RC is responsible for recommending to the Board a framework of remuneration for the Directors and key management personnel which is submitted to the whole Board for endorsement. The RC reviews and approves recommendations on remuneration policies and packages for Directors and key management personnel in the interests of improved corporate performance.

Provision 6.2 **The RC comprises at least three directors. All members of the RC are non-executive directors, the majority of whom, including the RC Chairman, are independent.**

As at the date of this report, the RC comprises solely of Independent Non-Executive Directors, which comprises the following members:

Mr Kesavan Nair (Chairman, Independent Non-Executive Director)
Mr Ng Weng Sui Harry (Member, Independent Non-Executive Director)
Mr Teo Yi-Dar (Zhang Yida) (Member, Independent Non-Executive Chairman)

CORPORATE GOVERNANCE REPORT

Provision 6.3 **The RC considers all aspects of remuneration, including termination terms, to ensure they are fair.**

The RC's review of remuneration packages covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, profit sharing (where applicable) and benefits-in-kind. The RC has full authority to obtain any external professional advice on matters relating to remuneration as and when the need arises.

The RC also reviews the Company's obligations arising from termination clauses and termination processes in relation to Executive Directors and key management personnel's contracts of service to ensure that such clauses and processes are fair and reasonable.

In setting out the remuneration packages, the RC would take into consideration pay and employment conditions within the industry and in comparable companies. The remuneration packages take into account the Company's relative performance and the performance of the individual Directors or key management personnel.

The RC's recommendations are submitted to the entire Board. Each member of the RC shall abstain from voting on any resolution concerning his own remuneration.

Provision 6.4 **The company discloses the engagement of any remuneration consultants and their independence in the company's annual report.**

No remuneration consultant was engaged by the Company during FY2019. The RC may consider utilising external expert advice and data, as and when necessary, to assist in the evaluation of its compensation recommendations.

LEVEL AND MIX OF REMUNERATION

Principle 7
The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

Provision 7.1 **A significant and appropriate proportion of executive directors' and key management personnel's remuneration is structured so as to link rewards to corporate and individual performance. Performance-related remuneration is aligned with the interests of shareholders and other stakeholders and promotes the long-term success of the company.**

The remuneration policy of the Company is to provide compensation packages at market rates, which reward successful performance and attract, retain and motivate Directors and key management personnel.

CORPORATE GOVERNANCE REPORT

The remuneration packages of the Executive Director and key management personnel are determined based on the framework recommended by the RC. In doing so, the RC reviews the length of the fixed appointment period, the notice period for termination and the terms of the compensation package in the event of the termination of any Executive Director's or key management personnel contract of service to ensure that the terms of such clauses are not onerous to the Company. The framework of remuneration for Executive Directors and key management personnel framework includes a fixed element as well as a variable element in the form of a bonus and a profit sharing incentive which is linked to the Company's and individual's performance to align their interests with the shareholders.

An employee share option scheme ("**ESOS**") was approved by the shareholders of the Company at the Extraordinary General Meeting of the Company held on 12 January 2012 as a compensation scheme for selected employees of the Group who, in the opinion of the appointed committee under the ESOS, have contributed or will contribute to the success of the Group. The ESOS is administered by the RC.

Since the commencement of the ESOS and up to the date of this report, no options were granted under the ESOS to Directors of the Company and/or employees of the Group.

Provision 7.2 **The remuneration of non-executive directors is appropriate to the level of contribution, taking into account factors such as effort, time spent, and responsibilities.**

All Non-Executive Directors are paid a director's fee, with additional fees for serving as the chairman or member of a Board Committee and attendance fees for Board and Board Committee meetings. These fees are recommended by the RC and submitted to the Board for endorsement. The remuneration of Non-Executive Directors are appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors. The Directors' fees of the Independent Non-Executive Directors are subject to approval by shareholders at each AGM thereby ensuring that their independence is not compromised.

Each member of the RC abstains from deliberating on or making recommendations in respect of any proposed amounts to be paid by the Company to him.

Provision 7.3 **Remuneration is appropriate to attract, retain and motivate the directors to provide good stewardship of the company and key management personnel to successfully manage the company for the long term.**

The RC is of the view that the remuneration is appropriate to attract, retain and motivate the Directors and key management personnel to successfully manage the Company for the long term given the low attrition rate of Directors and key management personnel.

CORPORATE GOVERNANCE REPORT

DISCLOSURE ON REMUNERATION

Principle 8
The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Provision 8.1 **The company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of:**

(a) each individual director and the CEO; and

(b) at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S$250,000 and in aggregate the total remuneration paid to these key management personnel.

The performance criteria used to assess the variable component of the remuneration (short-term and long term incentive) of Executive Director and key management personnel is determined by having regards to the performance of the Group, leadership, as well as industry benchmarks, which include the profitability of the Group, leadership, as well as the Executive Director's and key management personnel's compliance in all audit matters. The Executive Director's and key management personnel's short term incentives (namely the performance-related variable component) are recommended by the RC and approved by the Board.

For FY2019, the Executive Director and key management personnel have met the relevant performance conditions.

The RC is of the view that the variable component of the remuneration packages of the Executive Director and key management personnel are moderate. In view of this, there is no necessity for the Company to institute contractual provisions to reclaim the incentives or any related payments from the parties involved should there be any misstatements of financial results, or of misconduct resulting in financial loss to the Group.

Please refer to Table B set out on pages 70 to 71 of this Annual Report for the remuneration of the Directors and key management personnel for FY2019. The Group had three key management personnel during FY2019.

The Board believes that it is for the benefit of the Company and the Group that the remuneration of the Executive Director and key management personnel be kept confidential due to its sensitive nature and the potential negative impact (such as poaching) such disclosure will have on the Group given the highly competitive environment it is operating in. As the Company has a small and tightly-knit team, such disclosure would be disadvantageous to the Company in relation to its competitors and may affect adversely the cohesion and spirit of team work prevailing amongst the employees of the Company.

CORPORATE GOVERNANCE REPORT

Provision 8.2 **The company discloses the names and remuneration of employees who are substantial shareholders of the company, or are immediate family members of a director, the CEO or a substantial shareholder of the company, and whose remuneration exceeds S$100,000 during the year, in bands no wider than S$100,000, in its annual report. The disclosure states clearly the employee's relationship with the relevant director or the CEO or substantial shareholder.**

Save for Mr Foo Sey Liang, the Executive Director and substantial shareholder of the Company, there is no employee who is a substantial shareholder or is related to a Director, CEO or substantial shareholder of the Company, whose remuneration exceeds S$100,000 in the Group's employment for FY2019.

Provision 8.3 **The company discloses in its annual report all forms of remuneration and other payments and benefits, paid by the company and its subsidiaries to directors and key management personnel of the company. It also discloses details of employee share schemes.**

Please refer to Table B set out on pages 70 to 71 of this Annual Report for the remuneration and other payments and benefits, paid by the Company and its subsidiaries to Directors and key management personnel of the Company for FY2019. Please refer to Provision 7.1 for details of the Company's ESOS.

ACCOUNTABILITY AND AUDIT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 9
The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

Provision 9.1 **The Board determines the nature and extent of the significant risks which the company is willing to take in achieving its strategic objectives and value creation. The Board sets up a Board Risk Committee to specifically address this, if appropriate.**

The Company manages risks under an overall strategy determined by the Board and supported by the ARC. The Company sets acceptable risk management standards and periodically reviews the risks that the Group is subject to.

The Board recognises that it is responsible for the overall internal control framework, but accepts that no cost effective internal control system will preclude all errors and irregularities, as the system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The ARC will annually:

- satisfy itself that adequate measures are being made to identify and mitigate any material business risks associated with the Group;

CORPORATE GOVERNANCE REPORT

- ensure that a review of the effectiveness of the Group's material internal controls, including financial, operating, information technology and compliance controls and risk management, is conducted at least annually. Such review can be carried out by internal auditors;

- ensure that the internal control recommendations made by internal auditors and the management letter recommendations by external auditors (noted during the course of the statutory audit) have been implemented; and

- ensure the Board is in a position to comment on the adequacy and effectiveness of the internal controls of the Group.

The Board with the assistance of the internal auditors, determines the Company's levels of risk tolerance and risk policies and oversees Management in the design, implementation and monitoring of the risk management and internal control systems.

<u>**Provision 9.2**</u> **The Board requires and discloses in the company's annual report that it has received assurance from:**

(a) the CEO and the Chief Financial Officer ("CFO") that the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances; and

(b) the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company's risk management and internal control systems.

The Board has received assurance from the CEO and the Financial Controller that (a) the financial records have been properly maintained and the financial statements for FY2019 give a true and fair view of the Company's operations and finances; and (b) the Company's risk management and internal control systems are adequate and effective.

<u>AUDIT COMMITTEE</u>

Principle 10
The Board has an Audit Committee ("AC") which discharges its duties objectively.

<u>**Provision 10.1**</u> **The duties of the AC include:**

(a) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the company and any announcements relating to the company's financial performance;

(b) reviewing at least annually the adequacy and effectiveness of the company's internal controls and risk management systems;

CORPORATE GOVERNANCE REPORT

(c) reviewing the assurance from the CEO and the CFO on the financial records and financial statements;

(d) making recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors;

(e) reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the company's internal audit function; and

(f) reviewing the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up on. The company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns.

The ARC's main objective is to assist the Board in fulfilling its fiduciary responsibilities relating to internal controls, overseeing the external audit process, reviewing the financial information to be disclosed to the public and ensuring that arrangements are in place for the independent investigation and follow up of reports by staff of improprieties in financial reporting and other matters. To achieve this, the ARC ensures that its members have the appropriate qualifications to provide independent, objective and effective oversight.

Specifically, the ARC meets periodically to perform the following functions:

- reviewing the audit plans of the external and internal auditors;
- reviewing the external and internal auditors' reports;
- reviewing the co-operation given by the Company's officers to the external and internal auditors;
- reviewing the adequacy of the internal audit function;
- evaluating the adequacy and effectiveness of the Group's system of internal controls, including financial, information technology, operational and compliance controls, and risk management, by reviewing written reports from internal auditors and management letters issued by external auditors (in the course of the statutory audit) and management responses and actions to correct any deficiencies;
- reviewing the financial statements of the Company and the Group before their submission to the Board;

CORPORATE GOVERNANCE REPORT

- reviewing non-audit services provided by the external auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors;

- nominating external auditors for appointment or re-appointment and approve the remuneration and terms of engagement of the external auditor;

- reviewing the Group's compliance with such functions and duties as may be required under the relevant statutes or the Listing Manual issued by SGX-ST, and by such amendments made thereto from time to time;

- reviewing interested person transactions ("**IPT**") (as defined in Chapter 9 of the Listing Manual issued by SGX-ST) to ensure that they are on normal commercial terms and arms' length basis and not prejudicial to the interests of the Company or its shareholders in any way;

- overseeing the Company's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements by, inter alia, assessing the Company's risk management framework for appropriateness and adequacy, and monitoring Management accountability for risk management processes and compliance with risk policies; and

- reviewing and making recommendations to the Board in relation to risk management.

Apart from the duties listed above, the ARC may commission and review the findings of internal investigations into matters where there is suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore and other applicable law, rule or regulation which has or is likely to have material impact on the Company's or Group's operating results and/or financial position.

The ARC is also authorised to investigate any matter within its terms of reference and has full access to and co-operation of the Management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The ARC meets annually with the internal auditors and the external auditors, without the presence of the Management to review the adequacy of audit arrangements, with particular emphasis on the scope and quality of their audits, and the independence and objectivity of the internal and external auditors.

Based on the internal controls established and maintained by the Group, works performed by the internal and external auditors, reviews performed, the Board, with concurrence of the ARC are of the opinion that the Group's internal controls, addressing financial, operational, compliance and information technology controls and risk management systems were adequate and effective as at FY2019.

CORPORATE GOVERNANCE REPORT

The aggregate amount of fees paid or payable to the external auditors of the Company, broken down into audit and non-audit services during FY2019 are as follows:

Audit fees: S$155,000
Non-audit fees: Nil

The ARC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. In the ARC's opinion, Ernst & Young LLP is suitable for re-appointment and it has accordingly recommended to the Board that Ernst & Young LLP be nominated for re-appointment as the external auditor of the Company at the forthcoming AGM.

The Company is in compliance with Rules 712, 715 and 716 of the Listing Manual in relation to its external auditor.

It is the Company's practice for the external auditor to present to the ARC its audit plan and with updates relating to any change of accounting standards impacting on the financial statements before an audit commences. Save as disclosed in pages 109 to 111 in this Annual Report, the adoption of the new Singapore Financial Reporting Standards (International) (SFRS(I)), amendments and interpretations of SFRS(I) did not result in any material impact on the Group's financial statements for the financial year under review.

Provision 10.2 **The AC comprises at least three directors, all of whom are non-executive and the majority of whom, including the AC Chairman, are independent. At least two members, including the AC Chairman, have recent and relevant accounting or related financial management expertise or experience.**

The ARC comprises 3 members who are Non-Executive Director, all of whom are independent. The ARC's members are:

Mr Ng Weng Sui Harry (Chairman, Independent Non-Executive Director)
Mr Kesavan Nair (Member, Independent Non-Executive Director)
Mr Teo Yi-Dar (Zhang Yida) (Member, Independent Non-Executive Chairman)

At least 2 members of the ARC (including the ARC chairman), namely Mr Ng Weng Sui Harry and Mr Teo Yi-Dar (Zhang Yida) have recent and relevant accounting or related financial management expertise or experience. The Board is of the view that the members of ARC have the necessary expertise to discharge their duties and responsibilities.

CORPORATE GOVERNANCE REPORT

Provision 10.3 **The AC does not comprise former partners or directors of the company's existing auditing firm or auditing corporation: (a) within a period of two years commencing on the date of their ceasing to be a partner of the auditing firm or director of the auditing corporation; and in any case, (b) for as long as they have any financial interest in the auditing firm or auditing corporation.**

None of the ARC members were previous partners or directors of the Company's existing auditing firm within the last two years and none of the ARC members hold any financial interest in the Company's existing external auditing firm.

Provision 10.4 **The primary reporting line of the internal audit function is to the AC, which also decides on the appointment, termination and remuneration of the head of the internal audit function. The internal audit function has unfettered access to all the company's documents, records, properties and personnel, including the AC, and has appropriate standing within the company.**

The Group has outsourced its internal audit function to Deloitte & Touche Enterprise Risk Services Pte Ltd. The ARC is satisfied that the internal audit function is staffed by suitably qualified and experienced professionals. The ARC approves the hiring, removal, evaluation and compensation of the internal auditors.

The aim of the internal audit function is to promote internal control in the Group and to monitor the performance and effective application of internal audit procedures. It supports the Directors in assessing key internal controls through a structured review programme. The internal audit function is expected to meet the standard set by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. The internal auditors have unfettered access to all the Company's documents, records, properties and personnel and access to the ARC to perform internal audit function.

The internal audit function reports functionally to the Chairman of the ARC and administratively to the Executive Director. The ARC is satisfied that the internal audit function has adequate resources and has appropriate standing within the Group. The ARC, on an annual basis, assesses the effectiveness of the internal auditors by examining:

- the scope of the internal auditors' work;
- the quality of the internal audit reports;
- the internal auditors' relationship with the external auditors; and
- the internal auditors' independence of the areas reviewed.

CORPORATE GOVERNANCE REPORT

Provision 10.5 **The AC meets with the external auditors, and with the internal auditors, in each case without the presence of Management, at least annually.**

The ARC meets from time to time with the Group's external and internal auditors, in each case without the presence of the Management of the Company, at least once a year. The ARC meets with the Management to review accounting, auditing and financial reporting matters so as to provide the necessary checks and balances to ensure that an effective control environment is maintained in the Group. The ARC also studies proposed changes in accounting policies, examines the internal audit functions and discusses the accounting implications of major transactions. Furthermore, the ARC advises the Board regarding the adequacy of the Group's internal controls and the contents and presentation of its interim and annual reports.

SHAREHOLDER RIGHTS AND ENGAGEMENT

SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

Principle 11
The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Provision 11.1 **The company provides shareholders with the opportunity to participate effectively in and vote at general meetings of shareholders and informs them of the rules governing general meetings of shareholders.**

Shareholders are encouraged to attend the AGM to ensure a high level of accountability and to be updated on the Company's strategies and goals. The Company's Constitution allows a shareholder to appoint up to 2 proxies to attend a shareholder's meeting on his behalf. In line with the amendments to the Singapore Companies Act, corporate shareholders of the Company which provide nominee or custodial services to third parties may appoint more than two proxies to attend and vote on their behalf at general meetings. The notice of the AGM is sent to our shareholders, together with explanatory notes, appendices or a circular on items of special business, at least 14 days before the meeting. The Chairmen of the ARC, NC and RC are normally present and available to address questions relating to the work of their respective committees at general meetings. Furthermore, the external auditors are present to assist our Board in addressing any relevant queries by our shareholders. During the general meetings, the shareholders will be informed of the rules governing general meetings, including voting procedures.

CORPORATE GOVERNANCE REPORT

Provision 11.2 **The company tables separate resolutions at general meetings of shareholders on each substantially separate issue unless the issues are interdependent and linked so as to form one significant proposal. Where the resolutions are "bundled", the company explains the reasons and material implications in the notice of meeting.**

Separate resolutions are proposed for substantially separate issues at the meeting. In line with the new Rule 730A of the SGX-ST Listing Manual, all the resolutions are voted on by way of poll and the Company announces the detailed results showing the number of votes cast for and against each resolution and the respective percentages to the public.

Provision 11.3 **All directors attend general meetings of shareholders, and the external auditors are also present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report. Directors' attendance at such meetings held during the financial year is disclosed in the company's annual report.**

Both Executive and Non-Executive Board members meet or speak with shareholders regularly, primarily through general meetings of shareholders, to gather their views and address concerns. The external auditors are also present at the annual general meetings to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

All Directors attended the annual general meeting held on 26 April 2019.

Provision 11.4 **The company's Constitution (or other constitutive documents) allow for absentia voting at general meetings of shareholders.**

Voting in absentia, which is currently not permitted, may only be possible following careful study to ensure that the integrity of information and authentication of the identity of shareholders through the internet are not compromised, and legislative changes are effected to recognize remote voting.

Provision 11.5 **The company publishes minutes of general meetings of shareholders on its corporate website as soon as practicable. The minutes record substantial and relevant comments or queries from shareholders relating to the agenda of the general meeting, and responses from the Board and Management.**

Only shareholders and selected invitees are entitled to attend general meetings. As such, the minutes of general meetings are not posted on the Company's corporate website where they are available to the general public at large. However, the minutes of each general meeting, including substantial and relevant comments or queries, remain accessible to any shareholder interested in obtaining a copy of the same upon request.

CORPORATE GOVERNANCE REPORT

Provision 11.6 **The company has a dividend policy and communicates it to shareholders.**

The Company does not have a fixed dividend policy at present. The issue of payment of dividends is deliberated by the Board annually, having regards to various factors (e.g. Company's profit, cash flow, capital requirements for investment and growth, general business conditions and other factors as the Board deems appropriate).

ENGAGEMENT WITH SHAREHOLDERS

Principle 12
The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

Provision 12.1 **The company provides avenues for communication between the Board and all shareholders, and discloses in its annual report the steps taken to solicit and understand the views of shareholders.**

The Company firmly believes in high standards of transparent corporate disclosure, pursuant to the SGX-ST's Listing Rules and the Singapore Companies Act, whereby shareholders are informed of all major developments that affect the Group. Information is communicated to our shareholders on a timely basis. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly to all others as soon as practicable.

In presenting the annual financial statements and quarterly announcements to shareholders as well as any price sensitive reports to the public, the Board aims to provide the shareholders with a balanced and understandable assessment of the Company's and the Group's performance, position and prospects.

Please refer to the disclosures in Provision 12.2 on the avenue of communication between the Board and its shareholders.

Provision 12.2 **The company has in place an investor relations policy which allows for an ongoing exchange of views so as to actively engage and promote regular, effective and fair communication with shareholders.**

The Company does not have an Investor Relations Policy in place. However, the Board's policy is that all shareholders should be informed simultaneously in an accurate and comprehensive manner regarding all material developments that impact the Group via SGXNET on an immediate basis, in line with the Group's disclosure obligations pursuant to the Listing Manual and the Singapore Companies Act. There is no dedicated investor relations team in place as the Board was of the view that the current communication channels are sufficient and cost-effective.

CORPORATE GOVERNANCE REPORT

Communication is made through:

- annual reports that are prepared and sent to all shareholders. The Board ensures that the annual report includes all relevant information about the Company and the Group, including future developments and other disclosures required by the Singapore Companies Act and Singapore Financial Reporting Standards;
- quarterly announcements containing a summary of the financial information and affairs of the Group for that period;
- notices of and explanatory memoranda for AGMs and Extraordinary General Meetings;
- press releases on major developments of the Company and the Group;
- disclosure to the SGX-ST; and
- the Company's website at http://www.hgmetal.com at which our shareholders can access information on the Group.

Further, the Group has adopted a constructive whistle-blowing policy and guideline in order to detect and deter any fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement, financial reports and records of the Company.

Demonstrating its pledge to good corporate governance, the Group provides an avenue for employees to bring their complaints responsibly to report any possible improprieties in matters of financial reporting or other matters that they may encounter to the ARC or any other committees established by the ARC for such purpose without fear of reprisal. The establishment of the whistle-blowing structure also augments the Group's ability to detect potential fraud, providing another level of comfort and assurance to investors.

Under the whistle-blowing policy, all concerns expressed anonymously will be investigated although consideration will be given to the seriousness of the issue raised, the credibility of the concern and the likelihood of confirming the allegation from attributable sources. In addition, every effort will be made to protect the complainant's identity, if so requested, so long as it is compatible with a proper investigation.

Once a complaint has been made, the action taken will depend on the nature of the concern and initial inquiries will be made to determine whether an investigation is appropriate, and the form it should take.

The ARC maintains a record of concerns raised under this policy and the outcomes, and will report as necessary to the Board.

Provision 12.3 **The company's investor relations policy sets out the mechanism through which shareholders may contact the company with questions and through which the company may respond to such questions.**

Shareholders may contact the Company by completing the "Contact Us" form on the Company's website at http://www.hgmetal.com/contact/. The Company will respond directly to the querying shareholder using the contact information provided therein.

CORPORATE GOVERNANCE REPORT

MANAGING STAKEHOLDERS RELATIONSHIPS

ENGAGEMENT WITH STAKEHOLDERS

Principle 13
The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

Provision 13.1 **The company has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups.**

The Company is committed in maintaining close communication with those stakeholders whom will have an impact on the Company's business and operating performance and long term sustainability. To this end, the Company has established relevant communication channels to engage with its stakeholders as detailed in pages 20 and 21 in this Annual Report.

Provision 13.2 **The company discloses in its annual report its strategy and key areas of focus in relation to the management of stakeholder relationships during the reporting period.**

The Company recognises the needs for ensuring the business interests of the Company and its stakeholders are properly aligned as part of its sustainability journey. As in previous years, the Company has undertaken a process of identifying material environmental, social and governance (ESG) issues which are important and will impact the stakeholders. Having identified these material topics, the Company seeks to map out its processes and align its business practices and strategies to address the concerns of these stakeholders. The Company's efforts and approaches in ensuring the respective stakeholders' concerns are properly addressed are set out on pages 22 to 24 of this Annual Report.

Provision 13.3 **The company maintains a current corporate website to communicate and engage with stakeholders.**

The Company updates its corporate website http://www.hgmetal.com regularly with information released on the SGXNET and business developments of the Group.

DEALINGS IN SECURITIES

In accordance with Rule 1207(19) of the Listing Manual issued by SGX-ST, the Company has implemented an internal policy in relation to dealings in securities. Pursuant to such policy, the Company notifies all employees and officers that they are prohibited from trading in the Company's shares one month prior to the announcement of the Company's full year results and 14 days before the announcement of the the Company's quarterly or half-yearly financial results (as the case may be).

In addition, the Company, the Directors and its officers are expected to observe insider trading laws at all times even when dealing in securities within permitted trading periods. The Company prohibits its officers from dealing in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information.

CORPORATE GOVERNANCE REPORT

INTERESTED PERSON TRANSACTIONS

The Company is required to comply with the requisite rules under Chapter 9 of the Listing Manual issued by SGX-ST for IPT. To ensure compliance with Chapter 9, the ARC meets quarterly to review if the Company will be entering into an IPT in order to ensure that the IPT are carried out on normal commercial terms and will not prejudicial to the interests of the shareholders.

The Company has not entered into any IPT with aggregate value of more than S$100,000 during FY2019 pursuant to Rule 907 of the Listing Manual of the SGX-ST.

MATERIAL CONTRACTS

Save as disclosed in the audited financial statements of this Annual Report, there are no material contracts of the Company or its subsidiaries involving the interests of the Directors or controlling shareholder(s) subsisting at the end of FY2019 or have been entered into since the end of the previous financial year.

RISK MANAGEMENT

Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as deliberate on appropriate measures to control and mitigate these risks. Management is accountable to the Board for ensuring the effectiveness of risk management and adherence to risk appetite limits.

On a day-to-day basis, business units have primary responsibility for risk management. The various business units provide the key management with a timely assessment of key risk exposures and the associated management responses. These units also recommend risk appetite and control limits.

The significant risk management policies are as disclosed in the audited financial statements of this Annual Report. The financial and operational risk management policies are outlined below:

FLUCTUATIONS IN STEEL PRICES

As a distributor of steel products, the Group purchases a wide range of steel products and maintains substantial inventories to be in a position to fulfil customers' orders within a short lead time. The cost of steel products purchased is the main component of the Group's cost of sales for its steel distribution business. Prices of steel products are subject to international price fluctuations of steel. Therefore, the Group is vulnerable to any fluctuations in prices of steel.

The Group, with more than 40 years of knowledge and expertise gained in this line of business, is able to make appropriate adjustments to its supplier choice, timing of purchase and shipment, contracting arrangement with its customers to address price fluctuation risk.

CREDIT RISK OF ITS CUSTOMERS

The Group extends credit terms ranging from 30 to 90 days to its customers, depending on their credit worthiness. In certain situations, in the ordinary course of business, certain customers may default on their payment. Such events may arise due to the inherent risk from its customers' business, risk pertaining to the political, economic, social and legal environment of its customers' jurisdiction and foreign exchange risk. In the event that the Group's customers default on their payments, the Group would have to make allowances for doubtful debts or incur write-offs, which will have an adverse impact on its profitability.

CORPORATE GOVERNANCE REPORT

The Group performs credit checks and approvals before granting credit to customers and imposes a credit limit and credit term on each customer. All credit accounts are subject to regularly review.

In order to avoid excessive concentration of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risks are controlled and managed accordingly.

FOREIGN EXCHANGE EXPOSURE

The purchases and sales of the Group are mainly denominated in United States Dollar ("**USD**"). As a result, the Group is exposed to fluctuations in foreign exchange rates. For FY2019, approximately 79% of its total purchases were made in USD, whilst approximately 83% and 9% of its total sales were denominated in Singapore Dollar and USD respectively. Hence, the Group may be exposed to any significant fluctuation of the USD.

The Group monitors the USD exchange rates closely and has in place a hedging policy to manage its exposure.

EXPANSION AND INVESTMENT RISK

In view of the Group's plan to expand beyond the Singapore market, the Group is constantly seeking opportunities to diversify into new areas or expand to regional markets such as Malaysia, Indonesia and other Southeast Asian countries to pursue sustainable growth. Hence, the Group is exposed to expansion and investment risk from new investments such as joint ventures, acquisitions or new businesses.

The Group is adopting the practice of conducting due diligence assessments and other business analyses for any investment proposal in order to minimise any potential risk exposure. All investment proposals are to subject to approval from the Board before implementation.

TABLE A

	Board of Directors		Audit & Risk Committee		Remuneration Committee		Nominating Committee	
Name of Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Teo Yi-Dar (Zhang Yida)	4	4	4	4	1	1	1	1
Foo Sey Liang	4	4	–	–	–	–	–	–
Ng Weng Sui Harry	4	4	4	4	1	1	1	1
Kesavan Nair	4	4	4	4	1	1	1	1

CORPORATE GOVERNANCE REPORT

TABLE B

The remuneration of the Directors from the Company for FY2019 is as follows:

Directors	Base Salary (%)	Bonus (%)	Director Fees (%)	Allowances and Others (%)	TOTAL (%)
Executive Director					
S$250,001 to S$500,000					
Foo Sey Liang	66.77	33.17	–	0.06	100
Non-Executive Directors					
Below S$100,000					
Teo Yi-Dar (Zhang Yida)[1]	–	–	100	–	100
Ng Weng Sui Harry	–	–	100	–	100
Kesavan Nair	–	–	100	–	100

Note:

1. Mr Teo Yi-Dar (Zhang Yida) was re-designated as Independent Non-Executive Chairman with effect from 1 January 2019.

The Board believes that it is for the benefit of the Company and the Group that the remuneration of Executive Director be kept confidential due to its sensitive nature and the potential negative impact such disclosure will have on the Group given the highly competitive environment it is operating in.

The Non-Executive Directors receive Directors' fees in accordance with their contributions, taking into account factors such as responsibilities, effort and time spent for serving on the Board and the Board Committees. The Non-Executive Directors' fees were derived using the fee structure as follows:

	S$
Basic fee	48,400
Board chairmanship	7,260
ARC chairmanship	7,260
NC chairmanship	4,840
RC chairmanship	4,840
ARC membership	3,630
NC membership	2,420
RC membership	2,420

CORPORATE GOVERNANCE REPORT

A breakdown of the remuneration of key management personnel for FY2019 is set out below:

Name of Executive Officers	Base Salary (%)[1]	Bonus (%)[1]	Allowances and Others (%)	TOTAL (%)
S$500,001 to S$750,000				
Shin Taeyang	42.79	55.66	1.55	100
Below S$250,000				
Sharon Tay Hong Kiang	81.44	18.43	0.13	100
Royston Johns	82.42	14.84	2.74	100

Note:

1. The salary and bonus amounts shown are inclusive of Central Provident Fund Contribution.

The total remuneration paid to the top three key management personnel during FY2019 was S$1,066,299.

DETAILS OF DIRECTORS SEEKING RE-ELECTION

Mr Teo Yi-Dar (Zhang Yida) and Mr Ng Weng Sui Harry are the Directors seeking re-election at the upcoming AGM (collectively, the "**Retiring Directors**" and each a "**Retiring Director**").

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the information relating to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST is set out below:

	TEO YI-DAR (ZHANG YIDA)	NG WENG SUI HARRY
Date of appointment	13 November 2014	23 April 2014
Date of last re-appointment (if applicable)	26 April 2018	26 April 2018
Age	48	63
Country of principal residence	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	After reviewing the recommendation of the NC and Mr Teo Yi-Dar (Zhang Yida)'s qualifications and experience, the Board approved his appointment as an Independent Non-Executive Chairman	After reviewing the recommendation of the NC and Mr Ng Weng Sui Harry's qualifications and experience, the Board approved his appointment as an Independent Non-Executive Director

CORPORATE GOVERNANCE REPORT

Whether appointment is executive, and if so, the area of responsibility	Not applicable	Not applicable
Job title (e.g. Lead ID, AC Chairman, AC Member etc.)	Independent Non-Executive Chairman and member of Audit and Risk Committee, Nominating Committee and Remuneration Committee	Independent Non-Executive Director and Chairman of the Audit & Risk Committee and a member of the Nominating Committee and Remuneration Committee
Professional qualifications	Bachelor of Electrical Engineering (Honours) from the National University of Singapore Master of Science Degree in Industrial and Systems Engineering from the National University of Singapore Master of Science Degree in Applied Finance from the National University of Singapore Chartered Financial Analyst by the CFA Institute	Master of Business Administration (General Business Administration) from The University of Hull, UK
Working experience and occupation(s) during the past 10 years	As disclosed in Mr Teo Yi-Dar (Zhang Yida)'s profile at pages 13 of this Annual Report	As disclosed in Mr Ng Weng Sui Harry's profile at pages 14 of this Annual Report
Shareholding interest in the listed issuer and its subsidiaries	None	Direct interest in 10,000 shares
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	None	None
Conflict of interest (including any competing business)	None	None

CORPORATE GOVERNANCE REPORT

Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other principal commitments including directorships	Present Directorships (on 31 December 2019): Listed companies: – Yangzijiang Shipbuilding (Holdings) Ltd. – China Yuanbang Property Holdings Limited – Asia Vets Holdings Limited (F.K.A Smartflex Holdings Ltd) – Denox Environmental & Technology Holdings Limited – Penyao Environmental Protection Co. Ltd. Others: Mr Teo Yi-Dar (Zhang Yida) also holds directorships in various non-listed companies.	Present Directorships (on 31 December 2019): Listed companies: – Artvision Technologies Ltd – IEV Holdings Limited – Oxley Holding Limited – Q&M Dental Group (Singapore) Limited Others: – HLM (International) Corporate Services Pte. Ltd. (Executive Director) – IEV Energy Investment Pte. Ltd. – Singapore Dental Council (member of Audit Committee) – NCC Research Fund (member of Audit Committee) – NCCS Cancer Fund (member of Audit Committee)
	Past Directorships held over the preceding three years (from 1 January 2017 to 31 December 2019): – Net Pacific Financial Holdings Limited – Baoling Investments Pte Ltd – Bayston Investments Limited – Pleasant Way Analyse Development Limited – SACLP Investments Limited – TFSA Investments Ltd – Value Plus Investment Limited	Past Directorships held over the preceding three years (from 1 January 2017 to 31 December 2019): None

The Retiring Directors confirm that there are no circumstances or matters requiring to be disclosed in relation to the queries provided in Appendix 7.4.1 of the Listing Rules.

FINANCIAL CONTENTS

DIRECTORS' STATEMENT

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of HG Metal Manufacturing Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2019.

OPINION OF THE DIRECTORS

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

DIRECTORS

The directors of the Company in office at the date of this statement are:

Teo Yi-Dar (Zhang Yida) – Chairman
Foo Sey Liang
Ng Weng Sui Harry
Kesavan Nair

In accordance with Regulation 88 and 89 of the Company's Constitution, Teo Yi-Dar (Zhang Yida) and Ng Weng Sui Harry retire and, being eligible, offer themselves for re-election.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Except as described in paragraph below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' STATEMENT

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

Name of director	Direct interest At the beginning of financial year	 At the end of financial year	Deemed interest At the beginning of financial year	 At the end of financial year
Ordinary shares of the Company				
Foo Sey Liang	–	–	28,405,000	28,405,000
Ng Weng Sui Harry	10,000	10,000	–	–

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2020.

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

OPTIONS

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under options as at the end of the financial year.

AUDIT COMMITTEE

The Audit and Risk Committee ("**ARC**") carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Chapter 50, including the following:

- Reviewed the audit plans of the internal and external auditors of the Group and the Company, and reviewed the internal auditor's evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Group and the Company's management to the external and internal auditors

- Reviewed the quarterly and annual financial statements and the independent auditor's report on the annual financial statements of the Group and the Company before their submission to the board of directors

- Reviewed effectiveness of the Group and the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditor

DIRECTORS' STATEMENT

AUDIT COMMITTEE (CONTINUED)

- Met with the external auditor, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the ARC
- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators
- Reviewed the cost effectiveness and independence and objectivity of the external auditor
- Reviewed the nature and extent of non-audit services provided by the external auditor
- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor, and reviewed the scope and results of the audit
- Reported actions and minutes of the ARC to the board of directors with such recommendations as the ARC considered appropriate
- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

The ARC, having reviewed all non-audit services provided by the external auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The ARC has also conducted a review of interested person transactions.

The ARC convened four meetings during the financial year. The ARC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the ARC are disclosed in the Report on Corporate Governance.

AUDITOR

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the board of directors,

Teo Yi-Dar (Zhang Yida)
Director

Foo Sey Liang
Director

Singapore
31 March 2020

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2019

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of HG Metal Manufacturing Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**"), which comprise the balance sheets of the Group and the Company as at 31 December 2019, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards (International) (SFRS(I)s) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2019

Key audit matters (cont'd)

Impairment assessment of trade receivables

As at 31 December 2019, the Group's trade receivable balances amounted to $48,055,000, representing 40% of the total current assets of the consolidated balance sheet as of 31 December 2019.

The Group applied the simplified approach permitted by SFRS(I) 9 in calculating expected credit losses. Under the simplified approach, the Group established a provision matrix that is based on its historical credit losses experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The correlation between historical credit losses, forward-looking factors and expected credit losses required management to use significant judgement and estimation, and may also not be representative of the actual default in the future. As such, we determined that this is a key audit matter.

Our audit procedures included, amongst others, obtaining an understanding of the Group's processes and controls relating to the monitoring of trade receivables and review of credit risks of customers. We evaluated the provision matrix used and assessed whether the historical rate is an appropriate estimate of the probabilities of default, through analysing of receivables ageing, assessment of material overdue trade receivables, review of customer payment history and correspondences with the debtors. We reviewed the key assumptions used by management in determining the forward looking rate. We also check the date inputs used and arithmetic accuracy of expected credit losses computation. We also obtained, on a sample basis, trade receivable confirmations and evidence of receipts from the customers subsequent to balance sheet date. In addition, we checked the adequacy of the disclosures on the trade receivables, and the related credit and liquidity risks in Note 17 Trade and other receivables and Note 35 Financial risk management respectively.

Carrying amount of inventories

The carrying amount of the Group's inventory of $43,052,000 as at 31 December 2019 was significant to the Group as it represented 36% of the Group's total current assets. Significant management judgement is required in estimating the net realisable value of inventories as the net realisable value is dependent on fluctuations in market prices and demand for steel. As such, we determined that this is a key audit matter.

Our audit procedures included, amongst others, attending inventory counts at selected inventory locations to observe the physical conditions of the inventories on sample basis. We evaluated the appropriateness of the process, methods and assumptions used by management in estimating the net realisable value of inventories. In particular, we evaluated the assumptions and estimates used by management in determining the write down amount through testing of the accuracy of inventories aging report, analysing the aging profile of inventories to identify slow and obsolete inventories as well as reviewing historical and sales patterns subsequent to financial year end. In addition, we checked the adequacy of the Group's disclosure on inventories in Note 16 Inventories.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2019

Other information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2019

Auditor's responsibilities for the audit of the financial statements (cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 31 December 2019

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Andrew Tan Chwee Peng.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Revenue	5	**137,120**	173,923
Cost of sales		**(123,798)**	(164,055)
Gross profit		**13,322**	9,868
Other operating income	6	**4,927**	6,828
Selling and distribution costs		**(554)**	(709)
Administrative expenses		**(9,595)**	(9,088)
Other operating expenses		**(6,627)**	(8,656)
Finance costs	7	**(892)**	(167)
Reversal of/(impairment loss) on financial assets	8	**220**	(1,985)
Profit/(loss) before income tax	9	**801**	(3,909)
Income tax expense	10	**(37)**	(26)
Net profit/(loss) for the year		**764**	(3,935)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation		**(80)**	(30)
Other comprehensive income for the year, net of tax		**(80)**	(30)
Total comprehensive income for the year		**684**	(3,965)
Profit/(loss) attributable to:			
Owners of the Company		**758**	(3,945)
Non-controlling interests		**6**	10
		764	(3,935)
Total comprehensive income attributable to:			
Owners of the Company		**720**	(3,963)
Non-controlling interests		**(36)**	(2)
		684	(3,965)
Earnings per share:			
Basic (cents)	11	**0.59**	(3.10)
Diluted (cents)	11	**0.59**	(3.10)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BALANCE SHEETS

As at 31 December 2019

	Note	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Assets					
Non-current assets					
Property, plant and equipment	12	**32,236**	22,921	**7,284**	9,100
Right-of-use assets	22	**11,295**	–	**1,674**	–
Intangible assets	13	**124**	7	**26**	3
Land use rights	14	**–**	3,069	**–**	–
Restricted deposits	19	**784**	784	**–**	–
Investment in subsidiaries	15	**–**	–	**13,113**	13,113
Investment securities	18	**9,520**	10,044	**9,520**	10,044
		53,959	36,825	**31,617**	32,260
Current assets					
Investment securities	18	**524**	24	**524**	24
Inventories	16	**43,052**	30,872	**30,207**	21,484
Trade and other receivables	17	**49,294**	51,170	**54,529**	54,584
Income tax recoverable		**45**	–	**–**	–
Prepaid expenses		**532**	664	**301**	93
Fixed deposits pledged with banks	19	**2,500**	9,500	**2,500**	9,500
Cash and cash equivalents	19	**22,911**	15,435	**13,787**	4,168
		118,858	107,665	**101,848**	89,853
Total assets		**172,817**	144,490	**133,465**	122,113
Equity and liabilities					
Current liabilities					
Trade and other payables	20	**36,038**	35,461	**45,943**	52,300
Lease liabilities	22	**1,308**	–	**922**	–
Bank borrowings	23	**19,813**	3,420	**19,585**	3,420
Provision for income tax		**14**	15	**–**	–
Provision for reinstatement costs	25	**467**	–	**467**	–
Deferred income	24	**–**	1,429	**–**	1,429
Derivative financial instruments	21	**341**	42	**341**	42
		57,981	40,367	**67,258**	57,191
Net current assets		**60,877**	67,298	**34,590**	32,662

BALANCE SHEETS

As at 31 December 2019

	Note	Group		Company	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
Non-current liabilities					
Lease liabilities	22	**7,789**	–	**1,976**	–
Bank borrowings	23	**3,192**	–	**–**	–
Deferred tax liabilities	32	**25**	–	**–**	–
Provision for reinstatement costs	25	**1,167**	1,100	**500**	800
Deferred income	24	**–**	119	**–**	119
		12,173	1,219	**2,476**	919
Total liabilities		**70,154**	41,586	**69,734**	58,110
Net assets		**102,663**	102,904	**63,731**	64,003
Equity attributable to owners of the Company					
Share capital	26	**70,496**	70,496	**70,496**	70,496
Treasury shares	27	**(2,215)**	(2,215)	**(2,215)**	(2,215)
Other reserves	28	**2,985**	3,023	**2,527**	2,527
Accumulated profits/(losses)		**27,472**	28,940	**(7,077)**	(6,805)
		98,738	100,244	**63,731**	64,003
Non-controlling interests		**3,925**	2,660	**–**	–
Total equity		**102,663**	102,904	**63,731**	64,003
Total equity and liabilities		**172,817**	144,490	**133,465**	122,113

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

2019 Group	Share capital $'000	Treasury shares $'000	Capital reserve $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated profits $'000	Equity attributable to owners of the Company, total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to owners of the Company								
At 31 December 2018	70,496	(2,215)	2,527	(212)	708	28,940	100,244	2,660	102,904
Effects of adopting SFRS(I) 16	–	–	–	–	–	(2,226)	(2,226)	–	(2,226)
At 1 January 2019	70,496	(2,215)	2,527	(212)	708	26,714	98,018	2,660	100,678
Profit for the year	–	–	–	–	–	758	758	6	764
Other comprehensive income									
Foreign currency translation	–	–	–	–	(38)	–	(38)	(42)	(80)
Other comprehensive income for the year, net of tax	–	–	–	–	(38)	–	(38)	(42)	(80)
Total comprehensive income for the year	–	–	–	–	(38)	758	720	(36)	684
Change in ownership interest in subsidiary									
Issuance of ordinary shares in a subsidiary	–	–	–	–	–	–	–	1,301	1,301
Total change in ownership interest in subsidiary	–	–	–	–	–	–	–	1,301	1,301
Total transaction with owners in their capacity as owners	–	–	–	–	–	–	–	1,301	1,301
At 31 December 2019	70,496	(2,215)	2,527	(212)	670	27,472	98,738	3,925	102,663

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

2018 Group	Share capital $'000	Treasury shares $'000	Capital reserve $'000	Other reserves $'000	Foreign currency translation reserve $'000	Accumulated profits/ (losses) $'000	Equity attributable to owners of the Company, total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to owners of the Company								
At 1 January 2018 (FRS framework)	70,496	(2,215)	2,527	(212)	(176)	33,791	104,211	1	104,212
Cumulative effects of adopting SFRS(I)s	–	–	–	–	902	(906)	(4)	–	(4)
At 1 January 2018 (SFRS(I)s framework)	70,496	(2,215)	2,527	(212)	726	32,885	104,207	1	104,208
Loss for the year	–	–	–	–	–	(3,945)	(3,945)	10	(3,935)
Other comprehensive income									
Foreign currency translation	–	–	–	–	(18)	–	(18)	(12)	(30)
Other comprehensive income for the year, net of tax	–	–	–	–	(18)	–	(18)	(12)	(30)
Total comprehensive income for the year	–	–	–	–	(18)	(3,945)	(3,963)	(2)	(3,965)
Change in ownership interest in subsidiary									
Acquisition of a subsidiary	–	–	–	–	–	–	–	91	91
Issuance of ordinary shares in a subsidiary	–	–	–	–	–	–	–	2,570	2,570
Total change in ownership interest in subsidiary	–	–	–	–	–	–	–	2,661	2,661
Total transaction with owners in their capacity as owners	–	–	–	–	–	–	–	2,661	2,661
At 31 December 2018	70,496	(2,215)	2,527	(212)	708	28,940	100,244	2,660	102,904

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

	Attributable to owners of the Company				
2019 **Company**	**Share capital $'000**	**Treasury shares $'000**	**Capital reserve $'000**	**Accumulated losses $'000**	**Total equity $'000**
At 31 December 2018	**70,496**	**(2,215)**	**2,527**	**(6,805)**	**64,003**
Effects of adopting SFRS(I) 16	**–**	**–**	**–**	**(2,225)**	**(2,225)**
At 1 January 2019	**70,496**	**(2,215)**	**2,527**	**(9,030)**	**61,778**
Profit for the year, representing total comprehensive income for the year	**–**	**–**	**–**	**1,953**	**1,953**
At 31 December 2019	**70,496**	**(2,215)**	**2,527**	**(7,077)**	**63,731**

	Attributable to owners of the Company				
2018 **Company**	**Share capital $'000**	**Treasury shares $'000**	**Capital reserve $'000**	**Accumulated losses $'000**	**Total equity $'000**
At 1 January 2018 (FRS framework)	70,496	(2,215)	2,527	(2,354)	68,454
Cumulative effects of adopting SFRS(I)s	–	–	–	(4)	(4)
At 1 January 2018 (SFRS(I)s framework)	70,496	(2,215)	2,527	(2,358)	68,450
Loss for the year, representing total comprehensive income for the year	–	–	–	(4,447)	(4,447)
At 31 December 2018	70,496	(2,215)	2,527	(6,805)	64,003

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Profit/(loss) before income tax		**801**	(3,909)
Adjustments for:			
Bad debts recovered, net	6, 9	**(108)**	(2)
Depreciation of property, plant and equipment	12	**2,919**	2,755
Depreciation of right-of-use assets	22	**2,788**	–
Amortisation of intangible assets	13	**7**	5
Amortisation of land use rights	14	**–**	20
(Reversal of)/provision for reinstatement cost	6, 25	**(133)**	100
Recognition of deferred income	6	**–**	(1,429)
Gain on disposal of property, plant and equipment	6	**(269)**	(94)
Gain on disposal of intangible assets	6	**–**	(3)
Write-off of property, plant and equipment	9	**4**	–
Write-down of inventories	9	**19**	8
(Reversal of)/impairment loss on financial assets	8, 17	**(220)**	1,985
Fair value loss on derivatives	9	**299**	57
Finance costs	7	**892**	167
Interest income	6	**(432)**	(358)
Unrealised foreign exchange gain, net		**(415)**	(300)
Operating cash flows before changes in working capital		**6,152**	(998)
Working capital changes:			
Inventories		**(12,927)**	(15,310)
Trade and other receivables		**2,979**	(9,272)
Prepaid expenses		**(401)**	(498)
Trade and other payables		**385**	12,190
Cash used in operations		**(3,812)**	(13,888)
Interest received		**360**	288
Interest paid	F	**(879)**	(167)
Income tax paid		**(13)**	(26)
Net cash flows used in operating activities		**(4,344)**	(13,793)
Cash flows from investing activities			
Net cash outflow on acquisition of a subsidiary	15(d)	**–**	(67)
Fixed deposit withdrawn from banks		**7,000**	10,000
Purchase of investment securities		**–**	(10,112)
Purchase of property, plant and equipment	A	**(10,442)**	(4,451)
Proceeds from disposal of property, plant and equipment	B	**8**	218
Purchase of intangible assets	C	**(108)**	(4)
Proceeds from disposal of intangible assets	D	**4**	47
Net cash flows used in investing activities		**(3,538)**	(4,369)

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from financing activities			
Contribution of share capital by minority shareholders	E	**770**	1,526
Proceeds from bank borrowings	F	**82,699**	59,300
Repayment of bank borrowings	F	**(62,877)**	(55,856)
Principal element of lease payments	F	**(5,259)**	–
Repayment of finance lease payables	F	**–**	(141)
Net cash flows generated from financing activities		**15,333**	4,829
Net increase/(decrease) in cash and cash equivalents		**7,451**	(13,333)
Effects of exchange rate changes on cash and cash equivalents		**25**	(78)
Cash and cash equivalents at beginning of financial year		**15,435**	28,846
Cash and cash equivalents at end of financial year	19	**22,911**	15,435

Note A: Purchase of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of $12,494,000 (2018: $13,206,000). The additions were by way as follows: -

	Note	2019 $'000	2018 $'000
Cash and bank balances		**7,550**	4,451
Inventories		**11**	2,011
Prepaid expenses		**515**	–
Other payables		**4,418**	6,744
Purchase of property, plant and equipment	12	**12,494**	13,206

Cash outflows for the year also include payments in respect of the purchase of property, plant and equipment in the previous year of $2,892,000 (2018: $Nil).

Note B: Disposal of property, plant and equipment

During the financial year, the Group disposed-off property plant and equipment for $380,000 (2018: $216,000). Proceeds of $8,000 (2018: $216,000) were collected with balance of $372,000 ($2018: $Nil) remained in other receivables.

Cash inflows for the year also include receipts in respect of disposal of property, plant and equipment in the previous year of $Nil (2018: $2,000).

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2019

Note C: Purchase of intangible assets

During the financial year, the Group acquired intangible assets with an aggregate cost of $127,000 (2018: $2,000). The additions were by way as follows: -

		2019 $'000	2018 $'000
Cash and bank balances		**108**	2
Prepaid expenses		**19**	–
Purchase of intangible assets	13	**127**	2

Cash outflows for the year also include payments in respect of purchase of intangible assets in the previous year of $Nil (2018: $2,000).

Note D: Gain on disposal of intangible assets

During the financial year, the Group disposed-off intangible assets with proceeds of $Nil (2018: $51,000). The disposals were by way of cash receipts of $Nil (2018: $47,000) and other receivables of $Nil (2018: $4,000) respectively.

Cash inflows for the year include receipts in respect of disposal of intangible assets in the previous year of $4,000 (2018: $Nil).

Note E: Contribution of share capital by minority shareholders

During the financial year, the Group, together with the minority shareholders had further subscribed shares towards the increase in the paid-up share capital of its subsidiary, First Fortune International Co. Ltd ("**FFI**"). The minority shareholders subscribed shares amounting to $1,301,000 (2018: $2,570,000). These comprised of cash contribution of $770,000 (2018: $1,526,000) and contribution in kind of $531,000 (2018: $1,044,000) in relation to the land use right for FFI.

CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 December 2019

Note F: Reconciliation of liabilities arising from financing activities

			Non-cash changes				
	1 January 2019 $'000	Cash flows $'000	Adoption of SFRS(I) 16 $'000	Additions during the year $'000	Foreign exchange movement $'000	Accretion of interest $'000	31 December 2019 $'000
Bank borrowings	3,420	19,822	–	–	(237)	–	23,005
Lease liabilities	–	(5,660)	8,130	6,226	–	401	9,097
Total	3,420	14,162	8,130	6,226	(237)	401	32,102

			Non-cash changes	
	1 January 2018 $'000	Cash flows $'000	Foreign exchange movement $'000	31 December 2018 $'000
Bank borrowings	–	3,444	(24)	3,420
Finance lease payable	141	(141)	–	–
Total	141	3,303	(24)	3,420

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

1. CORPORATE INFORMATION

HG Metal Manufacturing Limited (the "**Company**") is a public limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange.

The registered office and principal place of business of the Company is located at 28 Jalan Buroh Singapore 618494.

The principal activities of the Company are the business of trading of steel products and investment holding. The principal activities of the subsidiaries are disclosed in Note 15 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)s).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollar (SGD or $) and all values in the tables are rounded to the nearest thousand ($'000), except when otherwise indicated.

2.2 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of consolidation and business combinations (cont'd)

(b) Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

Non-controlling interest in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of net assets of the acquire are recognised on the acquisition date at either fair value, or the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.3 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Foreign currency

The financial statements are presented in SGD, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

(b) Consolidated financial statements

For consolidation purposes, the assets and liabilities of foreign operations are translated into SGD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.5 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has unlimited useful life and therefore is not depreciated.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	–	20 to 50 years
Leasehold buildings	–	10 to 41 years
Plant and machinery	–	5 to 10 years
Furniture and fittings	–	4 to 10 years
Office equipment	–	3 to 10 years
Renovation	–	5 to 10 years
Motor vehicles	–	4 to 10 years

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Property, plant and equipment (cont'd)

Construction in progress included in property, plant and equipment are not depreciated as these assets are not yet available for use.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

2.6 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

Computer software licences are stated at cost less accumulated amortisation and impairment in value, if any. These costs are amortised using the straight-line method over their estimated useful lives of 3 to 5 years.

(b) Club membership

Club membership was acquired separately and is stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

Upon adoption of SFRS(I) 16, the Group presented the land use rights as right-of-use assets as of 1 January 2019.

2.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses relating to goodwill cannot be reversed in future periods.

2.9 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

<u>Investments in debt instruments</u>

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are:

(i) Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

(ii) Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial instruments (cont'd)

(a) Financial assets (cont'd)

Subsequent measurement (cont'd)

Investments in debt instruments (cont'd)

(iii) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

Investments in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. Dividends from such investments are to be recognised in profit or loss when the Group's right to receive payments is established. For investments in equity instruments which the Group has not elected to present subsequent changes in fair value in OCI, changes in fair value are recognised in profit or loss.

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial instruments (cont'd)

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

2.11 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Impairment of financial assets (cont'd)

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when the contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average cost basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average cost basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for reinstatement costs

Provision for reinstatement cost arose from the estimated cost of dismantling, removing and restoring the leasehold properties at the end of their lease terms.

The reinstatement costs which are provided at the present value of estimated costs required to settle the obligation are recognised as part of the cost of that particular asset. The estimated future cost if reinstatement is reviewed annually and adjusted as appropriate.

2.15 Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are measured at the higher of the amount of expected credit losses determined in accordance with the policy set out in Note 2.11 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised over the period of the guarantee.

2.16 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.17 Employee benefits

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2.18 Leases

(a) As a lessee

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office equipment 5 years
- Worker dormitory 2 years
- Land 6.25 to 20 years

The right-of-use assets are also subject to impairment. Please refer to Note 2.8 Impairment for non-financial assets.

The cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

The Group's lease arrangements contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Leases (cont'd)

(a) As a lessee (cont'd)

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.19. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) Sale of goods

The Group supplies steel products to the customers.

Revenue is recognised when the goods are delivered to the customers and all criteria for acceptance have been satisfied.

The amount of revenue recognised is based on the contractual price. Based on the Group's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) Cut and bend services

Revenue from cut and bend services is recognised when the services have been performed and rendered.

(c) Rental of steel plates

Revenue from rental of steel plates is accounted for on a straight-line basis over the lease terms.

(d) Dividend income

Dividend income is recognised in profit or loss when the Group's right to receive payment is established.

(e) Warehouse and handling fee income

Warehouse rental is accounted for on a straight-line basis over the lease terms.

Related handling fee income is accounted when the services have been performed and rendered.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Taxes (cont'd)

(b) Deferred tax (cont'd)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

2.21 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 31, including the factors used to identify the reportable segments and the measurement basis of segment information.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.23 Treasury shares

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

2.24 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

    (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

    (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1 New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and amended standards which are relevant to the Group and are effective for annual financial periods beginning on or after 1 January 2019. Except for the adoption of SFRS(I) 16 Leases described below, the adoption of these standards did not have any material effect on the financial performance or position of the Group.

SFRS(I) 16 Leases

SFRS(I) 16 supersedes SFRS(I) 1-17 Leases, SFRS(I) INT 4 Determining whether an Arrangement contains a Lease, SFRS(I) INT 1-15 Operating Leases-Incentives and SFRS(I) INT 1-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Group adopted SFRS(I) 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to the opening balance of retained earnings. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying SFRS(I) 1-17 and SFRS(I) INT 4 at the date of initial application.

The effect of adopting SFRS(I) 16 as at 1 January 2019 was as follows:

	Increase/(decrease)	
	Group $'000	Company $'000
Right-of-use assets	7,226	4,148
Land use rights	(3,069)	–
Lease liabilities	8,130	8,120
Trade and other payables	(199)	(199)
Deferred income	(1,548)	(1,548)
Accumulated profits/(losses)	(2,226)	(2,225)

The Group has lease contracts for land, buildings, workers dormitories and office equipment. Before the adoption of SFRS(I) 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of SFRS(I) 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D)

3.1 New accounting standards and interpretations (cont'd)

SFRS(I) 16 Leases (cont'd)

(a) Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for the leases were recognized based on the carrying amount as if the standard had always been applied, using the incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment review;
- applied the short-term leases exemption to leases with lease term that ends within 12 months of the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group $'000	Company $'000
Operating lease commitments as at 31 December 2018	**18,533**	**8,664**
Less:		
Commitments starting after 1 January 2019	**(9,818)**	**(181)**
Commitments relating to short-term leases	**(234)**	**(11)**
	8,481	**8,472**
Discounted using weighted average incremental borrowing rate as at 1 January 2019	**5.21%**	**5.25%**
Lease liabilities as at 1 January 2019	**8,130**	**8,120**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D)

3.2 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS(I) 3: Definition of a Business	1 January 2020
Amendments to SFRS(I)1-1 and SFRS(I) 1-8: Definition of Material	1 January 2020
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: Interest Rate Benchmark Reform	1 January 2020
SFRS(I) 17 Insurance Contracts	1 January 2021
Amendments to SFRS(I) 10 & SFRS(I) 1-28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined

The directors expect that the adoption of the standards above will have no material impact on the financial statements in the year of initial application.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Management is of the opinion that there is no significant judgment made in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(a) Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivable is disclosed in Note 17.

The carrying amount of trade receivables as at 31 December 2019 are $48,055,000 (2018: $49,151,000) respectively.

A 5% increase/decrease in the allowance for expected credit losses estimated by the management would result in a decrease/increase of $119,000 (2018: $131,000) in the Group's profit/(loss) before tax.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONT'D)

Key sources of estimation uncertainty (cont'd)

(b) Inventories and related allowance

Inventories are stated at the lower of cost and net realisable value. The Group primarily determines cost of inventories using the "weighted average" method. The Group estimates the net realisable value of inventories based on assessment of receipt or committed sales prices and provides for excess and obsolete inventories based on historical usage, estimated future demand and related pricing.

In determining excess quantities, the Group considers recent sales activities, related margins and market positioning of its products. These estimates are generally not subject to significant volatility, due to the long-life cycles of its products. However, factors beyond its control, such as demand levels, technological advances and pricing competition, could change from period to period. If such factors had an adverse effect, the Group might be required to reduce the value of its inventories, which would adversely affect its results, cash flows and financial position.

The carrying amount of the inventories as at 31 December 2019 is $43,052,000 (2018: $30,872,000) respectively.

A 5% increase/decrease in the allowance for stock obsolescence estimated by the management would result in a decrease/increase of $2,500 (2018: $3,000) in the Group's profit/(loss) before tax.

(c) Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The carrying amount of the Group's lease liabilities as at 31 December 2019 was $9,097,000 (2018: $Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

5. REVENUE

(a) Disaggregation of revenue

	Group	
	2019	**2018**
	$'000	**$'000**
Sale of goods (at a point in time)	**62,215**	116,932
Cut and bend (at a point in time)	**73,306**	55,637
Rental of steel plates (over time)	**1,599**	1,354
	137,120	173,923

(b) Determining variable consideration for sale of goods

The transaction prices for certain contracts with customers provide price concession based on the indexes to be published by Building and Construction Authority ("BCA") for future period. Such provisions give rise to variable consideration and will be required to be estimated over the contract period. The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of the expected price concession to be provided. For BCA indexes, management has determined that the application of the constraint does not result in significant decrease/increase in the cumulative amount of revenue recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

6. OTHER OPERATING INCOME

	Note	Group 2019 $'000	Group 2018 $'000
Bad debts recovered		**108**	4
Claims and compensation received		**112**	189
Gain on disposal of property, plant and equipment		**269**	94
Gain on disposal of intangible assets		**–**	3
Interest income			
– Fixed deposits		**167**	209
– Current accounts with banks		**14**	38
– Money market deposits		**–**	1
– Investment securities		**251**	110
Operating lease income		**27**	29
Income from subleasing		**506**	803
Warehouse and handling fee income		**2,710**	3,434
Recognition of deferred income	24	**–**	1,429
Electricity charges income		**146**	143
PIC cash payout		**–**	3
Wage credit scheme income		**27**	37
Reversal of reinstatement costs		**133**	–
Foreign exchange gain, net		**281**	–
Sundry income		**176**	302
		4,927	6,828

7. FINANCE COSTS

	Note	Group 2019 $'000	Group 2018 $'000
Interest on lease liabilities	22	**401**	–
Interest expense			
– Finance lease		**–**	7
– Trust receipts		**481**	160
– Construction loans		**10**	–
		892	167

8. (REVERSAL OF)/IMPAIRMENT LOSS ON FINANCIAL ASSETS

	Note	Group 2019 $'000	Group 2018 $'000
Trade receivables	17	**(220)**	1,985

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

9. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging the following:

	Group	
	2019	**2018**
	$'000	**$'000**
Depreciation of property, plant and equipment recognised as an expense in cost of sales	**1,276**	1,140
Inventories recognised as an expense in cost of sales (Note 16)	**114,521**	155,987
Audit fees paid/payable to:		
– Auditors of the Company	**155**	165
– Other auditors	**13**	6
Directors fees payable to:		
– Directors of the Company	**186**	169
Staff cost (including directors)		
– Salaries, bonuses and allowances	**7,431**	6,556
– Employer's contributions to defined contribution plan	**545**	523
– Other staff welfare expenses	**261**	151
Legal and professional fees	**163**	218
Included in other operating expenses:		
Foreign exchange loss, net	**–**	69
Depreciation of property, plant and equipment	**1,643**	1,615
Depreciation of right-of-use assets	**2,788**	–
Amortisation of land use rights	**–**	20
Amortisation of intangible assets	**7**	5
Bad debts written off	**–**	2
Leases expenses	**389**	5,764
Fair value loss on derivatives	**299**	57
Write-down of inventories (Note 16)	**19**	8
Provision for reinstatement cost	**–**	100
Write-off of property, plant and equipment	**4**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

10. INCOME TAX EXPENSE

Major components of income taxes

The major components of income taxes for the years ended 31 December 2019 and 2018 are:

	Group	
	2019 **$'000**	**2018** **$'000**
Current income tax		
– Current financial year	**12**	26
Deferred tax		
– Current financial year	**25**	–
Total income tax expense recognised in profit or loss	**37**	26

Relationship between tax expense and accounting profit/(loss)

The reconciliation between tax expense and the accounting profit/(loss) multiplied by the applicable corporate tax rate for the years ended 31 December 2019 and 2018 is as follows:

	Group	
	2019 **$'000**	**2018** **$'000**
Profit/(loss) before income tax	**801**	(3,909)
Tax at the domestic rates applicable to profits in the countries where the Group operates	**125**	(687)
Tax effect of:		
– Expenses not deductible for tax purposes	**1,194**	618
– Income not subject to tax	**(962)**	(290)
Deferred tax assets not recognised	**606**	537
Benefits from previously unrecognised deferred tax assets	**(927)**	(148)
Others	**1**	(4)
	37	26

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

At the balance sheet date, the Group has tax losses of approximately $101,508,000 (2018: $103,396,000) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate. Tax rates of the jurisdictions the Group operates in are ranging from 17% to 25%.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

11. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's profit/(loss) for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share are calculated by dividing the Group's profit/(loss) for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

These profit/(loss) and share data are presented in the table below:

	Group	
	2019	**2018**
	$'000	**$'000**
Profit/(loss) for the year attributable to owners of the Company	**758**	(3,945)
	No. of shares	**No. of shares**
	'000	**'000**
Weighted average number of ordinary shares for basic earnings per share computation and diluted earnings per share computation	**127,417**	127,417

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Buildings $'000	Leasehold buildings $'000	Plant and machinery $'000	Furniture and fittings $'000	Office equipment $'000	Renovation $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Group										
Cost										
At 1 January 2018	197	261	16,203	14,474	835	810	1,051	2,538	–	36,369
Additions	–	–	–	2,403	–	27	–	301	10,475	13,206
Disposals/write off	–	–	–	(228)	–	(1)	–	(222)	–	(451)
Acquisition of a subsidiary (Note 15)	–	–	–	–	–	3	–	38	29	70
Exchange differences	1	–	–	3	–	–	1	1	92	98
At 31 December 2018 and 1 January 2019	**198**	**261**	**16,203**	**16,652**	**835**	**839**	**1,052**	**2,656**	**10,596**	**49,292**
Additions	**–**	**125**	**–**	**66**	**7**	**52**	**–**	**81**	**12,163**	**12,494**
Disposals/write off	**–**	**–**	**–**	**(838)**	**(209)**	**(74)**	**(100)**	**–**	**–**	**(1,221)**
Reclassifications	**–**	**9,800**	**2,307**	**2,789**	**–**	**–**	**–**	**–**	**(14,896)**	**–**
Exchange differences	**(1)**	**(117)**	**–**	**(21)**	**–**	**(1)**	**–**	**(2)**	**(7)**	**(149)**
At 31 December 2019	**197**	**10,069**	**18,510**	**18,648**	**633**	**816**	**952**	**2,735**	**7,856**	**60,416**
Accumulated depreciation and impairment loss										
At 1 January 2018	–	41	12,648	7,520	583	619	849	1,683	–	23,943
Charge for the year	–	5	915	1,285	57	74	98	321	–	2,755
Disposals/write off	–	–	–	(181)	–	(1)	–	(145)	–	(327)
At 31 December 2018 and 1 January 2019	**–**	**46**	**13,563**	**8,624**	**640**	**692**	**947**	**1,859**	**–**	**26,371**
Charge for the year	**–**	**153**	**732**	**1,532**	**56**	**55**	**69**	**322**	**–**	**2,919**
Disposals/write off	**–**	**–**	**–**	**(727)**	**(208)**	**(71)**	**(100)**	**–**	**–**	**(1,106)**
Exchange differences	**–**	**(2)**	**–**	**(2)**	**–**	**–**	**–**	**–**	**–**	**(4)**
At 31 December 2019	**–**	**197**	**14,295**	**9,427**	**488**	**676**	**916**	**2,181**	**–**	**28,180**
Net carrying amount										
At 31 December 2018	**198**	**215**	**2,640**	**8,028**	**195**	**147**	**105**	**797**	**10,596**	**22,921**
At 31 December 2019	**197**	**9,872**	**4,215**	**9,221**	**145**	**140**	**36**	**554**	**7,856**	**32,236**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Leasehold buildings $'000	Plant and machinery $'000	Furniture and fittings $'000	Office equipment $'000	Renovation $'000	Motor vehicles $'000	Total $'000
Company							
Cost							
At 1 January 2018	9,372	7,828	616	566	912	2,297	21,591
Additions	–	2,096	–	14	–	154	2,264
Disposals/write off	–	(194)	–	(3)	–	(104)	(301)
At 31 December 2018 and 1 January 2019	**9,372**	**9,730**	**616**	**577**	**912**	**2,347**	**23,554**
Additions	**–**	**–**	**4**	**21**	**–**	**32**	**57**
Disposals/write off	**–**	**(717)**	**–**	**–**	**–**	**–**	**(717)**
At 31 December 2019	**9,372**	**9,013**	**620**	**598**	**912**	**2,379**	**22,894**
Accumulated depreciation and impairment loss							
At 1 January 2018	6,513	3,262	386	398	746	1,561	12,866
Charge for the year	474	862	49	67	96	288	1,836
Disposals/write off	–	(154)	–	(3)	–	(91)	(248)
At 31 December 2018 and 1 January 2019	**6,987**	**3,970**	**435**	**462**	**842**	**1,758**	**14,454**
Charge for the year	**474**	**869**	**49**	**46**	**68**	**280**	**1,786**
Disposals/write off	**–**	**(630)**	**–**	**–**	**–**	**–**	**(630)**
At 31 December 2019	**7,461**	**4,209**	**484**	**508**	**910**	**2,038**	**15,610**
Net carrying amount							
At 31 December 2018	2,385	5,760	181	115	70	589	9,100
At 31 December 2019	**1,911**	**4,804**	**136**	**90**	**2**	**341**	**7,284**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The net carrying amount of property, plant and equipment of the Group and the Company that were mortgaged as security for bank borrowings (Note 23) were as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Leasehold properties	**4,215**	2,640	**1,911**	2,385

13. INTANGIBLE ASSETS

	Computer software $'000	Club membership $'000	Total $'000
Group			
Cost			
At 1 January 2018	988	48	1,036
Additions	2	–	2
Disposal	–	(48)	(48)
At 31 December 2018 and 1 January 2019	**990**	**–**	**990**
Additions	**103**	**24**	**127**
Write off	**(8)**	**–**	**(8)**
Exchange differences	**(3)**	**–**	**(3)**
At 31 December 2019	**1,082**	**24**	**1,106**
Accumulated amortisation			
At 1 January 2018	978	–	978
Amortisation	5	–	5
At 31 December 2018 and 1 January 2019	**983**	**–**	**983**
Amortisation	**7**	**–**	**7**
Write off	**(8)**	**–**	**(8)**
At 31 December 2019	**982**	**–**	**982**
Net carrying amount			
At 31 December 2018	7	–	7
At 31 December 2019	**100**	**24**	**124**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

13. INTANGIBLE ASSETS (CONT'D)

	Computer software $'000	Club membership $'000	Total $'000
Company			
Cost			
At 1 January 2018 and 31 December 2018 and 1 January 2019	909	–	909
Additions	–	24	24
At 31 December 2019	**909**	**24**	**933**
Accumulated amortisation			
At 1 January 2018	903	–	903
Amortisation	3	–	3
At 31 December 2018 and 1 January 2019	**906**	**–**	**906**
Amortisation	**1**	**–**	**1**
At 31 December 2019	**907**	**–**	**907**
Net carrying amount			
At 31 December 2018	3	–	3
At 31 December 2019	**2**	**24**	**26**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

14. LAND USE RIGHTS

	Group	
	2019	**2018**
	$'000	**$'000**
Cost		
At 1 January	**3,089**	–
Reclass to right-of-use assets (Note 22)	**(3,089)**	–
Additions	**–**	3,089
At 31 December	**–**	3,089
Accumulated amortisation		
At 1 January	**20**	–
Reclass to right-of-use assets (Note 22)	**(20)**	–
Amortisation for the year	**–**	20
At 31 December	**–**	20
Net carrying amount		
Net carrying amount	**–**	3,069
Amount to be amortised		
– Not later than one year	**–**	60
– Later than one year but not later than five years	**–**	240
– Later than five years	**–**	2,769
At 31 December	**–**	3,069

The Group has land use rights over two plots of land in Myanmar where the Group's Myanmar steel fabrication facility resides. The land use rights are not transferable and have a remaining tenure of 48 years (2018: 49 years).

Upon the adoption of SFRS(I) 16, the Group presented land use rights of $3,069,000 as right-of-use assets as of 1 January 2019 as disclosed in Note 22.

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2019	**2018**
	$'000	**$'000**
Unquoted equity shares, at cost	**14,346**	14,346
Impairment losses	**(1,233)**	(1,233)
	13,113	13,113

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

15. INVESTMENT IN SUBSIDIARIES (CONT'D)

(a) Composition of the Group

The Group has the following investment in subsidiaries.

Name of subsidiaries	Principal activities	Country of incorporation/ business	Proportion of ownership interest 2019 %	2018 %
Held by the Company				
Jin Heng Li Hardware Sdn Bhd (2)	Dormant	Malaysia	**100.00**	100.00
Oriental Metals Pte Ltd (1)	Manufacturing and supply of steel material to the construction industry	Singapore	**99.99**	99.99
HG Metal Investments Pte Ltd (1)	Investment holding	Singapore	**100.00**	100.00
PT HG Metal Distribution Indonesia (3)	Dormant	Indonesia	**100.00**	100.00
Held by HG Metal Investments Pte. Ltd				
Niho (Singapore) Pte Ltd	Under voluntary liquidation	Singapore	**100.00**	100.00
HG Construction Steel Pte Ltd (1)	Manufacturing and supply of steel material to the construction industry	Singapore	**100.00**	100.00
HG Metal Manufacturing Sdn Bhd (2)	Dormant	Malaysia	**100.00**	100.00
HG Metal Pte Ltd	Under voluntary liquidation	Singapore	**100.00**	100.00
HG Yangon Company Limited (3)	Trading and distribution of steel products	Myanmar	**100.00**	100.00
First Fortune International Company Limited (4)	Manufacturing, trading and fabrication of steel structures and parts	Myanmar	**51.04**	51.04
Held by HG Metal Manufacturing Sdn. Bhd.				
HG Metal Distribution Sdn Bhd (2)	Dormant	Malaysia	**100.00**	100.00

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

15. INVESTMENT IN SUBSIDIARIES (CONT'D)

(a) Composition of the Group (Cont'd)

(1) Audited by Ernst & Young LLP, Singapore.

(2) Audited by Baker Tilly Malaysia.

(3) Not required to be audited under the laws of the country of incorporation.

(4) Audited by UTW (Myanmar) Limited (a member firm of Ernst & Young Global Limited)

(b) Interest in subsidiaries with material non-controlling interest (NCI)

Name of subsidiaries	Principal place of business	Proportion of ownership interest held by NCI	Gain allocated to NCI during the reporting period $'000	Accumulated NCI at the end of reporting period $'000	Dividends paid to NCI $'000
31 December 2019:					
First Fortune International Company Limited	Myanmar	**51.04%**	**6**	**16**	**–**
31 December 2018:					
First Fortune International Company Limited	Myanmar	51.04%	10	10	–

(c) Summarised financial information about subsidiaries with material NCI

Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material non-controlling interests are as follows:

Summarised balance sheets

	First Fortune International Company Limited	
	2019 $'000	2018 $'000
Current		
Assets	**10,952**	7,201
Liabilities	**(17,457)**	(13,850)
Net current liabilities	**(6,505)**	(6,649)
Non-current		
Assets	**14,513**	12,075
Liabilities	**–**	–
Net non-current assets	**14,513**	12,075
Net assets	**8,008**	5,426

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

15. INVESTMENT IN SUBSIDIARIES (CONT'D)

(c) Summarised financial information about subsidiaries with material NCI (cont'd)

Summarised statement of comprehensive income

	First Fortune International Company Limited 2019 $'000	2018 $'000
Revenue	**14,394**	2,192
Profit before income tax	**12**	21
Income tax expense	**–**	–
Profit after tax – continuing operations	**12**	21
Other comprehensive income	**–**	–
Total comprehensive income	**12**	21
Other summarised information		
Net cash flows from operations	**2,541**	(1,791)

(d) Investment in subsidiary

On 4 September 2018, the Group's subsidiary, HG Metal Investments Pte Ltd invested in 51.04% of the issued share capital of FFI, a manufacturer of steel products in Myanmar. Upon the investment, FFI became a subsidiary of the Group. The Group has invested in FFI in order to expand the Group's existing business in Myanmar.

The acquisition of FFI is an acquisition of assets as FFI had not commenced operations at the point of acquisition. As per SFRS(I) 3, upon the acquisition of an asset or a group of assets that does not constitute a business, the cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

The Group has elected to measure the non-controlling interest at the non-controlling interest's proportionate share of FFI's net identifiable assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

15. INVESTMENT IN SUBSIDIARIES (CONT'D)

(d) Investment in subsidiary (cont'd)

The identifiable assets and liabilities of FFI as at the acquisition date were:

	Value recognised on acquisition $'000
Property, plant and equipment (Note 12)	70
Amount due from a shareholder	52
Deposits	70
Cash and cash equivalents	64
Total identifiable net assets	256
Non-controlling interest measured at the non-controlling interest's proportionate share of FFI's net identifiable assets	(125)
Identifiable net assets of FFI attributable to equity holders of the company	131

	Value recognised on acquisition $'000
Consideration transferred for the acquisition of FFI	
Cash paid	131
Effect of the acquisition of FFI on cash flows	
Total consideration for 51.04% equity interest acquired	131
Less: Cash and cash equivalents of subsidiary acquired	(64)
Net cash outflow on acquisition	67

16. INVENTORIES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trading inventories	**30,024**	21,411	**30,207**	21,484
Finished goods	**739**	511	**–**	–
Work-in-progress	**78**	615	**–**	–
Raw materials	**12,211**	8,335	**–**	–
Inventories (at lower of cost or net realisable value)	**43,052**	30,872	**30,207**	21,484

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

16. INVENTORIES (CONT'D)

	Group	
	2019 $'000	2018 $'000
Inventories recognised as expense in cost of sales (Note 9)	**114,521**	155,987
Write-down of inventories (Note 9)	**19**	8

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial assets				
Trade receivables (current)				
Third parties	**48,052**	49,151	**21,587**	27,790
Amounts due from related party	**3**	–	**3**	–
Amounts due from subsidiaries	**–**	–	**28,187**	24,856
	48,055	49,151	**49,777**	52,646
Other receivables (current)				
Third parties	**1,036**	769	**770**	680
Rental, utilities and other deposits	**185**	1,241	**53**	1,068
Amounts due from subsidiaries	**–**	–	**3,929**	190
	1,221	2,010	**4,752**	1,938
Non-financial assets (current)				
Advance to suppliers for purchase of inventories	**18**	9	**–**	–
	49,294	51,170	**54,529**	54,584

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

17. TRADE AND OTHER RECEIVABLES (CONT'D)

Receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Trade receivables, including amounts due from subsidiaries, are non-interest bearing and are generally on 30 to 90 days' credit terms.

Other receivables, including amounts due from subsidiaries, are unsecured, interest-free, repayable in cash on demand.

Trade receivables denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
United States Dollar	**11,698**	16,338	**11,698**	16,327
Myanmar Kyat	**3,833**	–	**–**	–

<u>Expected credit losses</u>

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL are as follows:

	Group	
	2019 $'000	**2018 $'000**
Movement in allowance accounts:		
Balance at 1 January	**2,611**	2,392
Amount restated through opening retained earnings	**–**	4
(Reversal of)/provision for expected credit losses	**(220)**	1,985
Bad debts written off against allowance	**(14)**	(1,673)
Exchange differences	**(2)**	(97)
Balance at 31 December	**2,375**	2,611

	Company	
	2019 $'000	**2018 $'000**
Movement in allowance accounts:		
Balance at 1 January	**574**	2,025
Amount restated through opening retained earnings	**–**	4
Provision for expected credit losses	**58**	318
Bad debts written off against allowance	**(1)**	(1,673)
Exchange differences	**–**	(100)
Balance at 31 December	**631**	574

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

18. INVESTMENT SECURITIES

	Group and Company	
	2019	2018
	$'000	$'000
At amortised cost		
– 2.72% p.a. SGD corporate bonds due 3 September 2021	**3,519**	3,530
– 2.23% p.a. SGD government bonds due 21 February 2022	**1,000**	1,000
– 2.10% p.a. SGD government bonds due 3 November 2020	**499**	499
– 3.21% p.a. SGD corporate bonds due 9 November 2023	**2,010**	2,012
– 2.78% p.a. SGD corporate bonds due 11 January 2021	**1,756**	1,761
– 2.72% p.a. SGD corporate bonds due 3 September 2021	**1,260**	1,266
	10,044	10,068
Net carrying amount		
Current	**524**	24
Non-current	**9,520**	10,044
Balance at 31 December	**10,044**	10,068

Investments pledged as security

The Group's investment in corporate and government bonds amounting to $10,044,000 (2018: $10,068,000) has been pledged as partial security to secure trade facilities in 2019. Under the terms and conditions of the trade facilities, the Group is prohibited from disposing of this investment or subjecting it to further charges without furnishing a replacement security of similar value.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Cash and bank balances	**21,781**	12,232	**13,772**	4,148
Fixed deposits with banks	**1,130**	3,203	**15**	20
Cash and cash equivalents	**22,911**	15,435	**13,787**	4,168
Fixed deposits pledged with banks	**2,500**	9,500	**2,500**	9,500
Restricted deposits	**784**	784	**–**	–
Bank balances and fixed deposits	**26,195**	25,719	**16,287**	13,668

Fixed deposits earn weighted average effective interest rate of 3.38% as at 31 December 2019 (2018: 2.63%) per annum and for tenures ranging from 9 to 12 months (2018: 1 to 12 months).

The purpose of the pledged fixed deposits is to secure credit facilities with the banks as disclosed in Note 23.

Restricted deposits are cash deposits placed as collateral with a bond to guarantee satisfactory of supply and delivery of goods as sub-contractor.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

19. CASH AND CASH EQUIVALENTS (CONT'D)

Cash and bank balances denominated in foreign currencies are as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
United States Dollar	**1,720**	2,006	**1,682**	1,967
Malaysian Ringgit	**46**	48	**46**	48
Myanmar Kyat	**1,287**	286	**–**	–

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial liabilities				
Trade payables				
Third parties	**21,902**	22,246	**12,401**	13,893
Amounts due to subsidiaries	**–**	–	**18**	–
	21,902	22,246	**12,419**	13,893
Other payables				
Deposits from customers	**913**	884	**582**	637
Accrued operating expenses	**5,857**	8,372	**1,051**	1,116
Other payables	**5,089**	1,068	**623**	297
Amounts due to subsidiaries	**–**	–	**30,089**	35,498
Amount due to a shareholder of a subsidiary	**1,493**	2,046	**–**	–
	13,352	12,370	**32,345**	37,548
Total financial liabilities	**35,254**	34,616	**44,764**	51,441
Non-financial liability				
GST payable	**784**	845	**1,179**	859
	36,038	35,461	**45,943**	52,300

Trade payables including amounts due to subsidiaries, related parties and associates are non-interest bearing and are normally settled on 30 to 90 days' term.

The non-trade amounts, including amounts due to subsidiaries are unsecured, interest-free, repayable on demand and expected to be settled in cash.

Deposits from customers are trade related, unsecured and refundable upon the fulfilment of the contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

20. TRADE AND OTHER PAYABLES (CONT'D)

Trade payables denominated in foreign currencies are as follows:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
United States Dollar	**10,226**	7,769	**10,226**	7,769
Myanmar Kyat	**110**	–	**–**	–

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company					
	20019			2018		
	$'000			$'000		
	Contract/ Notional Amount	Assets	Liabilities	Contract/ Notional Amount	Assets	Liabilities
Forward currency contracts	**35,949**	**–**	**341**	20,453	–	42

Forward currency contracts are used to hedge foreign currency risk arising from the Group's sales and purchases denominated in United States Dollar ("USD") for which firm commitments existed at the end of the reporting year.

The Group does not apply hedge accounting.

22. RIGHT-OF-USE ASSETS/LEASES LIABILITIES

As lessee

The Group has lease contracts for various items of land, buildings, workers dormitories and office equipment. The Group's obligations under these leases are secured by the lessor's title to the leased assets. There are no contingent rents included in the agreements or restrictions on subleasing the leased assets.

The Group also has certain other leases with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

22. RIGHT-OF-USE ASSETS/LEASES LIABILITIES (CONT'D)

As lessee (cont'd)

(a) Carrying amounts of right-of-use assets

			Group		
	Buildings $'000	Land $'000	Workers dormitories $'000	Office equipment $'000	Total $'000
Effect of SFRS(I) 16	2,294	1,792	–	71	4,157
Reclass from land use rights (Note 14)	–	3,069	–	–	3,069
At 1 January 2019	2,294	4,861	–	71	7,226
Additions	–	6,676	218	–	6,894
Depreciation	(2,118)	(549)	(98)	(23)	(2,788)
Exchange differences	–	(37)	–	–	(37)
At 31 December 2019	176	10,951	120	48	11,295

		Company		
	Buildings $'000	Land $'000	Office equipment $'000	Total $'000
At 1 January 2019	2,294	1,792	62	4,148
Depreciation	(2,118)	(336)	(20)	(2,474)
At 31 December 2019	176	1,456	42	1,674

Upon the adoption of SFRS(I) 16, the Group reclassed land use rights of $3,069,000 as right-of-use assets as of 1 January 2019.

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	Group $'000	Company $'000
At 1 January 2019	8,130	8,120
Addition	6,226	–
Accretion of interest	401	139
Payments	(5,660)	(5,361)
At 31 December 2019	9,097	2,898
Current	1,308	922
Non-current	7,789	1,976

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

22. RIGHT-OF-USE ASSETS/LEASES LIABILITIES (CONT'D)

As lessee (cont'd)

(c) Amounts recognised in profit or loss

	Group 2019 $'000
Depreciation expense of right-of-use assets	**2,788**
Interest expense on lease liabilities	**401**
Lease expense not capitalised in lease liabilities:	
– Expense relating to short-term leases (including in other operating expenses)	**389**
Total amount recognised in profit or loss	**3,578**

(d) Total cash outflow

During the financial year, the Group had total cash outflows for leases of $6,049,000.

As lessor

The Group acts as an intermediate lessor under arrangement in which it subleases out office and land spaces to third parties for monthly lease payments. The sublease periods do not form a major part of the remaining lease terms under the head leases and accordingly, the sub-leases are classified as an operating lease. Income from subleasing are disclosed in Note 6.

Undiscounted lease payments from the operating leases to be received after the reporting date are as follows:

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Not later than one year	**1,761**	2,514	**1,705**	2,942
Later than one year but not later than five years	**317**	724	**312**	724
	2,078	3,238	**2,017**	3,666

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

23. BANK BORROWINGS

		Group		Company	
		2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current					
Secured					
– Trust receipts	USD	**19,585**	3,420	**19,585**	3,420
– Construction loans	SGD	**228**	–	**–**	–
Total current borrowings		**19,813**	3,420	**19,585**	3,420
Non-current					
Secured					
– Construction loans	SGD	**3,192**	–	**–**	–
Total non-current borrowings		**3,192**	–	**–**	–

Secured

The secured portions of the bank borrowings of the Group and the Company as at 31 December 2019 were secured by way of:

(i) legal mortgage over leasehold properties (Note 12) of the Group and of the Company with net carrying amount of $4,215,000 and $1,911,000 respectively as at 31 December 2019;

(ii) investment securities pledged with a bank (Note 18);

(iii) fixed deposits pledged with a bank (Note 19).

Unsecured

As at the balance sheet date, there are no unsecured bank borrowings.

The Group's bank borrowings have the following interest at floating rates:

	Interest rates per annum	
	2019	2018
Trust receipts	**3.32% – 3.59%**	3.1% – 4.22%
Construction loans	**3.38%**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

24. DEFERRED INCOME

Deferred income represents the excess of sale price over the estimated fair value of the leasehold property at 13 Jalan Terusan arising from the sale and leaseback of the property. The fair value of the leasehold property was determined by an external valuation using a Direct Sale Comparison Approach valuation method. The deferred income of $10 million is amortised to profit or loss over the seven years lease period commencing February 2013. Deferred income is classified as follows:

	Group and Company	
	2019	**2018**
	$'000	**$'000**
Current	**–**	1,429
Non-current	**–**	119
	–	1,548

Upon adoption of SFRS(I) 16, the deferred income relating to the sale and leaseback transaction previously classified as operating lease are adjusted against the right-of-use assets at the date of initial application as shown in Note 3.1.

25. PROVISION FOR REINSTATEMENT COSTS

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Current	**467**	–	**467**	–
Non-current	**1,167**	1,100	**500**	800
Total	**1,634**	1,100	**967**	800

The movement in provision for reinstatement costs is as follows:

	Group	Company
	$'000	**$'000**
At 1 January 2018	1,000	700
Provision charged to profit or loss	100	100
At 31 December 2018 and 1 January 2019	1,100	800
Provision capitalised under right-of-use assets	**667**	**–**
Provision charged to profit or loss	**167**	**167**
Reversal of provision	**(300)**	**–**
At 31 December 2019	**1,634**	**967**

Provision for reinstatement costs is made in respect of the Group and Company's leasehold properties and right-of-use assets to fulfil the obligations under the lease agreements. Outflows are expected only at the end of the lease tenure.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

26. SHARE CAPITAL

	Group and Company			
	2019		2018	
	No. of shares '000	$'000	No. of shares '000	$'000
Issued and fully-paid:				
Ordinary shares				
At 1 January and 31 December	**130,611**	**70,496**	130,611	70,496

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

27. TREASURY SHARES

	Group and Company			
	2019		2018	
	No. of shares '000	$'000	No. of shares '000	$'000
Issued and fully-paid:				
Ordinary shares				
At 1 January and 31 December	**3,193**	**2,215**	3,193	2,215

Treasury shares relate to ordinary shares of the Company that are held by the Company.

28. OTHER RESERVES

		Group		Company	
		2019 $'000	2018 $'000	2019 $'000	2018 $'000
Capital reserve	(a)	**2,527**	2,527	**2,527**	2,527
Foreign currency translation reserve	(b)	**670**	708	**–**	–
Premium paid on acquisition of non-controlling interest	(c)	**(212)**	(212)	**–**	–
		2,985	3,023	**2,527**	2,527

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

28. OTHER RESERVES (CONT'D)

(a) Capital reserve

In 2005, the Company entered into a $10,000,000 convertible loan agreement (2005 Convertible Loan Agreement) with Oversea-Chinese Banking Corporation Limited ("**OCBC**") for the purpose of expansion and/or to be applied to general working capital requirements. On 15 August 2006, the Company and OCBC entered into a revised Convertible Loan Agreement for refinancing the 2005 Convertible Loan Agreement which granted OCBC the right to convert the loan amount into new ordinary shares of the Company at any time until maturity date on 5 July 2008.

The net proceeds received from the issue of the convertible loan were split into the liability element and equity component, representing the fair value of the embedded option to convert the liability into equity of the Group and the Company. Accordingly, $101,000 was credited to capital reserve in the financial year ended 30 September 2006.

OCBC exercised its option to convert the entire convertible loan of $10 million into 31,171,147 new ordinary shares of the Company during the financial year ended 30 September 2007. In accordance with the terms of the revised convertible loan agreement, the Company was entitled to a certain percentage of share of profits earned by OCBC from the sale of these conversion shares, net of certain expenses.

Subsequently OCBC sold the shares and a sum of $2,426,000 was received by the Company as its share from the net profit earned by OCBC on the disposal of the conversion shares. The Company has recorded the consideration received as capital reserve.

(b) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. Movement in this account is set out in the consolidated statement of changes in equity.

(c) Premium paid on acquisition of non-controlling interest

Premium paid on acquisition of non-controlling interest was recognised on the difference between the consideration and the carrying value of the additional interest in subsidiary acquired without a change in control.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

29. SIGNIFICANT TRANSACTIONS WITH RELATED COMPANIES AND RELATED PARTIES

In addition to the related party information disclosed elsewhere in the financial statements, the following were significant transactions between the Company and its related companies and related parties on rates and terms agreed between the parties during the financial year:

	Company	
	2019 $'000	2018 $'000
With subsidiaries		
Sales	**59,026**	41,350
Purchases	**93**	50
Rental income	**428**	428
Dividend income	**1,962**	–
Interest income	**68**	–
Other income	**523**	358

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
With companies related to directors of the Company				
Sales	**32**	28	**32**	28
Other charges	**1**	2	**1**	2

Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group and of the Company during the financial year are as follows:

	Group	
	2019 $'000	2018 $'000
Directors of the Company		
Salaries and other short-term employee benefits	**461**	409
Employer's contributions to defined contribution plan	**17**	17
Key management personnel (non-directors)		
Salaries and other short-term employee benefits	**1,021**	872
Employer's contributions to defined contribution plan	**42**	40
	1,541	1,338

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

30. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Capital commitments in respect of property, plant and equipment	**1,828**	4,979	**–**	–
	1,828	4,979	**–**	–

(b) Contingent liabilities

Guarantees

(i) Intra-group financial guarantees comprise corporate guarantees granted by the Company to banks in respect of banking facilities amounting to $11,110,000 (2018: $11,110,000) to secure banking facilities provided to certain subsidiaries. The financial guarantees will expire when the loans have been paid and discharged and/or when the banking facilities are no longer available to the subsidiaries.

The principal risk to which the Company is exposed is credit risk in connection with the guarantee contracts it has issued. The credit risk represents the loss that would be recognised upon a default by the subsidiaries for which, the guarantees were given on behalf of.

There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

In the opinion of the directors, no loss is anticipated from these guarantees.

The fair values of the financial guarantee contracts have not been recognised on the balance sheet of the Company as the Company is of the view that the fair values of the corporate guarantees are not significant and that no material losses will arise in respect of the guarantees provided at the date of these financial statements.

(ii) The Group has provided performance bonds to an unrelated party as security deposits to guarantee satisfactory of supply and delivery of goods as sub-contractor. The performance bonds remain in full force until year 2021. At the end of the reporting period, no liability is expected to arise.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

(i) The trading segment is a supplier of steel products and includes the holding of investments in subsidiaries in the business of steel distribution and provision of industrial steel services.

(ii) The manufacturing segment produces construction steel products and provides related engineering services.

(iii) Others include those which do not fall in trading and manufacturing segment.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31. SEGMENT INFORMATION (CONT'D)

Transactions between operating segments are generally based on terms determined on commercial basis.

	Trading $'000	Manufacturing $'000	Others $'000	Adjustment/ elimination $'000	Group $'000
Financial year ended 31 December 2019					
REVENUE					
Sales to external customers	45,583	91,537	–	–	137,120
Inter-segment sales (Note A)	59,026	93	–	(59,119)	–
Total	104,609	91,630	–	(59,119)	137,120
RESULTS					
Other income	4,571	162	346	(961)	4,118
Dividend income	1,962	–	–	(1,962)	–
Interest income	464	–	36	(68)	432
Bad debts recovered	108	–	–	–	108
Gain from disposal of property, plant and equipment	264	5	20	(20)	269
Fair value loss from derivatives	(299)	–	–	–	(299)
Interest expenses	(271)	(75)	(265)	(281)	(892)
Write down of inventories	(19)	–	–	–	(19)
Depreciation and amortisation of assets	(1,786)	(839)	(301)	–	(2,926)
Depreciation of right-of-use assets	(2,474)	(163)	(151)	–	(2,788)
Segment profit/(loss)	1,953	4,608	(1,118)	(4,642)	801
Income tax expense					(37)
Profit for the year					764
ASSETS AND LIABILITIES					
Additions to non-current assets (Note B)	81	3,759	15,721	(46)	19,515
Segment assets (Note A)	133,466	65,135	58,707	(84,536)	172,772
Income tax recoverable					45
Total assets					172,817
Segment liabilities (Note A)	69,734	50,085	14,677	(64,381)	70,115
Tax payable					14
Deferred tax liabilities					25
Total liabilities					70,154

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31. SEGMENT INFORMATION (CONT'D)

	Trading $'000	Manufacturing $'000	Others $'000	Adjustment/ elimination $'000	Group $'000
Financial year ended 31 December 2018					
REVENUE					
Sales to external customers	110,272	63,651	–	–	173,923
Inter-segment sales (Note A)	41,350	62	–	(41,412)	–
Total	151,622	63,713	–	(41,412)	173,923
RESULTS					
Other income	4,507	227	1,001	(790)	4,945
Recognition of deferred income	1,429	–	–	–	1,429
Interest income	292	–	66	–	358
Bad debts recovered	2	–	–	–	2
Gain from disposal of property, plant and equipment	94	–	–	–	94
Fair value loss from derivatives	(57)	–	–	–	(57)
Interest expenses	(167)	–	–	–	(167)
Write down of inventories	(8)	–	–	–	(8)
Depreciation and amortisation of assets	(1,840)	(444)	(476)	–	(2,760)
Amortisation of land use rights	–	(20)	–	–	(20)
Segment (loss)/profit	(4,447)	419	92	27	(3,909)
Income tax expense					(26)
Loss for the year					(3,935)
ASSETS AND LIABILITIES					
Additions to non-current assets (Note B)	2,268	10,160	850	–	13,278
Segment assets (Note A)	122,113	53,603	50,124	(81,350)	144,490
Segment liabilities (Note A)	58,109	45,685	3,006	(65,229)	41,571
Tax payable					15
Total liabilities					41,586

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

31. SEGMENT INFORMATION (CONT'D)

Notes:

(A) Segment assets and liabilities include balances with companies in the Group. Inter-segment sales, assets and liabilities are eliminated on consolidation.

(B) Additions to non-current assets consist of additions to property, plant and equipment, right-of-use assets and intangible assets.

Geographical information

Non-current assets information presented below consist of property, plant and equipment, right-of use assets and intangible assets as presented in the consolidated balance sheet.

Revenue and non-current assets information based on geographical location of customers and assets respectively are as follows:

	External sales		Non-current assets	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Myanmar	**17,306**	73,127	**14,574**	9,102
Singapore	**114,830**	94,030	**28,673**	13,410
Malaysia	**608**	386	**408**	416
Indonesia	**4,347**	6,273	**–**	–
Others	**29**	107	**–**	–
	137,120	173,923	**43,655**	22,928

Information about a major customer

Revenues of $16,773,000 are derived from a single external customer which made up 12% of total revenue for 2019. These revenues are attributable to the manufacturing segment.

Revenues of $66,187,000 were derived from a single external customer which made up 38% of total revenue for 2018. These revenues were attributable to the trading segment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

32. DEFERRED TAX LIABILITIES

Movements in deferred tax during the financial year were as follows:

	Group			
	Balance sheet		Consolidated statement of comprehensive income	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Deferred tax liabilities/(assets):				
– Differences in depreciation for tax purposes	65	–	65	–
– Provisions	(40)	–	(40)	–
	25	–		
Deferred tax expense			25	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

33. FINANCIAL INSTRUMENTS

Classification of financial instruments

	Fair value through profit and loss $'000	Assets/liabilities at amortised cost $'000	Others $'000
Group			
31 December 2019			
Assets			
Trade and other receivables (Note 17)	**–**	**49,276**	**–**
Bank balances and fixed deposits (Note 19)	**–**	**26,195**	**–**
Investment securities (Note 18)	**–**	**10,044**	**–**
Total	**–**	**85,515**	**–**
Liabilities			
Trade and other payables (Note 20)	**–**	**35,254**	**–**
Derivative financial instruments (Note 21)	**341**	**–**	**–**
Lease liabilities (Note 22)	**–**	**–**	**9,907**
Bank borrowings (Note 23)	**–**	**23,005**	**–**
Total	**341**	**58,259**	**9,907**
31 December 2018			
Assets			
Trade and other receivables (Note 17)	–	51,161	–
Bank balances and fixed deposits (Note 19)	–	25,719	–
Investment securities (Note 18)	–	10,068	–
Total	–	86,948	–
Liabilities			
Trade and other payables (Note 20)	–	34,616	–
Derivative financial instruments (Note 21)	42	–	–
Bank borrowings (Note 23)	–	3,420	–
Total	42	38,036	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

33. FINANCIAL INSTRUMENTS (CONT'D)

Classification of financial instruments (cont'd)

	Fair value through profit and loss $'000	Assets/liabilities at amortised cost $'000	Others $'000
Company			
31 December 2019			
Assets			
Trade and other receivables (Note 17)	**–**	**54,529**	**–**
Bank balances and fixed deposits (Note 19)	**–**	**16,287**	**–**
Investment securities (Note 18)	**–**	**10,044**	**–**
Total	**–**	**80,860**	**–**
Liabilities			
Trade and other payables (Note 20)	**–**	**44,764**	**–**
Derivative financial instruments (Note 21)	**341**	**–**	**–**
Lease liabilities (Note 22)	**–**	**–**	**2,898**
Bank borrowings (Note 23)	**–**	**19,585**	**–**
Total	**341**	**64,349**	**2,898**
31 December 2018			
Assets			
Trade and other receivables (Note 17)	–	54,584	–
Bank balances and fixed deposits (Note 19)	–	13,668	–
Investment securities (Note 18)	–	10,068	–
Total	–	78,320	–
Liabilities			
Trade and other payables (Note 20)	–	51,441	–
Derivative financial instruments (Note 21)	42	–	–
Bank borrowings (Note 23)	–	3,420	–
Total	42	54,861	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

34. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value hierarchy

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,

- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

There were no transfers between the levels of fair value measurements during the financial year.

(a) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value by level at the end of the reporting period:

	Group		
	2019 $'000		
	Quoted prices in active markets for identical instruments (Level 1)	**Significant observable inputs other than quoted prices (Level 2)**	**Total**
Recurring fair value measurements			
Liabilities			
Financial liabilities:			
Derivative financial instruments			
– Forward currency contracts	–	(341)	(341)
As at 31 December 2019	–	(341)	(341)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

34. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(a) Assets and liabilities measured at fair value (cont'd)

	Group		
	2018 $'000		
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Total
Recurring fair value measurements			
Liabilities			
Financial liabilities:			
Derivative financial instruments			
– Forward currency contracts	–	(42)	(42)
As at 31 December 2018	–	(42)	(42)

Level 2 fair value measurements

The following is the description of the valuation techniques and inputs used in the fair value measurement for assets and liabilities that are categorised within level 2 of the fair value hierarchy:

Derivatives

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and forward rate curves.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

34. FAIR VALUE OF ASSETS AND LIABILITIES (CONT'D)

(b) Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table shows an analysis of the Group's assets and liabilities not measured at fair value at the end of reporting period but for which fair value is disclosed:

	Group 2019 $'000			
	Quoted prices in active markets for identical assets (Level 1)	Significant unobservable inputs (Level 3)	Fair value Total	Carrying amount
Assets				
Investment securities	**10,151**	**–**	**–**	**10,044**
Liabilities				
Bank borrowings	**–**	**21,774**	**21,774**	**23,005**

	Group 2018 $'000			
	Quoted prices in active markets for identical assets (Level 1)	Significant unobservable inputs (Level 3)	Fair value Total	Carrying amount
Assets				
Investment securities	10,059	–	–	10,068
Liabilities				
Bank borrowings	–	3,282	3,282	3,420

Determination of fair value

Obligations under bank borrowings: Fair value is estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending and leasing arrangements at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the management.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities, cash and short-term deposits and derivatives), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the management.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (Cont'd)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

The Group has determined the default event on a financial asset to be when the counterparty fails to make contractual payments, within 90 days when they fall due, which are derived based on the Group's historical information.

The Group considers "low risk" to be an investment grade credit rating with at least one major rating agency for those investments with credit rating. To assess whether there is a significant increase in credit risk, the company compares the risk of a default occurring on the asset as at reporting date with the risk of default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations
- Actual or expected significant changes in the operating results of the customer
- Significant increases in credit risk on other financial instruments of the same customer
- Significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customers.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT

(a) Credit risk (cont'd)

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Group determined that its financial assets are credit-impaired when:

- There is significant difficulty of the issuer or the customer
- A breach of contract, such as a default or past due event
- It is becoming probable that the customer will enter bankruptcy or other financial reorganisation

The Group categorises a loan or receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where loans and receivables have been written off, the company continues to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Trade receivables

The Group provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due by grouping of customers based on geographical region. The loss allowance provision is determined as follows, the expected credit losses below also incorporate forward looking information such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Summarised below is the information about the credit risk exposure on the Group's trade receivables using provision matrix, grouped by geographical region:

Singapore:

	Current $'000	Less than 30 days past due $'000	More than 30 days past due $'000	More than 60 days past due $'000	More than 90 days past due $'000	Total $'000
31 December 2019						
Gross carrying amount	**13,408**	**10,331**	**4,204**	**1,217**	**2,582**	**31,742**
Loss allowance provision	**101**	**59**	**31**	**6**	**1,548**	**1,745**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

Singapore:

	Current $'000	Less than 30 days past due $'000	More than 30 days past due $'000	More than 60 days past due $'000	More than 90 days past due $'000	Total $'000
31 December 2018						
Gross carrying amount	14,129	8,981	2,969	1,045	2,576	29,700
Loss allowance provision	1	6	1	2	1,977	1,987

Other geographical areas:

	Current $'000	Less than 30 days past due $'000	More than 30 days past due $'000	More than 60 days past due $'000	More than 90 days past due $'000	Total $'000
31 December 2019						
Gross carrying amount	**3,476**	**1,068**	**472**	**450**	**13,222**	**18,688**
Loss allowance provision	**–**	**–**	**–**	**–**	**630**	**630**

	Current $'000	Less than 30 days past due $'000	More than 30 days past due $'000	More than 60 days past due $'000	More than 90 days past due $'000	Total $'000
31 December 2018						
Gross carrying amount	13,023	265	1,388	4	7,382	22,062
Loss allowance provision	–	–	–	–	624	624

Information regarding loss allowance movement of trade receivables are disclosed in Note 17.

During the financial year, the Group wrote-off $14,000 (2018: $1,673,000) of trade receivables which are more than 120 days past due as the Group does not expect to receive future cash flows from and there are no recoveries from collection of cash flows previously written-off.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Exposure to credit risk

At the end of reporting period, the Group's and the Company's maximum exposure to credit risk is represented by:

- the carrying amount of each class of financial assets recognised in the balance sheets.
- an amount of $11,110,000 (2018: $11,110,000) relating to corporate guarantees provided by the Company to banks on its subsidiaries' borrowings and other banking facilities.

Credit risk concentration profiles

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	Group		Company	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
By country:				
– Myanmar	**17,160**	20,498	**10,909**	19,275
– Singapore	**29,997**	27,706	**37,970**	32,428
– Malaysia	**133**	35	**133**	31
– Indonesia	**765**	912	**765**	912
	48,055	49,151	**49,777**	52,646

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

Credit risk concentration profiles (cont'd)

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
By industry sectors:				
– Trading	**11,311**	21,179	**11,311**	19,248
– Construction	**30,616**	22,653	**32,338**	28,080
– Others	**6,128**	5,319	**6,128**	5,318
	48,055	49,151	**49,777**	52,646

At the end of the reporting period, approximately:

- 15% (2018: 32%) of the Group's trade receivables were due from 3 (2018:3) major customers who are located in Singapore (2018: Singapore and Myanmar).

- The Group's trade receivables due from related parties amounting to $3,000 (2018: $Nil).

(b) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and Company's exposure to liquidity risks arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group and the Company manages its liquidity risk by ensuring the availability of funding through an adequate amount of committed credit facilities from financial institutions. In addition, the Group and Company also maintain surplus cash for future investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Liquidity risk (cont'd)

The following are the contractual maturities of financial assets and liabilities of the Group and Company at balance sheet date based on contractual undiscounted payments:

	Within one year $'000	Two to five years $'000	After five years $'000	Total $'000
Group				
As at 31 December 2019				
Financial assets:				
Trade and other receivables	**49,276**	**–**	**–**	**49,276**
Bank balances and fixed deposits	**25,411**	**784**	**–**	**26,195**
Investment securities	**524**	**9,520**	**–**	**10,044**
Total undiscounted financial assets	**75,211**	**10,304**	**–**	**85,515**
Financial liabilities:				
Trade and other payables	**35,254**	**–**	**–**	**35,254**
Derivative financial instruments	**341**	**–**	**–**	**341**
Bank borrowings	**19,903**	**1,730**	**2,018**	**23,651**
Lease liabilities	**1,308**	**3,204**	**4,585**	**9,097**
Total undiscounted financial liabilities	**56,806**	**4,934**	**6,603**	**68,343**
Total net undiscounted financial assets/(liabilities)	**18,405**	**5,370**	**(6,603)**	**17,172**
As at 31 December 2018				
Financial assets:				
Trade and other receivables	51,161	–	–	51,161
Bank balances and fixed deposits	24,935	784	–	25,719
Investment securities	24	10,044	–	10,068
Total undiscounted financial assets	76,120	10,828	–	86,948
Financial liabilities:				
Trade and other payables	34,616	–	–	34,616
Derivative financial instruments	42	–	–	42
Bank borrowings	3,423	–	–	3,423
Total undiscounted financial liabilities	38,081	–	–	38,081
Total net undiscounted financial assets	38,039	10,828	–	48,867

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Liquidity risk (cont'd)

	Within one year $'000	Two to five years $'000	After five years $'000	Total $'000
Company				
As at 31 December 2019				
Financial assets:				
Trade and other receivables	**54,529**	**–**	**–**	**54,529**
Bank balances and fixed deposits	**16,287**	**–**	**–**	**16,287**
Investment securities	**524**	**9,520**	**–**	**10,044**
Total undiscounted financial assets	**71,340**	**9,520**	**–**	**80,860**
Financial liabilities:				
Trade and other payables	**44,764**	**–**	**–**	**44,764**
Derivative financial instruments	**341**	**–**	**–**	**341**
Bank borrowings	**19,598**	**–**	**–**	**19,598**
Lease liabilities	**922**	**1,976**	**–**	**2,898**
Total undiscounted financial liabilities	**65,625**	**1,976**	**–**	**67,601**
Total net undiscounted financial assets	**5,715**	**7,544**	**–**	**13,259**
As at 31 December 2018				
Financial assets:				
Trade and other receivables	54,584	–	–	54,584
Bank balances and fixed deposits	13,668	–	–	13,668
Investment securities	24	10,044	–	10,068
Total undiscounted financial assets	68,276	10,044	–	78,320
Financial liabilities:				
Trade and other payables	51,441	–	–	51,441
Derivative financial instruments	42	–	–	42
Bank borrowings	3,423	–	–	3,423
Total undiscounted financial liabilities	54,906	–	–	54,906
Total net undiscounted financial assets	13,370	10,044	–	23,414

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from bank borrowings. All of the Group's and the Company's financial assets and liabilities at floating rates are contractually re-priced at intervals of less than 3 months from the balance sheet date.

The Group's and Company's exposure to interest rate risk relate primarily to interest-bearing fixed deposits and debt obligations with financial institutions.

Sensitivity analysis for interest rate risk

At the balance sheet date, if interest rates had been 50 (2018: 50) basis points lower/higher with all other variables held constant, the Group's income and equity would have been approximately $97,000 (2018: $64,000) higher/lower, arising mainly as a result of lower/higher interest expense on debt obligations with financial institutions.

A similar change in interest rates would have increased/decreased the Company's income and equity by approximately $85,000 (2018: $48,000).

(d) Foreign currency risk

The Group has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the SGD and USD.

The Group is exposed to currency translation risk arising from its net investments in foreign operations, including Malaysia, Myanmar and Indonesia. The Group's net investments in Malaysia, Myanmar and Indonesia are not hedged as currency positions in Malaysian Ringgit and USD are considered to be long-term in nature.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax to a reasonably possible change in the USD and SGD exchange rates against the respective functional currencies of the Group entities, with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

35. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk (cont'd)

	Increase/(decrease) Profit/(loss) before tax	
	2019	**2018**
	$'000	**$'000**
Group		
USD/SGD – strengthened 2% (2018: 2%)	**107**	212
– weakened 2% (2018: 2%)	**(107)**	(212)

	Increase/(decrease) Profit/(loss) before tax	
	2019	**2018**
	$'000	**$'000**
Company		
USD/SGD – strengthened 2% (2018: 2%)	**108**	210
– weakened 2% (2018: 2%)	**(108)**	(210)

36. CAPITAL MANAGEMENT

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2019 and 31 December 2018.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2020.

APPENDIX

APPENDIX DATED 15 April 2020

This Appendix is circulated to Shareholders of HG Metal Manufacturing Limited (the "**Company**") together with the Company's 2019 Annual Report. Its purpose is to provide Shareholders with information on, and to explain the rationale for, the proposed renewal of the Share Purchase Mandate to be tabled at the Annual General Meeting to be held at 28 Jalan Buroh, Singapore 619484 on 26 June 2020 at 10.00 a.m.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your Shares in the capital of the Company held through The Central Depository (Pte) Limited ("**CDP**"), you need not forward this Appendix to the purchaser or transferee as arrangements will be made by CDP for a separate Appendix to be sent to the purchaser or transferee. If you have sold or transferred all your Shares represented by physical share certificate(s), you should at once hand this Appendix to the purchaser or transferee or to the bank, stockbroker or agent through whom you effected the sale or transfer, for onward transmission to the purchaser or transferee.

The Notice of Annual General Meeting and Proxy Form are enclosed with the 2019 Annual Report.

The Singapore Exchange Securities Trading Limited ("**SGX-ST**") assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Appendix.

HG METAL

HG METAL MANUFACTURING LIMITED

(Company Registration No.: 198802660D)

(Incorporated in the Republic of Singapore)

APPENDIX IN RELATION TO THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE

APPENDIX

HG METAL MANUFACTURING LIMITED
(Company Registration No.: 198802660D)
(Incorporated in the Republic of Singapore)

1. INTRODUCTION

1.1 The Directors wish to seek Shareholders' approval for the proposed renewal of the Share Purchase Mandate previously approved by Shareholders on 26 April 2019 (the "**Share Purchase Mandate**").

1.2 The purpose of this Appendix, to be circulated to Shareholders together with the Company's 2019 Annual Report, is to provide Shareholders with information relating to, and to explain the rationale for, the proposed renewal of the Share Purchase Mandate to be tabled at the Annual General Meeting (the "**AGM**") of the Company to be held on 26 June 2020. Details of the Share Purchase Mandate, including the rationale for and the benefits to the Company, are set out in paragraph 2.2 below.

2. THE PROPOSED SHARE PURCHASE MANDATE

2.1 The Existing Share Purchase Mandate

Shareholders had approved the Share Purchase Mandate to enable all the Directors to exercise all powers of the Company to purchase or otherwise acquire such number of issued shares of the Company ("**Shares**") on the terms of the Share Purchase Mandate at the AGM of the Company held on 26 April 2019. Particulars of the Share Purchase Mandate were set out in the Appendix to the 2018 Annual Report to Shareholders dated 11 April 2019.

The Share Purchase Mandate was expressed to take effect until the conclusion of the next AGM of the Company, being the AGM of the Company to be held on 26 June 2020. Accordingly, the Directors propose that the Share Purchase Mandate be renewed at the AGM, to take effect until the next AGM of the Company. The terms of the Share Purchase Mandate which are sought to be renewed remain unchanged.

2.2 Rationale for Share Purchase Mandate

The approval of the Share Purchase Mandate authorising the Company to purchase or acquire its Shares would give the Company the flexibility to undertake share purchases or acquisitions up to the three per cent. (3%) limit described in paragraph 2.4.1 below at any time, during the period when the Share Purchase Mandate is in force.

The rationale for the Company to undertake the purchase or acquisition of its issued Shares is as follows:

(a) In managing the business of the Group, the management team strives to increase Shareholders' value by improving, *inter alia*, the return on equity of the Group. In addition to growth and expansion of business, share purchase is one of the ways through which the return on equity of the Group may be enhanced.

(b) The Share Purchase Mandate is an expedient, effective and cost-efficient way for the Company to return surplus cash/funds over and above its ordinary capital requirements, if any, which is in excess of the financial and investment needs of the Company to its Shareholders. In addition, the Share Purchase Mandate will allow the Company to have greater flexibility over, *inter alia*, the Company's share capital structure, cash reserves and its dividend policy.

APPENDIX

(c) The Share Purchase Mandate will provide the Company the flexibility to undertake share purchases at any time, subject to market conditions, during the period when the Share Purchase Mandate is in force.

(d) The Share Purchase Mandate will help buffer short-term share price volatility and offset the effects of short-term share price speculation, thereby boosting Shareholders' confidence.

While the Share Purchase Mandate would authorise a purchase or acquisition of Shares up to the said three per cent. (3%) limit during the duration referred to in paragraph 2.4.2 below, Shareholders should note that purchases or acquisitions of Shares pursuant to the Share Purchase Mandate may not be carried out to the full three per cent. (3%) limit as authorised and the purchases or acquisitions of Shares pursuant to the Share Purchase Mandate would be made only as and when the Directors consider it to be in the best interests of the Company and/or Shareholders and in circumstances which they believe will not result in any material adverse effect to the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST. The Directors will use their best efforts to ensure that after a purchase or acquisition of Shares pursuant to the Share Purchase Mandate, the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity or adversely affect the orderly trading and listing status of the Shares on the SGX-ST.

2.3 Issued Shares as at the Latest Practicable Date

As at 3 April 2020 ("**Latest Practicable Date**"), the total number of issued Shares of the Company (excluding treasury shares and subsidiary holdings) is 127,417,735 Shares.

2.4 Authority and Limits on the Share Purchase Mandate

The authority and limits placed on share purchases or acquisitions of Shares by the Company under the proposed Share Purchase Mandate are summarised below:

2.4.1 Maximum Number of Shares

Only Shares which are issued and fully paid-up may be purchased or acquired by the Company. The total number of Shares which may be purchased or acquired pursuant to the Share Purchase Mandate is limited to that number of Shares representing not more than three per cent. (3%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) (ascertained as at the date of the AGM), unless the Company has, at any time during the Relevant Period, reduced its share capital in accordance with the applicable provisions of the Companies Act, in which event the total number of issued Shares (excluding treasury shares and subsidiary holdings) shall be taken to be the total number of issued Shares (excluding treasury shares and subsidiary holdings) as altered. Any Shares which are held as treasury shares and subsidiary holdings will be disregarded for purposes of computing the three per cent. (3%) limit.

For illustrative purposes only, on the basis of 127,417,735 Shares in issue (excluding treasury shares and subsidiary holdings) assuming that (a) no further Shares are issued on or prior to the AGM, and (b) the Company does not reduce its share capital, not more than 3,822,532 Shares (representing three per cent. (3%)) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at that date may be purchased by the Company pursuant to the proposed Share Purchase Mandate during the duration referred to in paragraph 2.4.2 below.

APPENDIX

Rationale for limit

Although Section 76B of the Companies Act permits the Company to purchase or acquire up to 20% of its Shares, the Directors, after taking into consideration the requirement in Rule 882 of the Listing Manual that share purchases may not exceed 10% of the Company's Shares (excluding treasury shares and subsidiary holdings) and the take-over implications arising from any purchase or acquisition by the Company of its Shares, would be seeking the renewal of the Share Purchase Mandate to authorise the Directors, from time to time, to purchase Shares either through market purchases or off-market purchases on an equal access scheme as defined in Section 76C of Companies Act of up to a maximum of three per cent. (3%) of the Shares (excluding treasury shares and subsidiary holdings) as at the date of the AGM at which the Share Purchase Mandate is renewed, at such price up to but not exceeding the Maximum Price (as defined below).

2.4.2 Duration of Authority

Purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate may be made, at any time and from time to time, on and from the date of the AGM of the Company held on 26 June 2020, at which the Share Purchase Mandate is approved, up to:

(a) the date on which the next AGM is held or required by law to be held;

(b) the date on which the purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate are carried out to the full extent mandated; or

(c) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by the Shareholders in a general meeting,

whichever is the earliest.

The authority conferred on the Directors by the Share Purchase Mandate to purchase Shares may be renewed at the next AGM or any other general meeting of the Company. When seeking the approval of the Shareholders for the renewal of the Share Purchase Mandate, the Company is required to disclose details pertaining to purchases or acquisitions of Shares pursuant to the proposed Share Purchase Mandate made during the previous twelve (12) months, including the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases.

2.4.3 Manner of Purchases or Acquisitions of Shares

Purchases or acquisitions of Shares may be made by way of:

(a) on-market purchases ("**Market Purchase**"), transacted on the SGX-ST through the ready market, and which may be transacted through one or more duly licensed stock brokers appointed by the Company for the purpose; and/or

(b) off-market purchases ("**Off-Market Purchase**") effected pursuant to an equal access scheme in accordance with Section 76C of the Companies Act.

APPENDIX

The Directors may impose such terms and conditions which are not inconsistent with the Share Purchase Mandate, the Listing Manual and the Companies Act, as they consider fit in the interests of the Company in connection with or in relation to any equal access scheme or schemes. An Off-Market Purchase must, however, satisfy all of the following conditions:

(i) offers for the purchase or acquisition of Shares shall be made to every person who holds Shares to purchase or acquire the same percentage of their Shares;

(ii) all of the abovementioned persons shall be given a reasonable opportunity to accept the offers made; and

(iii) the terms of all the offers shall be the same, except that there shall be disregarded (1) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements, (2) differences in consideration attributable to the fact that offers relate to Shares with different amounts remaining unpaid (if applicable) and (3) differences in the offers introduced solely to ensure that each person is left with a whole number of Shares.

Pursuant to Rule 885 of the Listing Manual, if the Company wishes to make an Off-Market Purchase in accordance with an equal access scheme, it will issue an offer document to all Shareholders containing at least the following information:

(a) the terms and conditions of the offer;

(b) the period and procedures for acceptances;

(c) the reasons for the proposed Share buy-back;

(d) the consequences, if any, of the Share purchases by the Company that will arise under the Singapore Code on Take-overs and Mergers ("**Take-over Code**") or other applicable take-over rules;

(e) whether the Share buy-back, if made, could affect the listing of the Company's equity securities on the SGX-ST;

(f) details of any Share buy-back made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases in accordance with an equal access scheme), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases of Shares, where relevant, and the total consideration paid for the purchases; and

(g) whether the Share purchased by the Company will be cancelled or kept as treasury Shares.

APPENDIX

2.4.4 Maximum Purchase Price

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) ("**related expenses**") to be paid for a Share will be determined by the Directors or a committee of Directors that may be constituted for the purposes of effecting purchases or acquisitions of Shares by the Company under the Share Purchase Mandate. However, the purchase price to be paid for the Shares pursuant to the purchases or acquisitions of the Shares must not exceed:

(a) in the case of a Market Purchase, one hundred and five per cent. (105%) of the Average Closing Price (as defined hereinafter); and

(b) in the case of an Off-Market Purchase pursuant to an equal access scheme, one hundred and twenty per cent. (120%) of the Average Closing Price (as defined hereinafter),

(the "**Maximum Price**") in either case, excluding related expenses of the purchase or acquisition.

For the above purposes:

"**Average Closing Price**" means the average of the closing market prices of a Share over the last five (5) Market Days, on which transactions in the Shares were recorded, before the day on which the purchase or acquisition of Shares was made, and is deemed to be adjusted for any corporate action that occurs after the relevant five (5) Market Days.

2.5 Status of Purchased Shares

A Share purchased or acquired by the Company is deemed cancelled immediately on purchase or acquisition (and all rights and privileges attached to the Share will expire on such cancellation) unless such Share is held by the Company as a treasury share. Accordingly, the total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares. At the time of each purchase of Shares by the Company, the Directors will decide whether the Shares purchased will be cancelled or kept as treasury shares, or partly cancelled and partly kept as treasury shares, depending on the needs of the Company at that time.

2.6 Treasury Shares

Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Some of the provisions on treasury shares under the Companies Act, are summarised below:

2.6.1 Maximum Holdings

The number of Shares held as treasury shares cannot at any time exceed ten per cent. (10%) of the total number of issued Shares.

APPENDIX

2.6.2 Voting and Other Rights

The Company cannot exercise any right in respect of treasury shares. In particular, the Company cannot exercise any right to attend or vote at meetings and for the purposes of the Companies Act, the Company shall be treated as having no right to vote and the treasury shares shall be treated as having no voting rights.

In addition, no dividend may be paid, and no other distribution of the Company's assets may be made, to the Company in respect of treasury shares. However, the allotment of Shares as fully paid bonus Shares in respect of treasury shares is allowed. Also, a subdivision or consolidation of any treasury share into treasury shares of a smaller amount is allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as before.

2.6.3 Disposal and Cancellation

Where Shares are held as treasury shares, the Company may at any time:

(a) sell the treasury shares for cash;

(b) transfer the treasury shares for the purposes of or pursuant to an employees' share scheme;

(c) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;

(d) cancel the treasury shares; or

(e) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

2.7 Reporting Requirements

Within 30 days of the passing of a Shareholders' resolution to approve the purchases of Shares by the Company, the Company shall lodge a copy of such resolution with the Registrar.

The Company shall notify the Registrar within 30 days of a purchase of Shares by the Company on the SGX-ST or otherwise. Such notification shall include details of the purchases including the date of the purchases, the total number of Shares purchased by the Company, the number of Shares cancelled and the number of Shares held as treasury shares, the Company's issued ordinary share capital before and after the purchase of Shares, the amount of consideration paid by the Company for the purchases and such other information as required by the Companies Act.

APPENDIX

Rule 886(1) of the Listing Manual specifies that a listed company shall notify the SGX-ST of all purchases or acquisitions of its Shares not later than 9.00 a.m.:

(a) in the case of a Market Purchase, on the Market Day following the day on which the Market Purchase was made; and

(b) in the case of an Off-Market Purchase under an equal access scheme, on the second Market Day after the closing of acceptances of the offer for the Off-Market Purchase.

The notification of such purchases or acquisitions of Shares to the SGX-ST shall include details of the total number of Shares authorised for purchase, the date of purchase, prices paid for the total number of Shares purchased, the purchase price per Share or the highest and lowest purchase price per Share and the number of issued Shares excluding treasury shares after purchase, in the form prescribed under the Listing Rules. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company in a timely fashion the necessary information which will enable the Company to make the notifications to the SGX-ST.

The Company, upon undertaking any sale, transfer, cancellation and/or use of treasury shares, will comply with Rule 704(28) of the Listing Manual, which provides that an issuer must make an immediate announcement thereof, stating the following:

(i) date of the sale, transfer, cancellation and/or use;

(ii) purpose of such sale, transfer, cancellation and/or use;

(iii) number of treasury shares sold, transferred, cancelled and/or used;

(iv) number of treasury shares before and after such sale, transfer, cancellation and/or use;

(v) percentage of the number of treasury shares against the total number of Shares outstanding before and after such sale, transfer, cancellation and/or use; and

(vi) value of the treasury shares if they are used for a sale or transfer, or cancelled.

2.8 Source of Funds

The Company may only apply funds for the purchase or acquisition of the Shares as provided in the Constitution and in accordance with the applicable laws in Singapore. The Company may not purchase its Shares for a consideration other than in cash or, in the case of a Market Purchase, for settlement otherwise than in accordance with the trading rules of the SGX-ST.

The Company intends to use internal sources of funds or external borrowings or a combination of both to finance the Company's purchase or acquisition of the Shares pursuant to the Share Purchase Mandate.

APPENDIX

2.9 Financial Effects

It is not possible for the Company to realistically calculate or quantify the impact of purchases or acquisitions of Shares that may be made pursuant to the Share Purchase Mandate on the NTA and EPS as the resultant effect would depend on, *inter alia*, the aggregate number of Shares purchased or acquired, whether the purchase or acquisition is made out of capital or profits, the purchase prices paid for such Shares and the amount (if any) borrowed by the Company to fund the purchases or acquisitions and whether the Shares purchased or acquired are cancelled or held as treasury shares.

The Company's total issued share capital will be diminished by the total number of the Shares purchased by the Company and which are cancelled. The NTA of the Group will be reduced by the aggregate purchase price paid by the Company for the Shares.

Under the Companies Act, purchases or acquisitions of Shares by the Company may be made out of the Company's capital or profits so long as the Company is solvent. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of profits, such consideration (excluding related expenses) will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced. For the purposes of the Share Purchase Mandate, it is intended that purchases or acquisitions of the Shares by the Company, if any, will be made out of the Company's capital and the foregoing has been assumed in the preparation of the financial effects illustrated below.

The Directors do not propose to exercise the Share Purchase Mandate to such an extent that it would have a material adverse effect on the working capital requirements of the Group. The purchase or acquisition of the Shares will only be effected after considering relevant factors such as the working capital requirement, availability of financial resources, the expansion and investment plans of the Group and the prevailing market conditions. The proposed Share Purchase Mandate will be exercised with a view to enhance the earnings and/or the NTA value per Share of the Group.

For illustrative purposes only, the financial effects of the Share Purchase Mandate on the Company and the Group, based on the unaudited financial statements of the Group for the financial year ended 31 December 2019 are based on the assumptions set out below:

(a) based on 127,417,735 Shares in issue (excluding treasury shares and subsidiary holdings) and assuming that (i) no further Shares are issued, and (ii) no Shares are held by the Company as treasury shares on or prior to the AGM, not more than 3,822,532 Shares (representing three per cent. (3%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at that date) may be purchased by the Company pursuant to the proposed Share Purchase Mandate;

APPENDIX

(b) in the case of Market Purchases by the Company and assuming that the Company purchases or acquires the 3,822,532 Shares at the Maximum Price of S$0.196 for one (1) Share (being the price equivalent to five per cent. (5%) above the Average Closing Price of the Shares for the last five (5) consecutive Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of the 3,822,532 Shares (excluding related expenses) is approximately S$749,000; and

(c) in the case of Off-Market Purchases by the Company and assuming that the Company purchases or acquires the 3,822,532 Shares at the Maximum Price of S$0.224 for one (1) Share (being the price equivalent to twenty per cent. (20%) above the Average Closing Price of the Shares on the five (5) consecutive Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date), the maximum amount of funds required for the purchase or acquisition of the 3,822,532 Shares (excluding related expenses) is approximately S$856,000.

For illustrative purposes only, and based on the assumptions set out in sub-paragraphs (a), (b) and (c) above and assuming that (i) the purchase or acquisition of Shares is financed by internal sources of funds and/or external borrowings, (ii) the Share Purchase Mandate had been effective on 1 January 2019, and (iii) the Company had purchased or acquired the 3,822,532 Shares (representing three per cent. (3%)) of its issued ordinary share capital at the Latest Practicable Date, the financial effects of the purchase or acquisition of the 3,822,532 Shares by the Company pursuant to the Share Purchase Mandate:

(i) by way of purchases made entirely out of capital and held as treasury shares; and

(ii) by way of purchases made entirely out of capital and cancelled, or as summarised for ease of reference in the following table:

	Purchased out of:	Type of purchase	Held as Treasury Shares or Cancelled	Maximum Price per Share (S$)
1 (A)	Capital	Market Purchase	Held as treasury shares	0.196
1 (B)	Capital	Off-Market Purchase	Held as treasury shares	0.224
2 (A)	Capital	Market Purchase	Cancelled	0.196
2 (B)	Capital	Off-Market Purchase	Cancelled	0.224

APPENDIX

on the unaudited financial statements of the Group for the financial year ended 31 December 2019, are set out below:

(1) Purchases made entirely out of capital and held as treasury shares

(A) Market Purchases

	Group Before Share Purchase S$'000	Group After Share Purchase S$'000	Company Before Share Purchase S$'000	Company After Share Purchase S$'000
As at 31 December 2019				
Share capital	70,496	70,496	70,496	70,496
Capital and other reserves	2,985	2,985	2,527	2,527
Retained earnings	27,472	27,472	(7,077)	(7,077)
	100,953	100,953	65,946	65,946
Treasury share	(2,215)	(2,964)	(2,215)	(2,964)
Shareholders' funds	98,738	97,989	63,731	62,982
Net tangible assets	98,614	97,865	63,705	62,956
Minority interests	3,925	3,925	–	–
Current assets	118,858	118,109	101,848	101,099
Current liabilities	57,981	57,981	67,258	67,258
Working capital	60,877	60,128	34,590	33,841
Number of issued Shares	127,417,735	123,595,203	127,417,735	123,595,203
Weighted average number of Shares	127,417,735	123,595,203	127,417,735	123,595,203
Financial ratios				
Net tangible assets/ Share (S$)	0.77	0.79	0.50	0.51
Current ratio (times)	2.05	2.04	1.51	1.50
Earnings per Share (cents)	0.59	0.61	1.53	1.58

APPENDIX

(B) Off-Market Purchases

	Group Before Share Purchase S$'000	Group After Share Purchase S$'000	Company Before Share Purchase S$'000	Company After Share Purchase S$'000
As at 31 December 2019				
Share capital	70,496	70,496	70,496	70,496
Capital and other reserves	2,985	2,985	2,527	2,527
Retained earnings	27,472	27,472	(7,077)	(7,077)
	100,953	100,953	65,946	65,946
Treasury shares	(2,215)	(3,071)	(2,215)	(3,071)
Shareholders' funds	98,738	97,882	63,731	62,875
Net tangible assets	98,614	97,758	63,705	62,849
Minority interests	3,925	3,925	–	–
Current assets	118,858	118,002	101,848	100,992
Current liabilities	57,981	57,981	67,258	67,258
Working capital	60,877	60,021	34,590	33,734
Number of issued Shares	127,417,735	123,595,203	127,417,735	123,595,203
Weighted average number of Shares	127,417,735	123,595,203	127,417,735	123,595,203
Financial ratios				
Net tangible assets/ Share (S$)	0.77	0.79	0.50	0.51
Current ratio (times)	2.05	2.04	1.51	1.50
Earnings per Share (cents)	0.59	0.61	1.53	1.58

APPENDIX

(2) Purchases made entirely out of capital and cancelled

(A) Market Purchases

	Group Before Share Purchase S$'000	Group After Share Purchase S$'000	Company Before Share Purchase S$'000	Company After Share Purchase S$'000
As at 31 December 2019				
Share capital	68,281	67,532	68,281	67,532
Capital and other reserves	2,985	2,985	2,527	2,527
Retained earnings	27,472	27,472	(7,077)	(7,077)
Shareholders' funds	98,738	97,989	63,731	62,982
Net tangible assets	98,614	97,865	63,705	62,956
Minority interests	3,925	3,925	–	–
Current assets	118,858	118,109	101,848	101,099
Current liabilities	57,981	57,981	67,258	67,258
Working capital	60,877	60,128	34,590	33,841
Number of issued Shares	127,417,735	123,595,203	127,417,735	123,595,203
Weighted average number of Shares	127,417,735	123,595,203	127,417,735	123,595,203
Financial ratios				
Net tangible assets/ Share (S$)	0.77	0.79	0.50	0.51
Current ratio (times)	2.05	2.04	1.51	1.50
Earnings per Share (cents)	0.59	0.61	1.53	1.58

APPENDIX

(B) Off-Market Purchases

	Group Before Share Purchase S$'000	Group After Share Purchase S$'000	Company Before Share Purchase S$'000	Company After Share Purchase S$'000
As at 31 December 2019				
Share capital	68,281	67,425	68,281	67,425
Capital and other reserves	2,985	2,985	2,527	2,527
Retained earnings	27,472	27,472	(7,077)	(7,077)
Shareholders' funds	98,738	97,882	63,731	62,875
Net tangible assets	98,614	97,758	63,705	62,849
Minority interests	3,925	3,925	–	–
Current assets	118,858	118,002	101,848	100,992
Current liabilities	57,981	57,981	67,258	67,258
Working capital	60,877	60,021	34,590	33,734
Number of issued Shares	127,417,735	123,595,203	127,417,735	123,595,203
Weighted average number of Shares	127,417,735	123,595,203	127,417,735	123,595,203
Financial ratios				
Net tangible assets/ Share (S$)	0.77	0.79	0.50	0.51
Current ratio (times)	2.05	2.04	1.51	1.50
Earnings per Share (cents)	0.59	0.61	1.53	1.58

Shareholders should note that the financial effects set out above are purely for illustrative purposes only based on the abovementioned assumptions. Although the proposed Share Purchase Mandate would authorise the Company to purchase or acquire up to three per cent. (3%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as determined in accordance with the applicable provisions of the Companies Act, the Company may not necessarily purchase or be able to purchase the entire three per cent. (3%) of the total number of its issued Shares (excluding treasury shares and subsidiary holdings). In addition, the Company may cancel all or part of the Shares purchased or hold all or part of the Shares purchased in treasury.

Shareholders who are in doubt as to their tax positions or any tax implications in their respective jurisdictions should consult their own professional advisers.

APPENDIX

2.10 Take-over Implications

Appendix 2 of the Take-over Code contains the Share Buy-Back Guidance Note applicable as at the Latest Practicable Date. The take-over implications arising from any purchase or acquisition by the Company of its Shares are set out below.

2.10.1 Obligation to make a Take-over Offer

If, as a result of any purchase or acquisition by the Company of the Shares, the proportionate interest in the voting capital of the Company of a Shareholder and persons acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Take-over Code. Consequently, a Shareholder or a group of Shareholders acting in concert with a Director could obtain or consolidate effective control of the Company and become obliged to make an offer under Rule 14 of the Take-over Code.

2.10.2 Persons Acting in Concert

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal), co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate effective control of the company.

Unless the contrary is established, the following persons, *inter alia*, will be presumed to be acting in concert, namely:

(a) a company with its parent company, subsidiaries, its fellow subsidiaries, any associated companies of the above companies, any company whose associated companies include any of the above companies and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the above companies for the purchase of voting rights;

(b) a company with any of its directors, together with their close relatives, related trusts and any companies controlled by any of the directors, their close relatives and related trusts;

(c) a company with any of its pension funds and employee share schemes;

(d) a person with any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, but only in respect of the investment account which such person manages;

(e) a financial or other professional adviser, including a stockbroker, with its client in respect of the shareholdings of the adviser and the persons controlling, controlled by or under the same control as the adviser and all the funds which the adviser manages on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total ten per cent. (10%) or more of the client's equity share capital;

APPENDIX

(f) directors of a company, together with their close relatives, related trusts and companies controlled by any of them, which is subject to an offer or where they have reason to believe a bona fide offer for their company may be imminent;

(g) partners; and

(h) an individual, his close relatives, his related trusts, and any person who is accustomed to act according to his instructions, companies controlled by any of the above persons and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the above companies for the purchase of voting rights.

For this purpose, ownership or control of at least twenty per cent. (20%) but not more than fifty per cent. (50%) of the voting rights of a company will be regarded as the test of associated company status.

The circumstances under which Shareholders, including Directors and persons acting in concert with them respectively, will incur an obligation to make a take-over offer under Rule 14 of the Take-over Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 of the Take-over Code.

2.10.3 Effect of Rule 14 and Appendix 2

In general terms, the effect of Rule 14 and Appendix 2 of the Take-over Code is that, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring Shares:

(a) the voting rights of such Directors and their concert parties would increase to thirty per cent. (30%) or more; or

(b) in the event that such Directors and their concert parties hold between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, if the voting rights of such Directors and their concert parties would increase by more than one per cent. (1%) in any period of six (6) months.

Under Appendix 2 of the Take-over Code, a Shareholder not acting in concert with the Directors will not be required to make a take-over offer under Rule 14 if, as a result of the Company purchasing or acquiring its Shares:

(i) the voting rights of such Shareholder would increase to thirty per cent. (30%) or more; or

(ii) if such Shareholder holds between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Shareholder would increase by more than one per cent. (1%) in any period of six (6) months.

Such Shareholders need not abstain from voting in respect of the resolution authorising the Share Purchase Mandate.

APPENDIX

2.10.4 Based on the shareholdings of the Directors in the Company as at the Latest Practicable Date, none of the Directors will become obligated to make a mandatory offer by reason only of the buy-back of three per cent. (3%) Shares by the Company pursuant to the Share Purchase Mandate.

The Directors are not aware of any Shareholder or group of Shareholders acting in concert who may become obligated to make a mandatory offer in the event that the Directors exercise the power to repurchase Shares pursuant to the Share Purchase Mandate.

Shareholders who are in doubt as to their obligations, if any, to make a mandatory takeover offer under the Take-over Code as a result of any purchase or acquisition of Shares by the Company should consult the SIC and/or their professional advisers at the earliest opportunity.

2.11 Taxation

Shareholders who are in doubt as to their respective tax positions or any such tax implications or who may be subject to tax in a jurisdiction other than Singapore should consult their own professional advisors.

2.12 Listing Rules

While the Listing Rules do not expressly prohibit purchase of Shares by a listed company during any particular time or times, the listed company would be considered an "insider" in relation to any proposed purchase or acquisition of its issued Shares. In this regard, the Company will not purchase any Shares pursuant to the Share Purchase Mandate after a price-sensitive development has occurred or has been the subject of a consideration and/or a decision of the Board until such time the price-sensitive information has been publicly announced. In particular, pursuant to Listing Rule 1207(19)(c), the Company will not purchase or acquire any Shares through Market Purchases during the period of:

(a) one (1) month immediately preceding the announcement of the Company's annual results; and

(b) two (2) weeks immediately preceding the announcement of the Company's quarterly results.

The Company is required under Rule 723 of the Listing Manual to ensure that at least ten per cent. (10%) of its Shares are in the hands of the public. The "**public**", as defined under the Listing Manual, are persons other than the directors, chief executive officer, substantial shareholders or controlling shareholders of the Company or its subsidiaries, as well as the associates of such persons.

Based on the Register of Directors' Shareholdings and the Register of Substantial Shareholders maintained by the Company as at the Latest Practicable Date, approximately 74,603,115 Shares, representing approximately 58.55% of the issued Shares (excluding treasury shares and subsidiary holdings), are in the hands of the public. Assuming that the Company purchases its Shares through Market Purchases up to the full three per cent. (3%) limit pursuant to the Share Purchase Mandate, the number of Shares in the hands of the public would be reduced to 70,780,583 Shares, representing approximately 57.27% of the reduced total number of issued Shares (excluding treasury shares and subsidiary holdings). Accordingly, the Company is of the view that there is sufficient number of issued Shares held in the hands of the public which would permit the Company to undertake purchases or acquisitions of its issued Shares up to the full three per cent. (3%) limit pursuant to the proposed Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST, and that the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity.

APPENDIX

In undertaking any purchases or acquisitions of Shares through Market Purchases, the Directors will use their best efforts to ensure that, notwithstanding such purchases, a sufficient float in the hands of the public will be maintained so that the purchases or acquisitions of the Shares will not adversely affect the listing status of the Shares on the SGX-ST, cause market illiquidity or adversely affect the orderly trading of the Shares.

2.13 Previous Share Purchases

The Company has not purchased any Shares during the 12 month period immediately preceding the Latest Practicable Date.

3. DIRECTORS AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Based on information in the Register of Directors maintained by the Company, as at the Latest Practicable Date, the number of Shares in which the Directors have an interest, are as follows:

	Direct Interest		Deemed Interest	
	Number of Shares	(%)[1]	Number of Shares	(%)[1]
Teo Yi-Dar (Zhang Yida)	–	–	–	–
Foo Sey Liang	–	–	28,405,000[2]	22.29
Ng Weng Sui Harry	10,000	0.01	–	–
Kesavan Nair	–	–	–	–

Notes:

(1) Based on total issued and paid-up ordinary share capital (excluding treasury shares and subsidiary holdings) comprising 127,417,735 Shares as at the Latest Practicable Date.

(2) Foo Sey Liang is deemed to be interested in the 28,405,000 Shares held by Flame Gold International Limited, by virtue of Section 7 of the Companies Act.

APPENDIX

Based on information in the Register of Substantial Shareholders maintained by the Company, as at the Latest Practicable Date, the Substantial Shareholders and the number of Shares in which they have an interest are as follows:

	Direct Interest		Deemed Interest		Total Interest	
	Number of Shares	(%)[1]	Number of Shares	(%)[1]	Number of Shares	(%)[1]
Flame Gold International Limited	28,405,000	22.29	–	–	28,405,000	22.29
Foo Sey Liang	–	–	28,405,000[2]	22.29	28,405,000	22.29
Rise Capital Ventures Ltd	8,010,000	6.29	–	–	8,010,000	6.29
Aung Tin Htut	–	–	8,010,000[3]	6.29	8,010,000	6.29
Regroup Holdings Pte. Ltd.	8,608,657	6.76	–	–	8,608,657	6.76
Yap Xi Ming	571,000	0.45	8,918,612[4]	7.00	9,489,612	7.45
Tan Kim Seng	400,008	0.31	8,608,657[5]	6.76	9,008,665	7.07
Aye Ko Ko	6,500,000	5.10	–	–	6,500,000	5.10

Notes:

(1) Based on total issued and paid-up ordinary share capital (excluding treasury shares and subsidiary holdings) comprising 127,417,735 Shares as at the Latest Practicable Date.

(2) Foo Sey Liang is deemed to be interested in the 28,405,000 Shares held by Flame Gold International Limited, by virtue of Section 7 of the Act.

(3) Aung Tin Htut is deemed to be interested in the 8,010,000 Shares held by Rise Capital Ventures Ltd by virtue of Section 7 of the Act.

(4) Yap Xi Ming holds approximately 33.33% in the share capital of Regroup Holdings Pte. Ltd. ("**Regroup**") and is therefore deemed interested in the 8,608,657 Shares held by Regroup by virtue of Section 7 of the Act. He is also deemed to be interested in 3,655 Shares held by CIMB Securities (S) Pte Ltd and 306,300 Shares held by UOB Kay Hian Pte Ltd as his nominees.

(5) Tan Kim Seng holds approximately 25% in the share capital of Regroup and is therefore deemed interested in the 8,608,657 Shares held by Regroup by virtue of Section 7 of the Act.

APPENDIX

4. DIRECTORS' RECOMMENDATION

The Directors are of the opinion that the proposed renewal of the Share Purchase Mandate is in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution relating to the renewal of the Share Purchase Mandate.

5. ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the AGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 28 Jalan Buroh, Singapore 619484 not later than 48 hours prior to the AGM, being 10.00 a.m. on 24 June 2020. Completion and return of the Proxy Form by a Shareholder will not prevent him/her from attending and voting at the AGM if he/she so wishes.

6. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Appendix constitutes full and true disclosure of all material facts about the proposed renewal of the Share Purchase Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Appendix misleading. Where information in the Appendix has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Appendix in its proper form and context.

7. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the registered office of the Company at 28 Jalan Buroh, Singapore 619484 during normal business hours from the date of this Appendix up to the date of the forthcoming AGM:

(a) the Annual Report of the Company for the financial year ended 31 December 2019; and

(b) the Constitution of the Company.

Yours faithfully

For and on behalf of
the Board of Directors of
HG Metal Manufacturing Limited

Foo Sey Liang
Executive Director
Singapore

SHAREHOLDINGS STATISTICS

As at 27 March 2020

Number of Shares	–	127,417,735 (excluding treasury shares)
Treasury Shares	–	3,193,630
Subsidiary Holdings Held	–	Nil
Class of Shares	–	Ordinary Shares
Voting Rights	–	On a show of hands: 1 vote
	–	On a poll: 1 vote for each ordinary share

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 – 99	467	10.75	21,571	0.02
100 – 1,000	675	15.54	437,266	0.33
1,001 – 10,000	2,478	57.06	10,387,040	7.95
10,001 – 1,000,000	707	16.28	33,339,528	25.53
1,000,001 and above	16	0.37	86,425,960	66.17
	4,343	100.00	130,611,365	100.00

Shareholding Held in Hands of Public

As at 27 March 2020, the percentage of shareholdings held in the hands of the public was approximately 58.55% and Rule 723 of the Listing Manual is complied with.

SHAREHOLDINGS STATISTICS

As at 27 March 2020

TOP 20 SHAREHOLDERS LIST

S/No	Name of Shareholder	Number of Shares	%*
1	UOB Kay Hian Pte Ltd	37,734,957	29.62
2	Rise Capital Ventures Limited	8,010,000	6.29
3	Aye Ko Ko	6,500,000	5.10
4	Tan Nah	6,200,000	4.87
5	Daiwa Capital Markets Singapore Limited	3,638,800	2.86
6	Ng Joo Yow	3,435,000	2.70
7	Phillip Securities Pte Ltd	2,753,939	2.16
8	DBS Nominees Pte Ltd	2,601,302	2.04
9	Chua Sze Bok	2,423,600	1.90
10	ABN Amro Clearing Bank N.V.	2,058,200	1.61
11	Htay Htay Naing	2,036,300	1.60
12	Sia Ling Sing	1,840,000	1.44
13	Citibank Nominees Singapore Pte Ltd	1,581,432	1.24
14	Ang Gim Teck	1,389,700	1.09
15	Ang Gim Thian	1,029,100	0.81
16	OCBC Securities Private Ltd	822,890	0.65
17	Maybank Kim Eng Securities Pte. Ltd.	794,523	0.62
18	Tan Wai See	655,000	0.51
19	CGS-CIMB Securities (Singapore) Pte Ltd	631,198	0.50
20	Ong King Sin	580,000	0.45
		86,715,941	68.06

* The percentage of shareholdings was computed based on the issued share capital of the Company as at 27 March 2020 of 127,417,735 shares (which excludes 3,193,630 shares which are held as treasury shares representing approximately 2.51% of the total number of issued shares excluding treasury shares and subsidiary holdings).

SHAREHOLDINGS STATISTICS

As at 27 March 2020

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder	Direct Interest No. of Shares	Direct Interest Percentage (%)[1]	Deemed Interest No. of Shares	Deemed Interest Percentage (%)[1]
Flame Gold International Limited	28,405,000	22.29	–	–
Foo Sey Liang	–	–	28,405,000[2]	22.29
Rise Capital Ventures Ltd	8,010,000	6.29	–	–
Aung Tin Htut	–	–	8,010,000[3]	6.29
Regroup Holdings Pte. Ltd.	8,608,657	6.76	–	–
Yap Xi Ming	571,000	0.45	8,918,612[4]	7.00
Tan Kim Seng	400,008	0.31	8,608,657[5]	6.76
Aye Ko Ko	6,500,000	5.10	–	–

Notes:

(1) Based on total issued and paid-up ordinary share capital (excluding treasury shares and subsidiary holdings) comprising 127,417,735 Shares as at the Latest Practicable Date.

(2) Foo Sey Liang is deemed to be interested in the 28,405,000 Shares held by Flame Gold International Limited, by virtue of Section 7 of the Act.

(3) Aung Tin Htut is deemed to be interested in the 8,010,000 Shares held by Rise Capital Ventures Ltd by virtue of Section 7 of the Act.

(4) Yap Xi Ming holds approximately 33.33% in the share capital of Regroup Holdings Pte. Ltd. ("**Regroup**") and is therefore deemed interested in the 8,608,657 Shares held by Regroup by virtue of Section 7 of the Act. He is also deemed to be interested in 3,655 Shares held by CIMB Securities (S) Pte Ltd and 306,300 Shares held by UOB Kay Hian Pte Ltd as his nominees.

(5) Tan Kim Seng holds approximately 25% in the share capital of Regroup and is therefore deemed interested in the 8,608,657 Shares held by Regroup by virtue of Section 7 of the Act.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**AGM**") of HG Metal Manufacturing Limited (the "**Company**") will be held at 28 Jalan Buroh Singapore 619484 on Friday, 26 June 2020 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company and the Group for the financial year ended 31 December 2019 together with the Independent Auditors' Report thereon. (Resolution 1)

2 To re-elect the following Directors of the Company retiring pursuant to Regulation 89 of the Company's Constitution:

Mr Teo Yi-Dar (Zhang Yida) *[See explanatory note (i)]* (Resolution 2)
Mr Ng Weng Sui Harry *[See explanatory note (i)]* (Resolution 3)

3. To approve the payment of Directors' fees of S$186,340 for the financial year ended 31 December 2019 (previous financial year: S$169,126). (Resolution 4)

4. To re-appoint Ernst & Young LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. (Resolution 5)

5. To transact any other ordinary business which may properly be transacted at an AGM.

SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST")**

That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the SGX-ST, the Directors of the Company be authorised and empowered to:

(a) (i) allot and issue shares in the capital of the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

NOTICE OF ANNUAL GENERAL MEETING

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may at their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

(the "**Share Issue Mandate**")

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraphs (1) above, the percentage of issued shares and Instruments shall be based on the number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

   (a) new shares arising from the conversion or exercise of convertible securities which were issued and outstanding or subsisting at the time this Resolution is passed;

   (b) new shares arising from exercising share options or vesting of share awards which were issued and outstanding or subsisting at the time this Resolution is passed, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

   (c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

NOTICE OF ANNUAL GENERAL MEETING

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)] (Resolution 6)

7. **Renewal of the Share Purchase Mandate**

That:

(a) for the purposes of the Companies Act (Chapter 50 of Singapore) (the "**Companies Act**"), the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire issued ordinary shares fully paid in the capital of the Company (the "**Shares**") not exceeding in aggregate the Maximum Limit (as hereafter defined), at such price(s) as may be determined by the Directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:

(i) market purchase(s) (each a "**Market Purchase**") on the Singapore Exchange Securities Trading Limited ("**SGX-ST**"); and/or

(ii) off-market purchase(s) (each an "**Off-Market Purchase**") in accordance with any equal access scheme(s) as may be determined or formulated by the Directors as they consider fit, which scheme(s) shall satisfy all the conditions prescribed by the Companies Act;

and otherwise in accordance with all other laws and regulations, including but not limited to, the provisions of the Companies Act and listing rules of the SGX-ST as may for the ti.me being be applicable, be and is hereby authorised and approved generally and unconditionally (the "**Share Purchase Mandate**");

(b) unless varied or revoked by the members of the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors of the Company at any time and from time to time during the period commencing from the date of the passing of this Ordinary Resolution and expiring on the earlier of:

(i) the date on which the next AGM is held or required by law to be held; or

NOTICE OF ANNUAL GENERAL MEETING

(ii) the date on which the purchases or acquisitions of Shares by the Company pursuant to the Share Purchase Mandate are carried out to the full extent mandated,

whichever is the earlier;

(c) in this Ordinary Resolution:

"**Maximum Limit**" means that number of issued Shares representing three per cent. (3%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) as at the date of the passing of this Ordinary Resolution unless the Company has effected a reduction of the share capital of the Company in accordance with the applicable provisions of the Companies Act, at any time during the Relevant Period, in which event the total number of issued Shares shall be taken to be the total number of Shares as altered (excluding any treasury shares and subsidiary holdings that may be held by the Company from time to time);

"**Relevant Period**" means the period commencing from the date on which the last AGM was held and expiring on the date the next AGM is held or is required by law to be held, whichever is the earlier, after the date of this Ordinary Resolution; and

"**Maximum Price**", in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) which shall not exceed:

(i) in the case of a Market Purchase, one hundred and five per cent (105%) of the Average Closing Price; and

(ii) in the case of an Off-Market Purchase pursuant to an equal access scheme, one hundred and twenty per cent. (120%) of the Average Closing Price,

where:

"**Average Closing Price**" means the average of the closing market prices of a Share over the last five (5) Market Days (a "**Market Day**" being a day on which the SGX-ST is open for trading in securities), on which transactions in the Shares were recorded, before the day on which the purchase or acquisition of Shares was made and deemed to be adjusted for any corporate action that occurs after the relevant five (5) Market Days; and

NOTICE OF ANNUAL GENERAL MEETING

(d) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider necessary, expedient, incidental or in the interests of the Company to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution.

[See Explanatory Note (iii)] (Resolution 7)

By Order of the Board

Wee Woon Hong
Srikanth Rayaprolu
Company Secretaries
Singapore
15 April 2020

Explanatory Notes:

(i) Mr Teo Yi-Dar (Zhang Yida) will, upon re-election as a Director of the Company, remain as an Independent Non-Executive Chairman and member of Audit and Risk Committee, Nominating Committee and Remuneration Committee, and will be considered independent for the purpose of Rule 704(8) of the Listing Manual in accordance with the Code of Corporate Governance 2018. Detailed information of Mr Teo Yi-Dar (Zhang Yida) pursuant to Rule 720(6) of the Listing Manual can be found on pages 71 to 73 in the Annual Report 2019.

Mr Ng Weng Sui Harry will, upon re-election as a Director of the Company, remain as an Independent Non-Executive Director and Chairman of the Audit & Risk Committee and a member of the Nominating Committee and Remuneration Committee, and will be considered independent for the purpose of Rule 704(8) of the Listing Manual in accordance with the Code of Corporate Governance 2018. Detailed information of Mr Ng Weng Sui Harry pursuant to Rule 720(6) of the Listing Manual can be found on pages 71 to 73 in the Annual Report 2019.

(ii) The Ordinary Resolution 6 above, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings), of which up to 20% may be issued other than on a pro-rata basis to shareholders.

(iii) The Ordinary Resolution 7 seeks to renew the share purchase mandate to enable the Directors of the Company to exercise all the powers of the Company to purchase or otherwise acquire issued ordinary shares fully paid in the capital of the Company not exceeding in aggregate the Maximum Limit (as defined in the mandate). Details of the terms of the mandate are set out in the Appendix to the 2019 Annual Report of the Company.

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend and vote at the AGM. Where such member appoints more than one proxy, the proportion of his shareholding to be represented by each proxy shall be specified in the instrument of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than one proxy, the number of Shares in relation to which each proxy has been appointed shall be specified in the instrument of proxy.

   "relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act.

2. A proxy needs not be a member of the Company.

3. The instrument appointing a proxy or proxies, duly executed, must be deposited at the Registered Office of the Company at 28 Jalan Buroh Singapore 619484 not less than forty-eight (48) hours before the time appointed for holding the AGM.

4. The instrument appointing a proxy or proxies must be signed by the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, it must be executed either under its common seal or signed by its attorney or officer duly authorised.

5. A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at seventy-two (72) hours before the time appointed for holding the AGM in order for the Depositor to be entitled to attend and vote at the AGM.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM of the Company and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's and its proxy(ies)'s or representative(s)'s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM of the Company (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM of the Company (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"); and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior express consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes.

HG METAL MANUFACTURING LIMITED
Company Registration No. 198802660D
(Incorporated In the Republic of Singapore)

ANNUAL GENERAL MEETING
PROXY FORM
(Please see notes overleaf before completing this Form)

IMPORTANT:

1. An Investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the AGM in person. CPF and SRS Investors who are unable to attend the AGM but would like to vote, may inform their CPF and/or SPS Approved Nominees to appoint their nominee as proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.
2. This proxy form is not valid for use by CPF and SRS investors and shall be ineffective for all intents and purported to be used by them.

*I/We, ______________________ (Name) ______________________ (NRIC/Passport No.)

of ____ (Address)
being a member/members of HG Metal Manufacturing Limited (the "**Company**"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

*and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting ("**AGM**") of the Company to be held at 28 Jalan Buroh Singapore 619484 on 26 June 2020 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against or abstain from voting the Resolutions proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

All resolutions put to the vote at the AGM shall be decided by way of poll.

(Please indicate your vote "For" or "Against" or "Abstain" with a tick [✓] within the box provided. Alternatively, please indicate the number of votes as appropriate.)

No.	Resolutions relating to:	For	Against	Abstain
1	Directors' Statement and Audited Financial Statements for the financial year ended 31 December 2019			
2	Re-election of Mr Teo Yi-Dar (Zhang Yida) as a Director			
3	Re-election of Mr Ng Weng Sui Harry as a Director			
4	Approval of Directors' fees amounting to S$186,340/-			
5	Re-appointment of Ernst & Young LLP as Auditors			
6	Authority to issue shares and convertible securities pursuant to Section 161 of the Companies Act, Chapter 50.			
7	Renewal of the Share Purchase Mandate			

Dated this __________ day of ______________ 2020

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____
Signature of Shareholder(s) or,
Common Seal of Corporate Shareholder
* Delete where inapplicable

Notes:

1. If the member has shares entered against his name in the Depository Register, he should insert that number of shares. If the member has shares registered in his name in the Register of Members, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, this instrument of proxy will be deemed to relate to all the shares held by the member.

2. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend and vote at the AGM. Where such member appoints more than one proxy, the proportion of his shareholding to be represented by each proxy shall be specified in this instrument of proxy. If the proportion of his shareholding is not specified, the first named proxy shall be deemed to represent 100% of his shareholding and the second named proxy shall be deemed to be an alternate to the first named.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than one proxy, the number of shares in relation to which each proxy has been appointed shall be specified in this instrument of proxy.

   "relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act, Chapter 50.

3. A proxy need not be a member of the Company.

4. The instrument appointing a proxy or proxies, duly executed, must be deposited at the Registered Office of the Company at 28 Jalan Buroh Singapore 619484 not less than forty-eight (48) hours before the time appointed for holding he AGM. The appointment of a proxy or proxies shall not preclude a member from attending and voting in person at the AGM. If a member attends the AGM in person, the appointment of a proxy or proxies shall be deemed to be revoked, and the Company reserves the right to refuse to admit such proxy or proxies to the AGM.

5. This instrument appointing a proxy or proxies must be signed by the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, it must be executed either under its common seal or signed by its attorney or officer duly authorised.

6. Where this instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney or other authority, the power of attorney or authority or a notarially certified copy thereof must be lodged with the instrument of proxy, failing which the instrument of proxy may be treated as invalid.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Meeting as certified by The Central Depository (Pte) Limited to the Company.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member is deemed to have accepted and agreed to the personal data privacy terms set out in the Notice of Annual General Meeting dated 15 April 2020.