HG METAL MANUFACTURING LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 198802660D)

DISPOSAL OF ENTIRE STAKE IN COMPANY'S SUBSIDIARY, FIRST FORTUNE INTERNATIONAL COMPANY LIMITED

1. INTRODUCTION

The Board of Directors ("**Board**" or "**Directors**") of HG Metal Manufacturing Limited ("**Company**" and together with the subsidiaries of the Company, "**Group**") wishes to announce that HG Metal Investments Pte. Ltd. ("**HGMI**"), a wholly-owned subsidiary of the Company, has on 13 February 2024 entered into a sale and purchase agreement ("**SPA**") with Aung Tin Htut ("**Buyer**"), in relation to the disposal by HGMI of 30,486 ordinary shares ("**Sale Shares**") in the capital of its subsidiary, namely First Fortune International Company Limited ("**Target**" or "**First Fortune**"), to the Buyer ("**Disposal**").

The completion of the Disposal under the terms of the SPA ("**Completion**") has taken place concurrently with the signing of the Agreement. Following Completion, the beneficial shareholding of HGMI in the Target has been reduced from 51.04% to nil and accordingly, the Target has ceased to be a subsidiary of the Company.

As further described in paragraph 6 of this Announcement, the Company will convene an extraordinary general meeting ("**EGM**") to seek the ratification of the Disposal by the shareholders of the Company ("**Shareholders**").

The Disposal is not an interested person transaction under Chapter 9 of the Listing Manual.

2. INFORMATION ON THE TARGET AND THE BUYER

2.1 Target

The Target is an indirect subsidiary of the Company and was established in Myanmar on 19 February 2019. Prior to its cessation of operations in February 2023, the Target had primarily operated a one-stop steel fabrication factory in Yangon, Myanmar.

The Target was the Group's joint venture with Fortune Peak Investments Pte. Ltd., Hanwa Co., Ltd and YNJ Engineering Co., Ltd, all of which will also be disposing of their shares in the Target to the Buyer.

Immediately prior to the Disposal, the total paid-up capital of the Target was USD5,973,000, comprising 59,730 ordinary shares, of which 30,486 ordinary shares representing 51.04% of the total issued share capital in the Target was held by HGMI.

The Target recorded a net loss of S$10.7 million in financial year ended 31 December 2022 ("**FY2022**") after recognising an impairment loss of S$9.8 million on its assets due to the adverse political situation and difficult operating environment in Myanmar.

Based on the unaudited consolidated financial statements of the Target for the 6-month financial period ended 30 June 2023:

(a) the book value and net tangible assets ("**NTA**") of the Target was negative S$4.7 million.

The adjusted NTA would be negative S$0.16 million, after deducting an amount of S$4.6 million comprising a waiver of debt owing by the Target to the Company. The waiver of debt will not have any impact to the Group's net assets and earnings for the financial year ending 31 December 2023, as the impairment of debt had already been fully recognised by the Group in FY2022; and

(b) the net loss attributable to the Target was S$1.01 million.

As the shares of the Target are not publicly listed on any stock exchange, there is no available open market value of the Sale Shares.

2.2 Buyer

The Buyer is a Myanmar citizen and businessman, and had been a substantial shareholder of the Company, holding a deemed interest of approximately 5.33% in the ordinary shares in the capital of the Company ("**Shares**") (excluding treasury shares), through his investment holding vehicle, Rise Capital Ventures Limited, which is wholly held by him.

In this regard, the Buyer has also informed the Company that concurrent with the Disposal, he has also sold all his shares in the Company owned via Rise Capital to Green Esteel Pte. Ltd. ("**Green Esteel**").

Green Esteel is a majority shareholder of BRC Asia Limited, another company listed on the Mainboard, which is a major supplier of the Company. Green Esteel does not currently hold any securities in the Company. It is an investment holding company, with substantial investments locally, including the aforementioned majority stake in BRC Asia Limited.

The Company had introduced the Buyer to Green Esteel, when in the course of negotiation on the Disposal, the Buyer had expressed his intention to sell his shares in the Company held via Rise Capital.

Other than the mutual introduction of the Buyer and Green Esteel, the Company is not otherwise involved in the sale and purchase of shares between the Buyer and Green Esteel.

As at the date of this announcement, save as disclosed above, the Buyer (i) does not hold, directly or indirectly, any other ordinary shares in the issued and paid-up capital of the Company; and (ii) is not related to the Directors or substantial Shareholders and their respective associates.

The Company had sought interest for its interest in the Target, but none had materialised, save from the Buyer (in view of the turmoil in Myanmar).

3. THE DISPOSAL

3.1 Consideration

Pursuant to the SPA, the consideration for the Disposal ("**Consideration**") is S$2,427,030 in cash.

The Consideration is determined following negotiations between the parties on an arm's length basis, taking into consideration:

(a) the current financial condition of the Target, and in particular, its negative NTA and lossmaking position, as set out in further detail in paragraph 2.1 above;

(b) the prospects and challenges of the Target in view of Myanmar's recent political and economic climate; and

(c) the rationale and benefits for the Proposed Disposal, as set out in Section 3.3 *(Rationale for the Disposal and Use of Proceeds)* of this announcement.

3.2 Terms of Disposal

Under the SPA, the Parties agreed that all of HGMI's beneficial interest in the Sale Shares passed to the Buyer on Completion, and the Parties agreed to extend all assistance and co-operation to each other to effect the registration of the legal title thereon on the Buyer post-Completion.

In addition, HGMI has agreed that:

(a) within 30 days from the date of Completion, it will use its best endeavours to, *inter alia*, make full payment of the outstanding amounts owing by the Target to the external lender pursuant to a corporate guarantee executed in favour of the lender by the Company and to procure the discharge of existing mortgage(s) executed by the Target in favour of the external lender; and

(b) in the event that the Target fails to obtain the formal consent from the board of Myanmar Investment Commission ("**MIC**") in respect of the change of address of the Company within 3 months from Completion, or the MIC board approval is subject to conditions and/or rulings which will result in a material change in the terms of the MIC licence granted to the Target, the Parties will work together in good faith to (i) resolve such non-issuance of the MIC board approval or concerns raised on the terms of the MIC licence, and (ii) failing which, work together in good faith to legally terminate the disposal of the Sale Shares and HGMI is to refund the Consideration to the Buyer within 30 days of such termination, or take such actions as may be mutually agreed between the Parties.

3.3 Rationale for the Disposal and Use of Proceeds

On 7 February 2023, the Group announced its plan to cease the business operations of the Target, in Myanmar in view that the economic conditions of Myanmar are not expected to improve in the near future, especially after the Financial Action Task Force ("**FATF**") moved to place Myanmar on its blacklist of countries since October 2022. This resulted in added scrutiny required for entities dealing with Myanmar and operationally, businesses also have to deal with electricity shortages, logistics disruptions, trade and foreign exchange restrictions, and persistent regulatory uncertainty.

The Group is of the view that ceasing and divesting its Myanmar operations is in the best interest of its business. Myanmar is undoubtedly, and remains, a losing proposition for many foreign corporates in the foreseeable future. Upon the Disposal, the Group's management will be able to devote, focus and conserve its resources for better use in other more profitable areas of businesses.

Reference is further made to the Group's condensed interim financial statements for the half year ended 30 June 2023 ("**HY2023**") announced by the Company on 11 August 2023. As of 30 June 2023, First Fortune was classified as discontinued operations and assets as held for sale and the Disposal is being undertaken in line with the Group's intention to dispose of the Target within a year from the reporting date and fully exit from its investment in Myanmar, in line with its plans to cease operations in Myanmar. The Company was also informed that all the other existing Target shareholders will be divesting their respective shares in the Target to the Buyer at the same time.

Following Completion, the entire sum of the Consideration will be applied towards the partial release and discharge of liabilities and securities owing to the Target's external lender by the Company, pursuant to a corporate guarantee executed in favour of the lender by the Company. As the sum required to fully settle the liabilities exceeds the amount of Consideration, the Company intends to satisfy the balance sum of approximately S$0.9 million payable to the external lender using the Company’s internal working capital, in order to secure the full discharge of the corporate guarantee. Thereupon, the Company will cease to have any liabilities or exposure whatsoever associated with the Target and/or Myanmar.

4. FINANCIAL EFFECTS OF THE DISPOSAL

4.1 Bases and assumptions

The financial effects of the Disposal on the NTA per share and the loss per Share ("**LPS**") of the Group are set out below. The financial effects for the Disposal have been prepared based on the audited consolidated financial statements of the Group and the Target for the financial year ended 31 December 2022 ("**FY2022**") and are purely for illustrative purposes only and should not be taken as an indication of the actual financial position of the Group nor a projection of the future financial performance or position of the Group after the completion of the Disposal.

The financial effects have also been prepared based on the following assumptions:

(a) the Disposal had been effected on (i) 31 December 2022 for illustrating the financial effects on the NTA below; and (ii) 1 January 2022 for illustrating the financial effects on the EPS below;

(b) estimated expenses for the Disposal are not material and have not been included in the financial effects; and

(c) the NTA per share is computed based on 125,297,035 ordinary shares ("**Shares**") in the capital of the Company in issue (excluding 5,314,330 treasury shares) as at 31 December 2022 and the LPS of the Group is computed based on the weighted average number of 125,375,785 Shares in issue for FY2022.

For the avoidance of doubt, Shareholders should note that nothing in this announcement may be treated as a representation by the Company as to the trading price of the Shares prior to completion of the Disposal or for any other period of time.

4.2 NTA

	Before the Disposal	**After the Disposal**
NTA attributable to Shareholders (S$ '000) [(1)]	104,615	103,775
NTA per Share attributable to Shareholders (cents)	83.49	82.82

4.3 LPS

	Before the Disposal	**After the Disposal**
Net profit / (loss) attributable to Shareholders (S$ '000)[(1)]	(527)	4,103
Earnings per Share / (LPS) (cents)	(0.42)	3.27

4.4 Loss on Disposal

Based on the Consideration of S$2,427,030 and taking into account that an amount of approximately S$0.9 million that will be additionally incurred by the Company toward the full release and discharge of the liabilities owing to the Target's external lender, the Disposal would result in a loss on disposal of S$0.8 million, representing 25.8% of the net loss attributable to the Group per the unaudited HY2023 financial results.

5. RELATIVE FIGURES COMPUTED BASED ON RULE 1006 OF THE LISTING MANUAL AND WAIVER BY SGX REGCO

<u>Relative Figures</u>

Based on (i) the unaudited consolidated financial statements of the Group for HY2023, and (ii) the unaudited financial statements of the Target for HY2023, the relative figures of the Disposal computed on the bases set out in Rule 1006 of the Listing Manual of the SGX-ST (the "**Listing Manual**") are as follows:

Rule 1006	**Bases**	**Relative Figure**
(a)	The net asset value of the assets to be disposed of[(1)], compared with the group's net asset value[(2)]. This basis is not applicable to an acquisition of assets.	(2.5%)
(b)	The net profits / loss attributable to the assets acquired or disposed of, compared with the group's net profits / loss.	13.1%[(3)]

Rule 1006	Bases	Relative Figure
(c)	The aggregate value of the consideration given or received, compared with the issuer's market capitalisation based on the total number of issued shares excluding treasury shares(3).	6.33%
(d)	The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable to the Disposal.
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves.	Not applicable to the Disposal, as the Company is not a mineral, oil and gas company.

Notes:

(1) The net liabilities value attributable to the Disposal is SS$2,410,000, being 51.04% of S$4,723,000, prior to waiver of amount due to the Company based on the unaudited financial statements of the Target for HY2023.

(2) The Group's net asset value was S$96,068,000 based on the unaudited HY2023 financial results released on 11 August 2023.

(3) "Net profits" means profit or loss before income tax and non-controlling interests. Based on 51.04% of the net loss attributable to the Disposal of S$947,000 and net loss attributable to the Group of S$ 3,678,000 per the unaudited HY2023 financial results released on 11 August 2023.

(4) Based on the Consideration of S$2,427,030 and the Company's market capitalisation of S$38,355,928 (determined by multiplying 150,356,441 Shares being the Company's existing total number of Shares in issue (excluding treasury Shares) by the volume weighted average price of S$0.2551 per Share transacted on 7 February 2024, being the last full market day preceding the date of execution of the SPA.

The Disposal involves the disposal of a loss-making company with a negative net asset value. The Disposal would result in a loss on disposal of S$0.8 million, representing 25.8% of the net loss attributable to the Group per the unaudited HY2023 financial results.

The absolute relative figures computed involve negative figures which do not fall within the situations in Practice Note 10.1 of the Listing Manual. In particular, with reference to Paragraphs 4.4(c) and (e) of Practice Note 10.1, (i) the absolute relative figures computed on the basis of Rule 1006(c) of the Listing Manual exceed 5% but do not exceed 20%; but (ii) the Disposal results in a loss on disposal exceeding 10% of the consolidated net loss of the Group. As such, Rule 1014 of the Listing Manual would apply to the Disposal, and the Company is required to seek Shareholders' approval for the same.

<u>Application for Waiver by the Company</u>

In this regard, the Board had made an application to Singapore Exchange Regulation ("**SGX RegCo**") seeking a waiver from the requirement to obtain prior shareholders' approval for the Disposal under Rule 1014(2) of the Listing Manual read with Practice Note 10.1 (the "**Waiver**"), on the following grounds:

(a) *<u>Disposal involves a non-core asset of the Group</u>*

The Target is no longer in operation. As of 30 June 2023, the Target has already been classified as discontinued operations and assets as held for sale. To this end, the Group has already incurred a one-time impairment loss on non-financial assets of S$8.8 million in relation to the property, plant and equipment and right-of-use assets

("**ROU**") held by a subsidiary in Myanmar as well as an impairment loss on financial assets of S$1.0 million with regard to amounts owed by customers in Myanmar.

Taking into consideration the foregoing, the Target currently represents a non-core asset of the Group, and thereby meets the following criteria set out in Paragraph 7.3 of Practice Note 10.1:

(i) it is not critical to the principal business activity of the Company;

(ii) it is ancillary to the principal business activity of the Company; and

(iii) it is no longer part of an existing principal business of the Group, notwithstanding that it had been reported in the Company's audited FY2022 financial statements within the Group's HG distribution business unit.

(b) *No material change to risk profile of the Group*

The Board is of the view that there will be no material change to the risk profile of the Group as a result of the Disposal, in view of the 2 main factors as follows:

(i) the Disposal is being undertaken after taking into consideration the various factors affecting the Myanmar economic condition after two years of military coup. The Group, along with various other businesses, has had to deal with various operational difficulties and persistent regulatory uncertainty. Having already ceased operations in Myanmar, undertaking the Disposal is in the best interests of the Group and allows the Group to conserve its resources for better use in other areas of businesses; and

(ii) the Target has been loss-making since the financial year ended 31 December 2021 and is in a net liability position as of 30 June 2023. The Disposal will allow the Group to channel its financial and capital resources towards its current and viable businesses, thereby optimising its balance sheet and improving the Group's future financial and operational performance in the long run.

(c) *Costs of holding an extraordinary general meeting*

It is submitted on behalf of the Company, taking into consideration the current financial position of the Company, that the Company would also derive significant costs savings if it is not required to hold an EGM to approve the Disposal.

Waiver by SGX RegCo

On 30 January 2024, the Waiver was granted by the SGX-ST subject to the following conditions ("**Conditions**"):

(a) the Company announcing the Waiver granted, the reasons for seeking the Waiver, the conditions as required under Rule 107 of the Mainboard listing rules and if the Waiver conditions have been satisfied. If the Waiver conditions have not been met on the date of the announcement, the Company must make an update announcement when the conditions have all been met;

(b) submission of a written confirmation from the Company that it is not aware of any information that will have a material bearing on investors' decision which has yet to be announced by the Company;

(c) submission of a written confirmation from the Company that the Waiver is/will not be in contravention of any laws and regulations governing the issuer and its constitution (or equivalent in the issuer's country of incorporation);

(d) disclosure via SGXNet and the shareholders' circular of the Board's assessment that there will be no material change to the risk profile of the Group as a result of the Disposal and the bases for the Board's assessment; and

(e) the Company seeking shareholders' ratification of the Disposal within 3 months from the date of completion of the Disposal ("**Ratification**").

This announcement is made pursuant to Conditions (a) and (d) and the Company has submitted the written confirmations in accordance with Conditions (b) and (c). The Company will despatch the circular containing, *inter alia*, details of the Disposal and the Ratification together with the notice of the EGM in due course, pursuant to Conditions (d) and (e).

6. IRREVOCABLE UNDERTAKINGS

In connection with the Disposal and the Ratification, the Company had approached and obtained irrevocable undertakings dated 13 February 2024 from certain of its Shareholders ("**Undertaking Parties**") to, *inter alia*, vote and/or procure to vote all the shares of which each Shareholder holds in favour of the Disposal at the EGM ("**Irrevocable Undertakings**").

The Undertaking Parties and their respective Shareholding percentages (excluding treasury Shares) as at the date of this Announcement are as follows:

(a) Dhu Holdings Pte Ltd which directly holds 35,642,600 Shares, representing 23.71%;

(b) Zheng Dazhai who directly holds 12,529,703 Shares, representing 8.33%; and

(c) Xue Jun who directly holds 12,529,703 Shares, representing 8.33%.

The Undertaking Parties further agreed to maintain their interests in the Shares subject to the Irrevocable Undertakings and will not at least until and including the date of the EGM sell, transfer or otherwise dispose of, or of any interest in, any of such Shares.

7. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in this Announcement, none of the Directors or the controlling shareholders of the Company or their respective associates has any interest, direct or indirect, in the above transactions, other than through their respective directorships and/or shareholdings in the Company.

8. DIRECTORS' SERVICE CONTRACTS

No Director is proposed to be appointed to the Company in connection with the Disposal. Accordingly, there is no service contract proposed to be entered into between the Company and any such person.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the SPA and the Irrevocable Undertakings are available for inspection during normal business hours at the registered office of the Company at 28 Jalan Buroh, Singapore 619484, for a period of three (3) months commencing from the date of this announcement.

BY ORDER OF THE BOARD

Xiao Xia
Executive Director and Chief Executive Officer

13 February 2024