



REVIEW OF TRANSACTIONS INVOLVING AN ASSOCIATE OF A FORMER DIRECTOR

The Board of Directors (the “**Board**”) of HG Metal Manufacturing Limited (the “**Company**” or “**HGM**” and together with its subsidiaries, the “**Group**” or “**HGM Group**”) is making this announcement to update Shareholders of certain transactions which have been discovered by the Company, the details of which are set out below.

1. Background

1.1 Parties Involved

Mr Tan Chan Too was an executive director of the Company since August 1988 and resigned on 31 May 2014. At the time of his resignation, Mr Tan Chan Too held 22,455,187 ordinary shares representing approximately 2.1% of the existing total voting shares of the Company. His brother, Mr Tan Chun Tik, is a director and shareholder of Foklien Hardware (M) Sdn Bhd (“**Foklien**”) holding 88% of its interest with the remaining 12% interest held by Mr Wong Fu Foang, an independent third party. Accordingly, Mr Tan Chun Tik and Foklien are regarded as associates of Mr Tan Chan Too (a former director of the Company), and was regarded interested persons for the purpose of Chapter 9 of the Listing Manual.

F&C Supply and Trading (“**F&C**”) and Khun Hong Metal Trading & Transport (“**Khun Hong**”) are both sole-proprietorships registered in Malaysia, whose interest is recorded to be owned by certain individuals who are not related to the former directors or the controlling shareholders of the Company, to the best knowledge of the current Board. Both F&C and Khun Hong were customers of the Company and have had trading accounts with the Company that were opened in 2006 and 2011 respectively, and were in turn suppliers of Foklien.

Mr Tan Chun Tik had provided guarantees to the Group for trade receivables due from F&C in 2006 and Khun Hong in 2011. Around 24 September 2013, Mr Tan Chun Tik and Foklien provided a joint and several guarantee to supersede the previous guarantees provided by Mr Tan Chun Tik for all amounts owing under the sales invoices, delivery orders or bill of lading, and /or sales agreements entered into between F&C and Khun Hong with the Group which may arise from time to time.

1.2 Review carried out by Internal Auditors

In January 2014, upon receiving a report relating to certain transactions involving Foklien, F&C and Khun Hong from the former management of the Company (“**Former Management**”) requesting the former Audit & Risk Committee (“**Former ARC**”) which comprised, Dr Tan Eng Liang, Gui Kim Young @ Gui Kim Gan, Chee Wai Pong and Yap Xi Ming, to consider if transactions entered into between F&C and Khun Hong should have been considered interested person transactions (“**IPT**”), the Former ARC, after much deliberation, took steps to commission Deloitte & Touche Enterprise Risk Services Pte Ltd (“**Deloitte**”) who were the Company’s internal auditors to perform a review based on the following agreed-upon procedures (“**AUP**”) to, *inter alia*:

- (i) Ascertain the relevant facts and review the relationship between F&C and Khun Hong and the relevant director to ascertain if the two entities constitute “Interested Person” for the purpose of Chapter 9 of the Listing Manual;
- (ii) Compile the transactions entered into with F&C and Khun Hong and determine the extent to which they have been approved;

- (iii) Review the selected transactions to determine if they have been carried out on commercial terms; and
- (iv) Recommend control measures to be put in place for the Group.

The Former Management had presented the issue to the Former ARC in January 2014 following a request from Foklien in December 2013 for the trading account of Khun Hong to be closed and for the transfer of its credit limit to a newly registered sole proprietorship, Yook Cheng Metal Trading (“**Yook Cheng**”), which was registered in Malaysia in December 2013. This had caused the Former Management to re-examine the relationship between Foklien (an associate of Mr Tan Chan Too, a former director of the Company), F&C and Khun Hong (together with Yook Cheng, collectively the “**Subject Group**”).

1.3 Findings of the Internal Auditors

A summary of the consolidated findings and recommendations contained in the updated and combined agreed-upon procedures report issued by Deloitte arising from the review (“**Combined AUP Report**”) include, *inter alia*:

- (a) By placing orders for the Company’s products with F&C and Khun Hong as the “end customer”, Foklien was the effective purchaser of these products. In addition, taking into account F&C and Khun Hong’s combined credit limit of \$6 million was secured at the back of guarantees provided by Foklien and Mr Tan Chun Tik, and selected sales contracts with the Company for the financial year ended 31 December 2013 (“**FY2013**”) were being endorsed by Mr Tan Chun Tik (brother of Mr Tan Chan Too), there were grounds to argue that the transactions with F&C and Khun Hong could be classified as IPT.
- (b) Deloitte was not able to ascertain if F&C and/or Khun Hong were indeed “associates” of Foklien due to limited documentation and support from Mr Tan Chan Too.
- (c) As the aggregate value of the transactions between the Company with Foklien, F&C and Khun Hong had exceeded 5% of the Group’s net tangible assets for FY2012 and FY2013, disclosure via announcement as well as shareholders’ approval and ratification may be required. However, given the disagreement of Mr Tan Chan Too with the aforesaid transactions being classified as IPT, it would be prudent for the Company to consult with the authorities and/or additional professional advisors.

Further, Mr Tan Chan Too had also disagreed with the above position and raised various points of contentions, including the following:-

- (a) Foklien was merely one of the customers of F&C and Khun Hong which had made direct payments to HGM Group for orders placed by F&C and Khun Hong. There were also other customers of F&C and Khun Hong who have made payments directly to HGM Group on behalf of the former; and
- (b) There was no ownership relationship or economic interests between the associates of Mr Tan Chan Too and F&C, Khun Hong or Yook Cheng in that:
 - (i) Neither Mr Tan Chun Tik nor Foklien has any ownership interest in F&C, Khun Hong or Yook Cheng. On the other hand, the sole-proprietors of F&C, Khun Hong and Yook Cheng also did not have any interest in Foklien;
 - (ii) The support and assistance rendered by Mr Tan Chun Tik and Foklien to F&C, Khun Hong and Yook Cheng in respect of their dealings with HGM Group was extended out of goodwill by Mr Tan Chun Tik;
 - (iii) There was no arrangement among Foklien and Mr Tan Chun Tik on the one hand and F&C, Khun Hong and Yook Cheng on the other hand for sharing by Mr Tan

Chun Tik and/or Foklien in the profits or revenue of F&C, Khun Hong or Yook Cheng; and

- (iv) No remuneration has been paid or is payable by F&C, Khun Hong or Yook Cheng to Mr Tan Chun Tik or Foklien for their provision of guarantee, administrative support services or payment on behalf of F&C, Khun Hong or Yook Cheng to HGM Group.

A copy of the executive summary of the Combined AUP Report is attached to this announcement for the reference of the Shareholders.

1.4 Forensic Investigation by Deloitte & Touche Financial Advisory Services Pte Ltd (“DTFAS”)

The current Board had subsequently in October 2014 engaged DTFAS to assist the Company to determine the potential connections between Mr Tan Chan Too and his brother Mr Tan Chun Tik and certain entities and individuals disclosed in the Combined AUP Report. The scope of work included performing enhanced business intelligence and additional background searches to identify the background of certain parties and entities and determine the potential connections between these parties/entities and the Interested Persons (as defined in the Listing Manual). The searches carried by DTFAS showed that some of these parties and entities did not appear to be carrying out the business activities as claimed by the aforesaid parties and entities. However, there was also no documentation showing connections or business affiliations between the Subject Group, relevant entities/individuals, and the family members of Mr Tan Chan Too (other than those already disclosed in the Combined AUP Report).

2. Amount of Transactions for the Past 3 Financial Years

The aggregate value of the transactions entered into by the Group with the Subject Group from FY2006 up to the last transaction entered in March 2014 is as follows:-

Financial year	F&C (S\$'000)	Khun Hong (S\$'000)	Foklien (S\$'000)	Yook Cheng (S\$'000)	Total (S\$'000)	Relevant threshold under Chapter 9
2006	6,920	-	-	-	6,920	13.56% of the NTA
2007	25,785	-	-	-	25,785	43.57% of the NTA
2008	13,643	-	-	-	13,643	11.65% of the NTA
2009	5,430	-	-	-	5,430	3.91% of the NTA
2010	3,373	-	-	-	3,373	3.16% of the NTA
2011	3,233	735	-	-	3,968	3.96% of the NTA
2012	6,623	6,083	-	-	12,706	9.43% of the NTA
2013	10,556	12,190	685	-	23,431	16.92% of the NTA
2014 ⁽¹⁾	317	714	95	1,533	2,659 ⁽²⁾	1.92% of the NTA

Notes:

- (1) For the period from January 2014 up to March 2014.

- (2) The Group has ceased entering into new contracts with the Subject Group since March 2014. As at 31 October 2014, there were no outstanding receivables from F&C and Khun Hong and as at 31 January 2015, there was no outstanding receivables from Yook Cheng.

Following the commencement of the review by Deloitte, other than fulfilling the legal obligations under the contractual commitments which have been entered into, the Group has ceased to enter into new contracts with the Subject Group pending concluding its enquiry on whether they are regarded as interested persons of the Company.

3. Approach adopted by the current Audit & Risk Committee and the Board

3.1 In view that:

- (i) The Combined AUP Report has not reached a conclusive position that such transactions were in fact IPT and there was no any other evidence to show possible connections between the parties as reported by DTFAS; and
- (ii) The entire members of former ARC and the Board, when such events occurred, have resigned and left the Company,

the current Audit & Risk Committee, which comprises Ng Weng Sui Harry, Kesavan Nair and Low See Ching and the current Board (which was formed around May/June 2014 following the change in controlling shareholder) is of the view that it would be in the best interest of HGM to move forward by concluding this matter, having considered the benefits in pursuing the matter further weighing against the costs and risks associated having regard to the above.

3.2 Notwithstanding the foregoing, as a result of the review conducted by Deloitte as aforesaid, the current Board has observed that there were certain inadequacies in its corporate governance practices, which had led to the discovery of the lack of clarity amongst the parties' relationship involving the associates of former Director, Mr Tan Chan Too, and the Subject Group as customers of the Group. Accordingly, the Company will take steps to put in place the recommended actions of Deloitte set out in the Combined AUP Report, which include, *inter alia*, the following:-

- (i) the current Board will take corrective action to overcome the inadequacies of corporate governance highlighted, including establishing a new authority matrix;
- (ii) periodic internal reviews be carried out on the sales cycle (from credit review, sales order acceptance, sales contract approval and execution to collections) to ensure that the policies and controls are being complied with;
- (iii) compliance trainings be conducted for all directors, in particular on disclosure of interest in transactions;
- (iv) credit control and sales functions be segregated, with regular review of customer credit; and
- (v) develop an IPT policy that defines clear accountability on IPT identification, review and approval and reporting.

As at the date of this announcement, the aforesaid recommended actions have been in put in place and/or implemented by the current ARC and the current Board.

BY ORDER OF THE BOARD

Foo Sey Liang
Executive Director

30 November 2015