

HG METAL MANUFACTURING LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 198802660D)

PROPOSED CAPITAL REDUCTION AND PROPOSED CASH DISTRIBUTION

1 INTRODUCTION

Reference is made to the Company's announcement of 9 September 2017 in relation to the proposed conditional disposal of all 42,145,518 ordinary shares held by the Company in the issued and paid-up share capital of BRC Asia Limited ("**BRC Asia**") at the consideration of S\$0.925 per share of BRC Asia (the aggregate amount of which is S\$38,984,604.15 ("**Purchase Consideration**") by way of acceptance of the mandatory conditional cash offer by Esteel Enterprise Pte. Ltd. for all the shares of BRC Asia ("**Proposed Disposal**").

In connection therewith, the Board of Directors ("**Board**") of the Company (together with its subsidiaries, "**Group**") further intends to undertake a capital reduction exercise ("**Proposed Capital Reduction**") pursuant to Section 78A read with Section 78C of the Companies Act (Chapter 50) of Singapore ("**Companies Act**"), which will involve (i) a write off of part of the accumulated losses of the Company as at 31 December 2016 to the extent of S\$68,176,921.49 ("**Accumulated Losses**") and (ii) a cash distribution ("**Proposed Cash Distribution**") to shareholders of the Company ("**Shareholders**") at S\$0.105 per ordinary share in the capital of the Company ("**Share**") at a books closure date to be determined by the Board ("**Books Closure Date**").

For the avoidance of doubt, the Proposed Capital Reduction and Proposed Cash Distribution are subject to completion of the Proposed Disposal, but the Proposed Disposal will not be conditional on the Proposed Capital Reduction and Proposed Cash Distribution.

The Company intends to seek Shareholders' approval at an extraordinary general meeting to be convened ("**EGM**") in respect of the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution.

2 PROPOSED CAPITAL REDUCTION AND PROPOSED CASH DISTRIBUTION

2.1 Details of the Proposed Capital Reduction and Proposed Cash Distribution

The Company intends to undertake the Proposed Capital Reduction to write off the Accumulated Losses of the Company, as well as to return to Shareholders surplus capital of the Company in excess of its needs by way of the Proposed Cash Distribution.

Based on the Company's issued and paid-up share capital of approximately S\$ 158,049,779.54 comprising 127,417,735 Shares (excluding 3,193,630 treasury Shares), an aggregate amount of approximately S\$13,378,862.18 ("**Cash Distribution Amount**") will be paid out to the Shareholders.

The net sale proceeds from the Proposed Disposal, after deducting all costs and expenses, is estimated to be approximately S\$38.8 million, part of which will be applied for the Proposed Cash Distribution (if approved by Shareholders), and the balance will be utilised for general working capital of the Group and/or any strategic investments or acquisitions when suitable opportunities arise.

The Proposed Capital Reduction and the Proposed Cash Distribution will not result in a cancellation of Shares, or a change in the number of Shares issued by the Company immediately after the Proposed Capital Reduction and Proposed Cash Distribution.

2.2 Rationale for the Proposed Capital Reduction and Proposed Cash Distribution

The Directors are of the view that undertaking the Proposed Capital Reduction to write off the Accumulated Losses would serve to rationalise and better present the balance sheet of the Company to reflect its underlying assets and financial position. The Company would be in a better position to retain profits and enhance its ability to pay future dividends if the Accumulated Losses are written off.

The Proposed Cash Distribution would return to Shareholders as at the Books Closure Date the Cash Distribution Amount which comprises the paid-up capital in excess of the immediate requirements of the Company. The Proposed Capital Reduction and Proposed Cash Distribution, if effected, would result in the Company having a more efficient capital structure and also improve Shareholders' return on equity. In determining the level of capital to be returned to Shareholders, the Company has taken into account the need to retain sufficient capital for business and operational needs.

2.3 Conditions of the Proposed Capital Reduction and Proposed Cash Distribution

In addition to the approval of Shareholders by way of a special resolution at the EGM, the completion of the Proposed Disposal and receipt of the Purchase Consideration by the Company, the Proposed Capital Reduction is also subject to, *inter alia*, the requirements of the Companies Act in relation to capital reduction.

2.4 Illustration

The following illustrates the position of a Shareholder who holds 100 fully paid-up Shares as at the Books Closure Date:

	Shareholder
Position before the Proposed Capital Reduction⁽¹⁾	
Number of Shares currently held	100
Position immediately after the Proposed Capital Reduction	
Cash Distribution Amount received per 100 Shares held (S\$)	10.5
Number of Shares held after the Proposed Capital Reduction	100

Note:

(1) Based on the assumption that such Shareholder did not dispose of any Shares between the Books Closure Date and the effective date of the Proposed Capital Reduction.

In summary, Shareholders will receive S\$10.50 in cash for every 100 Shares (or S\$0.105 in cash for each Share) held as at the Books Closure Date. Shareholders holding lots other than board lots of 100 Shares will likewise receive S\$0.105 in cash for each Share held by them or on their behalf as at the Books Closure Date.

3 FINANCIAL EFFECTS OF THE PROPOSED CAPITAL REDUCTION AND PROPOSED CASH DISTRIBUTION

3.1 The pro forma financial effects of the Proposed Capital Reduction and Proposed Cash Distribution are purely for illustrative purposes. The pro forma financial effects have been prepared based on the audited consolidated financial statements of the Group for FY2016 ("**FY2016 Financial**

Statements"), being the most recently completed financial year, and on the following key bases and assumptions:

- (a) the computation is made on the basis that the Proposed Disposal has been completed;
- (b) for the purposes of illustrating the financial effects of the Proposed Capital Reduction and Proposed Cash Distribution on the EPS of the Group, it is assumed that the Proposed Capital Reduction and Proposed Cash Distribution had been completed on 1 January 2016;
- (c) for the purposes of illustrating the financial effects on the NTA per Share of the Group, it is assumed that the Proposed Capital Reduction and Proposed Cash Distribution had been completed on 31 December 2016;
- (d) the NTA per Share is computed based on the 127,417,735 Shares in issue (excluding treasury Shares) as at 31 December 2016, and the EPS of the Group is computed based on the weighted average number of 127,437,235 Shares in issue for FY2016; and
- (e) the computation does not take into account any expenses that may be incurred in relation to the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution.

3.2 Share Capital

Share capital	After the Proposed Disposal and Before the Proposed Capital Reduction and Proposed Cash Distribution ⁽¹⁾	After the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution
No. of Shares (including Treasury Shares)	130,611,365	130,611,365
S\$	152,052,203.33	70,496,419.66

⁽¹⁾ Based on the audited financial statements for FY2016

3.3 Shareholders' Funds

	<u>Group</u>		<u>Company</u>	
	After the Proposed Disposal and Before the Proposed Capital Reduction and Proposed Cash Distribution (S\$'000)	After the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution (S\$'000)	After the Proposed Disposal and Before the Proposed Capital Reduction and Proposed Cash Distribution (S\$'000)	After the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution (S\$'000)
Share capital	152,052 ⁽¹⁾	70,496	152,052 ⁽¹⁾	70,496
Treasury shares	(2,215) ⁽¹⁾	(2,215)	(2,215) ⁽¹⁾	(2,215)
Reserves	(31,482)	36,695	(69,306)	(1,129)
Shareholders' funds	118,355	104,976	80,531	67,152

⁽¹⁾ Based on the audited financial statements for FY2016

3.4 NTA

	After the Proposed Disposal and Before the Proposed Capital Reduction and Proposed Cash Distribution	After the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution
NTA attributable to Shareholders (\$'000)	118,290	104,911
NTA per Share (cents)	93	82

3.5 EPS

	After the Proposed Disposal and Before the Proposed Capital Reduction and Proposed Cash Distribution	After the Proposed Disposal, Capital Reduction and Proposed Cash Distribution
Profit/(Loss) attributable to Shareholders (\$'000)	(10,850)	(10,850)
Earning/(Loss) per share (cents)	(8.51)	(8.51)

4 DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Capital Reduction and Proposed Cash Distribution.

5 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Mr. Foo Sey Liang is a non-executive director of BRC Asia.

Save as disclosed above, none of the Directors or substantial shareholders of the Company has any interest, direct or indirect, in the Proposed Capital Reduction and Proposed Cash Distribution other than by reason only of being a Director of the Company or a holder of Shares.

6 CIRCULAR TO SHAREHOLDERS

A circular ("**Circular**") setting out further information on, *inter alia*, the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution and the notice to convene the EGM for the purpose of seeking Shareholders' approval for the Proposed Disposal, Proposed Capital Reduction and Proposed Cash Distribution will be despatched to Shareholders in due course.

Shareholders are advised to exercise caution in trading their Shares and to read this announcement and any further announcements and the Circular by the Company carefully. Shareholders should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers immediately if they have any doubts as to the actions that they should take.

By Order of the Board

Foo Sey Liang
Executive Director
25 September 2017