

HG METAL MANUFACTURING LIMITED

(Company Registration No. 199802660D)

(Incorporated in the Republic of Singapore)

PROPOSED ACQUISITION BY HG METAL INVESTMENTS PTE. LTD. OF 51.04% STAKE IN FIRST FORTUNE INTERNATIONAL CO. LTD. AND PROPOSED JOINT VENTURE WITH FORTUNE PEAK INVESTMENTS PTE. LTD. AND YNJ ENGINEERING CO., PTE. LTD.

1. INTRODUCTION

The Board of Directors (the “**Directors**” or the “**Board**”) of HG Metal Manufacturing Limited (the “**Company**”) together with its subsidiaries (the “**Group**”) wishes to announce that the Company’s wholly owned subsidiary, HG Metal Investments Pte. Ltd. (“**HGM Investments**”), has on 22nd August 2018 entered into:

- (a) an agreement with Fortune Peak Investments Pte. Ltd. (“**Fortune Peak**”) for the sale and purchase of shares in First Fortune International Co. Ltd. (“**JV Co**”) pursuant to which HGM Investments will purchase 957 shares of US\$100 each, representing 51.04% of the share capital of the JV Co, from Fortune Peak (the “**SPA**”), on terms and conditions of the SPA (the “**Proposed Acquisition**”); and
- (b) a joint venture agreement with Fortune Peak, YNJ Engineering Co. Ltd. (“**YNJ**”) and the JV Co to give effect of the intentions, and to record and regulate the affairs of the JV Co upon, *inter alia*, under the SPA as well as to provide for Additional Subscription (as defined hereinbelow) in the JV Co by the Parties (as defined hereinbelow) (the “**Proposed Joint Venture**”),

(the Proposed Acquisition and the Proposed Joint Venture shall hereinafter collectively be referred to as the “**Proposed Transactions**” and HGM Investments, Fortune Peak, YNJ and the JV Co shall hereinafter collectively be referred to as the “**Parties**”).

2. INFORMATION ON FORTUNE PEAK, YNJ AND THE JV CO

2.1 Fortune Peak

Fortune Peak is an investment holding company incorporated in Singapore with its registered office at 46 East Coast Road, #07-03 Eastgate, Singapore 428766.

Fortune Peak, incorporated in 2016, is solely owned and managed by its Director Zhao Qing Qing.

2.2 YNJ

YNJ is a company incorporated in Myanmar with its registered office at No. 26/27, 6th Street, Mingalardon Industry Zone Extension 1, Mingalardon Township, Yangon Region, The Republic of the Union of Myanmar.

YNJ, a provider of aluminum and glass façade installation services in Myanmar, also engages in real estate investments. YNJ is equally owned by Daw Naw Lar May War and U Min Zaya.

2.3 The JV Co

The JV Co is a company incorporated in Myanmar under the Myanmar Investment Law No. 40/2016 with the approval from the Myanmar Investment Commission (“**MIC**”) and has obtained its Temporary Certificate of Incorporation and Permit to Trade.

As at the date of this announcement, the JV Co has a share capital of US\$187,500, comprising of 1,875 issued and fully paid-up ordinary shares of US\$100 each. Fortune Peak and YNJ hold 80% and 20% of the issued share capital of the JV Co respectively.

The JV Co shall engage in the business of providing Cut & Bend and Fabrication services of steel rebars and sales of steel products to main contractors and sub-contractors located in Yangon, Myanmar (the “**Business**”). The JV Co has obtained its Temporary Certificate of Incorporation and Permit to Trade and the approval from the Myanmar Investment Commission (“**MIC**”) under the Myanmar Investment Law No. 40/2016 to undertake the Business at the Property.

3. PRINCIPAL TERMS OF THE SPA

3.1 Consideration

The purchase consideration for the Proposed Acquisition is US\$95,700 (the “**Consideration**”), at a price of US\$100 for each of the 957 shares in the share capital of the JV Co. The Consideration shall be satisfied in full upon completion of the SPA. The Consideration was calculated based on the existing share capital of the JV Co.

3.2 Conditions of the SPA

3.2.1 The sale and purchase of the Sales Share shall be conditional on, *inter alia*, the following conditions being fulfilled on or before 30 September 2018 (or such other date as the Parties may agree in writing).

- (a) no material adverse change (as determined by HGM Investments in its sole and absolute discretion) in prospects, operations or financial conditions of the Company occurring on or before the completion date;
- (b) all approvals and consents as may be necessary from any third party, governmental or regulatory body or relevant competent authority for the entry into, completion and performance of the SPA by the Parties (including approval from MIC) being granted or obtained, and being in full force and effect and not having been withdrawn, suspended, amended or revoked, and if such consents or approvals are granted or obtained subject to any conditions, such conditions being reasonably accepted to the Parties;
- (c) the execution, stamping and registration of the standard transfer form prescribed by the Companies Registration Office of Myanmar (the “**CRO**”);
- (d) the execution of the JVA;
- (e) certified copies of the shareholders’ resolutions and board resolutions effecting the reconstitution and composition of the board and the revocation of all existing

mandates issued to bankers of the JV Co and the appointment of such signatory(ies) as agreed by the Parties;

- 3.2.2 Completion shall take place 14 business days after the date of which the last of the condition precedents has been satisfied (or such date as the Parties may agree from time to time).
- 3.2.3 Upon completion of the Proposed Acquisition, HGM Investments, Fortune Peak and YNJ will hold 51.04%, 28.96% and 20.00% of the issued shares in the share capital of the JV Co respectively.

4. PRINCIPAL TERMS OF THE JVA

4.1 Establishment of the JV Co

The obligations of the Parties under the JVA are subjected to the following terms as below:

- (a) approval from MIC for the Business, including the issuance of the MIC permit to the JV Co (the **"MIC Permit"**);
- (b) grant of the Final Certificate of Incorporation and Permit to Trade to the JV Co from the CRO (the **"Certificate of Incorporation"**);
- (c) all relevant registrations, licences, permits and approvals relating to the Business (including operational licenses and permits), having been obtained and have been complied with;
- (d) the execution and completion of the SPA;
- (e) all other necessary governmental, regulatory and other approvals from the relevant authorities and/or consents which may be required in connection with the JV Co having been obtained and not having been revoked or amended and, where such approval is subject to conditions, such conditions being acceptable to the Parties and, to the extent that such conditions are required to be fulfilled on or before a certain date, they are so fulfilled;
- (f) the JV Co holding satisfactory leasehold title in relation to the Property, execution of a lease agreement in respect of the Property between the Landowners and the JV Co (the **"Lease Agreement"**), and the Lease Agreement being registered with MIC;

4.2 Lease of the Property

The JV Co will be situated at No. 188 and 194, Pantinwun U Shwe Bin Street, Industrial Zone Part (1) 113, Dagon Myothit (Eastern) Township, Yangon Region, The Republic of the Union of Myanmar (the **"Property"**). The Property, owned by Daw Naw Lar May War and U Min Zaya (together the **"Landowners"**) will be leased to the JV Co to be used to construct a facility to process steel products for the Myanmar market.

Pursuant to the terms of the JVA, YNJ undertakes that the Landowners shall grant a long-term lease of the Property (including buildings and fit-outs that are located or will be constructed on the Property), which will be leased to the JV Co for a mutually agreed amount

of US\$2,265,300, for a period of 50 years, which shall be renewable for two successive 10-year terms, in favour of the JV Co, as soon as it is duly incorporated.

All sums payable in connection with the long-term lease of all immovable properties shall be satisfied in full by the issuance of new shares in the JV Co to YNJ. The Landowners and YNJ shall be jointly responsible for all additional taxes/rents/fees in connection with the long-term lease or usage of the Property.

4.3 Additional Subscription

The Joint Venture has a total capital commitment of US\$11,513,700 to be utilised for the construction of the 50,000 ton per annum Cut & Bend and Fabrication facility and acquisition of equipment and machineries.

The JV Co currently has an initial issued capital of US\$187,500. Pursuant to the terms of the JVA, upon completion of the Proposed Acquisition, HGM Investments, Fortune Peak and YNJ will subscribe up to 57,809, 32,800 and 22,653 additional shares of US\$100 each in the JV Co respectively, for an aggregate consideration amount of US\$11,326,200 (the “**Additional Subscription**”), to provide funding for the JV Co to expand and develop the Business, including construction activities, acquisition of equipment and machineries and for working capital purposes. HGM Investments and Fortune Peak will satisfy their capital contribution by way of cash while YNJ will satisfy its capital contribution by procuring the Lease Agreement. The shareholding of the respective Parties remains unchanged as set out in paragraph 3.2.3 above following the Additional Subscription.

Notwithstanding the aforementioned, the total additional capital required of US\$11,326,200 may be adjusted in conjunction with any bank borrowings that will be secured for the JV Co after the date of JVA. Following which, the Parties’ contribution towards the Additional Subscription will be adjusted accordingly provided that there shall be no change in the Parties’ shareholding interest in the JV Co.

HGM Investments, Fortune Peak and YNJ shall initially subscribe for 19,529 shares, 11,080 shares and 7,653 shares of US\$100 each for an aggregate amount of US\$3,826,200 (the “**Initial Additional Subscription**”) in the capital of JV Co. The remaining Additional Subscription will be funded progressively upon capital call through internal resources and / or bank borrowings.

4.4 Board of Directors of the JV Co

The Parties agreed that the board of directors of the JV Co shall consist of five (5) directors. HGM Investments has the right to nominate three (3) directors to the board of the JV Co so as long the shareholdings of the Parties remain as set out in paragraph 3.2.3 above.

4.5 Undertakings of Joint Venture Partners

YNJ shall be responsible and use its best endeavours to assist the JV Co to obtain the necessary consents, licenses, permits or approvals in Myanmar in relation to the Business, including assistance with any ongoing regulatory compliance. YNJ also undertakes that the Landowners will observe and perform its covenants under the Lease Agreement. In the event that there is any breach and/or unilateral termination of the Lease Agreement by the Landowners, the Parties agree that the JV Co shall be deemed to have appointed HGM Investments or its nominee as the legal representative of the JV Co with the right to bring an action against the Landowners on behalf of the JV Co.

YNJ shall also ensure that the Landowners will not transfer, sell, subdivide, sublease, assign or otherwise dispose any of their interest in the Property to any third party other than the JV Co without the written consent of HGM Investments.

5. RATIONALE FOR THE PROPOSED ACQUISITION AND JOINT VENTURE

The Group's businesses comprise steel distribution, providing value-added services and tailored solutions for our customers, and provision of Cut & Bend and Fabrication services of steel rebars through our facility in Singapore. Our current operation in Myanmar focuses on the sale and distribution of steel products.

Since 2015, Myanmar has become an increasingly important market for the Group as the country, with a new government in power, increasingly imported construction steel and related materials to accommodate for its infrastructure boom. During FY2016 and FY2017, Myanmar accounted for more than 50% of the Group's total sales. This trend is likely to continue as the World Bank forecasted Myanmar's economy to grow at average rate of 6.9% to 7.1% over the next two years, driven by continued economic reforms and large investments into infrastructure projects. The burgeoning and growing construction and infrastructure development sector is expected to further increase the overall demand for steel-related products and services such as steel structure fabrication. However most steel fabrication services such as Cut & Bend services are often manually performed at construction sites resulting in low production output level and are unable to meet international construction standards.

Through this proposed venture, the JV Co will build and operate a modern facility in Myanmar to provide Cut & Bend and Fabrication services. The Group will contribute such operational knowhow and engineering expertise to the JV Co, enabling the JV Co to provide advanced engineering solutions to the international contractors and well-established civil construction firms in Myanmar.

The Proposed Transactions will provide the Group with an opportunity to further expand our core operations and business in one of our main markets, Myanmar.

6. METHOD OF FUNDING AND FINANCIAL EFFECTS

6.1 Method of Funding

The Consideration under the SPA of US\$95,700 and HGM Investments' capital contribution to the Initial Additional Subscription under the JVA of US\$1,952,900 will be funded by internal sources and/or bank borrowings.

6.2 Financial Effects of the Proposed Transaction

For purposes of illustration only, the following is an analysis and illustration of the proforma financial effects of the Proposed Transactions on the net tangible assets per share and earnings per share of the Group based on the latest audited consolidated financial statements of the Group for the financial year ended 31 December 2017 ("**FY2017**"). The financial effects set out below are based on the following assumptions:

- (a) the financial effects are purely for illustrative purposes only and do not represent any projection of the actual future financial performance or financial position of the Group after the Proposed Transactions;
- (b) for the purpose of computing the financial effects of the Proposed Transactions on the net tangible assets (the “**NTA**”) per share of the Group, the Proposed Transactions are assumed to have been completed on 31 December 2017; and
- (c) for the purpose of computing the financial effects of the Proposed Transactions on the earnings per share of the Group (the “**EPS**”), the Proposed Transactions are assumed to have been completed on 1 January 2017.

NTA

Based on the above assumptions, the Group's investment in the Proposed Transactions would have no impact on the NTA per share of the Group as the JV Co is a newly established company which has yet to commence operations, as presented in the table below:

	FY2017	Assuming completion at the end of FY2017
NTA (S\$'000)	104.15	104.15
NTA per Share (S\$)	0.82	0.82

EPS

Based on the above assumptions, the Group's investment in the Proposed Transactions would have no impact on the EPS per share of the Group as the JV Co is a newly established company which has yet to commence operations and there are no net profits attributable to the JV Co, as presented in in the table below:

	FY2017	Assuming completion at the start of FY2017
Profit/(Loss) attributable to Shareholders (S\$'000)	(11.93)	(11.93)
Earnings/(Loss) per share (Singapore cents)	(0.09)	(0.09)

Share Capital

As at the date of this announcement, the issued and paid-up share capital of the Company is S\$70,496,415 comprising 127,417,735 ordinary shares (excluding treasury shares).

The issued and paid-up share capital of the Company after the Proposed Transactions remains the same as there is no allotment of new shares under the SPA and JVA.

7. RELATIVE FIGURES FOR THE PROPOSED TRANSACTIONS

For purposes of information, the relative figures in respect of the Proposed Transactions computed on the bases set out in Rule 1006(a) to (d) of the listing manual of the Singapore Exchange Securities Trading Limited (the “**Listing Manual**”) are as follows:

Rule 1006	Bases	Relative figures (%)
(a)	The net asset value of the assets to be disposed of, compared with the group's net asset value.	Not applicable to acquisition of assets
(b)	The net profits attributable to the assets acquired or disposed of, compared with the group's net profits	Not applicable as the JV Co has yet to commence operations
(c)	The aggregate value of the consideration given or received, compared with the issuer's market capitalization based on the total number of issued shares excluding treasury shares	19.24% ¹
(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 as no equity securities are to be issued by the Company as consideration

The Board is of the opinion that the Proposed Transactions is in the ordinary course of business of the Group for the following reasons:

- (a) The proposed transaction is an expansion of the Group's existing core business in one of its main geographical markets, Myanmar;
- (b) The Group has a well-established 72,000 ton per annum facility in Singapore, providing Cut & Bend and Fabrication services of steel rebars to civil engineering contractors in Singapore. The Group will be providing such management, operational and technical knowhow to the JV Co; and
- (c) The proposed acquisition would not result in any significant adverse change in the Company's risk profile.

Although the transaction is determined to be part of the ordinary course of business of the Group, the relative figures under Rule 1006(a) to (d) are disclosed above for information purposes.

¹ As at the date of this announcement, the market capitalization of the Company is S\$41,754,791.76 based on 127,417,735 Shares in issue at a volume weighted average price of \$0.3277 for each share on 21st August 2018, being the last Market day on which Shares were traded preceding the date of the SPA and JVA.

The Company's total capital commitment for the Proposed Transaction is 19.24% of the Company's market capitalization with it representing the aggregate of US\$5,876,600 (equivalent to S\$8,033,312 at the exchange rate of US\$1 to S\$1.367 as of 21st August 2018), being the Consideration under the SPA of US\$95,700 and HGM Investments' total capital contribution to the Additional Subscription under the JVA of US\$5,780,900 as a percentage of the Company's market capitalization.

8. SERVICE CONTRACTS

There are no directors who are proposed to be appointed to the board of directors of the Company in connection with the Proposed Transactions. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

9. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors or controlling Shareholders of the Company has any interest, direct or indirect, in the Proposed Transactions.

10. DOCUMENTS FOR INSPECTION

Copies of the JVA and the SPA are available for inspection at the registered office of the Company at 13 Jalan Terusan, Singapore 619293 during normal business hours for a period of three (3) months commencing from the date of this announcement.

FOR AND ON BEHALF OF THE BOARD

Foo Sey Liang
Executive Director

23 August 2018