



HG METAL MANUFACTURING LIMITED

(Company Registration No. 198802660D)

Second Quarter Financial Statements and Dividend Announcement for Financial Period Ended 30 June 2019

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2, Q3& Q4), HALF YEAR AND FULL YEAR RESULTS

1(a)(i) A Statement of Comprehensive Income for the Group together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group			Group		
	2Q 2019 S\$'000	2Q 2018 S\$'000	% (+/-)	1H 2019 S\$'000	1H 2018 S\$'000	% (+/-)
Revenue	30,214	44,055	(31)	61,435	91,017	(33)
Cost of sales	(27,270)	(41,432)	(34)	(56,356)	(85,838)	(34)
Gross profit	2,944	2,623	12	5,079	5,179	(2)
Gross margin	9.7%	6.0%		8.3%	5.7%	
Other operating income	1,333	1,876	(29)	2,571	3,863	(33)
Selling and distribution costs	(105)	(181)	(42)	(238)	(398)	(40)
Administrative expenses	(2,251)	(2,124)	6	(4,308)	(4,280)	1
Other operating expenses	(1,707)	(2,023)	(16)	(3,433)	(4,584)	(25)
Finance costs	(162)	(20)	nm*	(343)	(24)	nm*
Impairment loss on financial assets	(27)	(122)	(78)	(30)	(95)	(68)
Profit/(loss) before income tax	25	29	(14)	(702)	(339)	107
Income tax expense	(3)	(13)	(77)	(5)	(14)	(64)
Net profit/(loss) for the year	22	16	38	(707)	(353)	100
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss :						
Foreign currency translation	(34)	(31)	10	(58)	34	nm*
Other comprehensive income for the year, net of tax	(34)	(31)	10	(58)	34	nm*
Total comprehensive income for the year	(12)	(15)	nm*	(765)	(319)	nm*
Profit/(loss) attributable to:						
Owners of the Company	119	16	nm*	(589)	(353)	67
Non-controlling interests	(97)	-	nm*	(118)	-	nm*
	22	16	nm*	(707)	(353)	100
Total comprehensive income attributable to:						
Owners of the Company	90	(15)	nm*	(623)	(319)	95
Non-controlling interests	(102)	-	nm*	(142)	-	nm*
	(12)	(15)	nm*	(765)	(319)	nm*

*nm denotes not meaningful

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1(a)(ii) Notes to the Statement of Comprehensive Income for the Group

	Group		Group	
	2Q 2019	2Q 2018	1H 2019	1H 2018
Profit/(loss) before tax is arrived at after crediting/(charging) the following:	S\$'000	S\$'000	S\$'000	S\$'000
Impairment loss on financial assets	(27)	(122)	(30)	(95)
Bad debts recovered	5	-	108	4
Amortisation of intangible assets	(1)	(1)	(2)	(3)
Amortisation of land use right	(15)	-	(30)	-
Recognition of deferred income	-	357	-	714
Depreciation of property, plant and equipment	(775)	(670)	(1,482)	(1,346)
Depreciation of right-of-use assets*	(647)	-	(1,282)	-
Fair value loss on derivatives, net	(173)	(427)	(158)	(415)
Foreign exchange gain/(loss), net	11	754	(45)	383
Interest income	114	76	234	151
Finance costs	(162)	(20)	(343)	(24)
Gain on disposal of property, plant and equipment	2	12	2	69
Write-off of property, plant and equipment	(1)	-	(1)	-
Write-off of inventories	(2)	-	-	-

* The depreciation expense arose from the recognition of right-of-use assets on adoption of SFRS(I) 16 on 1 January 2019. (Please refer to Paragraph 5 on Pages 10 - 11 for further details).

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1(b)(i) A Statement of Financial Position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Group		Company	
	30.06.2019 S\$'000	31.12.2018 S\$'000	30.06.2019 S\$'000	31.12.2018 S\$'000
Non-current assets				
Property, plant and equipment	26,709	22,921	8,162	9,100
Right-of-use assets	3,093	-	2,911	-
Intangible assets	28	7	26	3
Land use rights	3,014	3,069	-	-
Other receivables	784	784	-	-
Investment in subsidiaries	-	-	13,113	13,113
Investment securities	10,032	10,044	10,032	10,044
	43,660	36,825	34,244	32,260
Current assets				
Investment securities	24	24	24	24
Inventories	37,751	30,872	26,040	21,484
Trade and other receivables	49,828	51,170	53,314	54,584
Prepaid expenses ¹	328	664	244	93
Bank deposits pledged with banks	9,500	9,500	9,500	9,500
Cash and cash equivalent	8,092	15,435	3,068	4,168
	105,523	107,665	92,190	89,853
Current liabilities				
Trade and other payables	29,994	35,461	47,241	52,300
Lease liabilities	3,385	-	3,274	-
Bank borrowings	10,963	3,420	10,963	3,420
Provision for income tax	13	15	-	-
Deferred income	-	1,429	-	1,429
Derivative financial instruments ²	200	42	200	42
	44,555	40,367	61,678	57,191
Net current assets	60,968	67,298	30,512	32,662
Non-current liabilities				
Lease liabilities	2,314	-	2,240	-
Provision for reinstatement costs	1,100	1,100	800	800
Deferred income	-	119	-	119
	3,414	1,219	3,040	919
	101,214	102,904	61,716	64,003
Equity attributable to owners of the Company				
Share capital	70,496	70,496	70,496	70,496
Treasury shares	(2,215)	(2,215)	(2,215)	(2,215)
Other reserves	2,989	3,023	2,527	2,527
Accumulated profits/(losses)	26,125	28,940	(9,092)	(6,805)
	97,395	100,244	61,716	64,003
Non-controlling interests	3,819	2,660	-	-
Total equity	101,214	102,904	61,716	64,003

1. The prepaid expenses included down payment of S\$0.6 million paid for purchase property, plant and equipment as at 31 Dec 2018 and were subsequently capitalised in 1Q2019.
2. The derivative financial instruments relate to fair value adjustments of forward currency contracts entered into by the Group to hedge foreign currency exposure on the Group's trade receivables and purchases.

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1(b)(ii) Aggregate amount of group's borrowings and debt securities

	As at 30 June 2019			As at 31 December 2018		
	Secured ¹ S\$'000	Unsecured S\$'000	Lease liabilities ² S\$'000	Secured ¹ S\$'000	Unsecured S\$'000	Lease liabilities ² S\$'000
Repayable within one year	10,963	-	3,385	3,420	-	-
Repayable after one year	-	-	2,314	-	-	-
Total	10,963	-	5,699	3,420	-	-

Details of collaterals

1. The bank loans are secured by fixed charge over fixed deposit and investment in bonds that are pledged to bank, as well as mortgage over certain leasehold properties of the Group.
2. Lease liabilities arising from adoption of the new Singapore Financial Reporting Standards (International) ("SFRS (I)") 16 Leases that is effective for annual periods beginning on or after 1 January 2019.

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1(c)(i) A Statement of Cash Flows for the Group, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Group		Group	
	2Q 2019	2Q 2018	1H 2019	1H 2018
	S\$'000	S\$'000	S\$'000	S\$'000
Cash flows from operating activities				
Profit/(loss) before income tax	25	29	(702)	(339)
Adjustments for:				
Depreciation of property, plant and equipment	775	670	1,482	1,346
Depreciation of right-of-use assets	647	-	1,282	-
Amortisation of intangible assets	1	1	2	3
Amortisation of land use right	15	-	30	-
Impairment loss on financial assets	27	122	30	95
Bad debts recovered	(5)	-	(108)	(4)
Gain on disposal of property, plant and equipment	(2)	(12)	(2)	(69)
Write-off of property, plant and equipment	1	-	1	-
Write-off of inventories	2	-	-	-
Fair value loss on derivatives, net	173	427	158	415
Finance costs	162	20	343	24
Interest income	(114)	(76)	(234)	(151)
Recognition of deferred income	-	(357)	-	(714)
Unrealised foreign exchange loss, net	(119)	(710)	(2)	(707)
Operating cash flow before changes in working capital	1,588	114	2,280	(101)
Working capital changes:				
Inventories	(1,549)	(9,877)	(7,599)	(13,747)
Trade and other receivables	1,179	4,082	1,391	(4,731)
Prepaid expenses	123	(7)	(261)	(107)
Trade and other payables	3,408	(1,614)	(5,237)	8,753
Cash used in operations	4,749	(7,302)	(9,426)	(9,933)
Interest expense paid	(161)	(20)	(248)	(24)
Interest income received	28	76	228	151
Income tax paid	(4)	(14)	(6)	(15)
Net cash flows generated from/(used in) operating activities	4,612	(7,260)	(9,452)	(9,821)
Cash flows from investing activities				
Fixed deposit withdrawn from banks	-	2,500	-	6,589
Proceeds from disposal of property, plant and equipment	8	66	8	86
Proceeds from disposal of intangible assets	2	-	2	-
Purchase of investment securities	-	(2,513)	-	(7,058)
Purchase of property, plant and equipment	(1,170)	(154)	(3,546)	(194)
Purchase of intangible assets	(24)	(2)	(24)	(2)
Net cash flows used in investing activities	(1,184)	(103)	(3,560)	(579)
Cash flows from financing activities				
Contribution of share capital by minority shareholders	-	-	770	-
Proceeds from bank borrowings	10,592	22,126	38,575	22,126
Repayment of bank borrowings	(15,519)	(21,492)	(30,985)	(21,492)
Principal element of lease payments	(1,372)	-	(2,722)	-
Repayment of finance lease payables	-	(52)	-	(112)
Net cash flows (used in)/generated from financing activities	(6,299)	582	5,638	522
Net decrease in cash and cash equivalents	(2,871)	(6,781)	(7,374)	(9,878)
Effects on exchange rate changes on cash and cash equivalents	17	(79)	31	(14)
Cash and cash equivalents at beginning of financial period	10,946	25,814	15,435	28,846
Cash and cash equivalents at end of financial period	8,092	18,954	8,092	18,954

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1(c)(ii) Note to the Consolidated Statement of Cash Flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise:

	Group	
	30 June 2019	30 June 2018
	S\$'000	S\$'000
Cash and bank balances	6,908	14,009
Bank deposits	10,684	17,856
	17,592	31,865
<i>Less</i> : Bank deposits pledged with banks ⁽¹⁾	(9,500)	(12,911)
Cash and cash equivalents per consolidated cash flow statement	8,092	18,954

- ⁽¹⁾ Bank deposit of S\$9.5 million was pledged with banks to secure trade credit facilities. The amount is restricted in use and may not be withdrawn without the banks' prior approval.

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Financial Statements and Dividend Announcement for financial period Ended 30 June 2019

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Attributable to owners of the Company								
	Share capital	Treasury shares	Capital reserve	Other reserves	Foreign currency translation reserve	Accumulated profits/(losses)	Equity attributable to owners of the Company, total	Non-controlling interests	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Opening balance 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)	-	-	-	-	902	(906)	(4)	-	(4)
Opening balance at 1 January 2018 (SFRS(I) 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)
<u>Other comprehensive income</u>									
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)
<u>Change in ownership interest in subsidiary</u>									
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 transactions with owners in their capacity as owners	-	-	-	-	-	-	-	2,661	2,661
Closing balance at 31 December 2018	70,496	(2,215)	2,527	(212)	708	28,940	100,244	2,660	102,904

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Group	Attributable to owners of the Company								
	Share capital	Treasury shares	Capital reserve	Other reserves	Foreign currency translation reserve	Accumulated profits	Equity attributable to owners of the Company, total	Non-controlling interests	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Opening balance at 1 January 2019	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)
Opening balance at 1 January 2019 (restated)	70,496	(2,215)	2,527	(212)	708	26,714	98,018	2,660	100,678
Loss for the period	-	-	-	-	-	(589)	(589)	(118)	(707)
<u>Other comprehensive income</u>									
Foreign currency translation	-	-	-	-	(34)	-	(34)	(24)	(58)
Other comprehensive income for the period, net of tax	-	-	-	-	(34)	-	(34)	(24)	(58)
Total comprehensive income for the period	-	-	-	-	(34)	(589)	(623)	(142)	(765)
<u>Change in ownership interest in subsidiary</u>									
Issuance of ordinary shares in a subsidiary	-	-	-	-	-	-	-	1,301	1,301
Total change in ownership interest in subsidiary	-	-	-	-	-	-	-	1,301	1,301
Total transactions with owners in their capacity as owners	-	-	-	-	-	-	-	1,301	1,301
Closing balance at 30 June 2019	70,496	(2,215)	2,527	(212)	674	26,125	97,395	3,819	101,214

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Company	Share capital	Treasury shares	Capital reserve	Accumulated losses	Total equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Opening balance at 1 January 2018 (FRS framework)	70,496	(2,215)	2,527	(2,354)	68,454
Cumulative effects of adopting SFRS(I)	-	-	-	(4)	(4)
Opening balance at 1 January 2018 (SFRS(I) 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)
Closing balance at 31 December 2018	70,496	(2,215)	2,527	(6,805)	64,003
Opening balance at 1 January 2019	70,496	(2,215)	2,527	(6,805)	64,003
Effects of adopting SFRS(I) 16	-	-	-	(2,225)	(2,225)
Opening balance at 1 January 2019 (restated)	70,496	(2,215)	2,527	(9,030)	61,778
Loss for the period, representing total comprehensive income for the period	-	-	-	(62)	(62)
Closing balance at 30 June 2019	70,496	(2,215)	2,527	(9,092)	61,716

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There were no changes in the Company's share capital since 31 December 2018 to 30 June 2019.

	2019	2018
<u>Number of issued shares (excluding treasury shares)</u>		
As at 31 March and 30 June	127,417,735	127,417,735
	2019	2018
<u>Number of treasury shares</u>		
As at 30 June	3,193,630	3,193,630
Percentage of number of treasury shares against the total number of issued shares	2.45%	2.45%

The Company did not hold any options, convertibles or subsidiary holdings as at 30 June 2019 and 30 June 2018.

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1(d)(iii) to show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at end of the immediately preceding year.

	30 June 2019	31 December 2018
Total number of issued shares	130,611,365	130,611,365
Treasury shares	<u>(3,193,630)</u>	<u>(3,193,630)</u>
Total number of issued shares excluding treasury shares	<u>127,417,735</u>	<u>127,417,735</u>

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There were no treasury shares sold, transferred, disposed, cancelled and/or used during and as at the end of the current financial period reported on.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

There were no subsidiary holdings during and as at the end of the current financial period reported on.

2. Whether figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been reviewed or audited by the auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited financial statements have been applied

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s"). Except as disclosed in Note 5 below, the Group has applied the same accounting policies and methods of computation to the financial statements for the current financial period and the most recent audited financial statements for the financial year ended 31 December 2018.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

The Group has adopted the same accounting policies and methods of computation in the financial statements for the current financial period as those in the audited financial statements for the financial year ended 31 December 2018, and all relevant new Singapore Financial Reporting Standards (International) ("SFRS(I)s"), amendments and interpretations of SFRS(I)s that are effective for annual periods beginning on or after 1 January 2019 as follows:

<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
SFRS(I) 16 Leases	1 January 2019
Amendments to SFRS(I) 9 Prepayment Features with Negative Compensation	1 January 2019
Amendments to SFRS(I) 1-28 Long-term Interest in Associates and Joint Ventures	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	1 January 2019

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Amendments to SFRS(I) 1-19: Plan Amendment, Curtailment or Settlement	1 January 2019
SFRS(I) INT 23 Uncertainty over Income Tax Treatments	1 January 2019

The adoption of the new SFRS(I)s, amendments and interpretations of SFRS(I)s did not result in any material impact to the financial statements in the year of initial application except for the following:

Adoption of SFRS(I) 16 Leases

SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of ‘low value’ assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payment (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group applied SFRS(I) 16 on 1 January 2019, using the modified retrospective approach. The cumulative effect of the adoption of SFRS(I) 16 is recognised as an adjustment to the opening balance of the retained earnings as at 1 January 2019, with no restatement of comparative information. On adoption of SFRS(I) 16, the Group has measured right-of-use assets at its carrying amount as if the standard had been applied since the commence date and lease liability on the remaining lease payments discounted using the incremental borrowing rate as the date of initial application.

The cumulative effects of adopting SFRS(I) 16 are as follows:

Statement of financial position	As at 1 January 2019		
	As previously reported S\$'000	Effects S\$'000	Adjusted
<u>Group</u>			
Right-of-use assets	-	4,157	4,157
Lease liabilities	-	8,130	8,130
Trade and other payables	35,461	(199)	35,262
Deferred income	1,548	(1,548)	-
Retained earnings	28,940	(2,226)	26,714
<u>Company</u>			
Right-of-use assets	-	4,148	4,148
Lease liabilities	-	8,120	8,120
Trade and other payables	52,300	(199)	52,101
Deferred income	1,548	(1,548)	-
Retained earnings	(6,805)	(2,225)	(9,030)

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	Group		Group	
	2Q 2019	2Q 2018	1H 2019	1H 2018
Earnings per ordinary shares:				
(a) Basic (cents)	0.09	0.01	(0.46)	(0.28)
(b) Diluted (cents)	0.09	0.01	(0.46)	(0.28)

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- (a) Earnings per share were calculated based on weighted average number of shares of 127,417,735 and 127,417,735 for the period ended 30 June 2019 and 30 June 2018 respectively.
- (b) Diluted earnings per share were calculated based on adjusted weighted average number of shares during the year.

There was no dilution in earnings per ordinary share this year and the comparative last year.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	Group		Company	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Net asset value per ordinary share (S\$)	0.76	0.79	0.48	0.50

Net asset value per ordinary share was calculated based on 127,417,735 as at 30 June 2019 and 31 December 2018.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs and earnings of the Group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Results for 2Q2019 versus 2Q2018

Revenue and Gross Profit

The Group reported a 31% decline in revenue to S\$30.2 million in 2Q2019 from S\$44.1 million in 2Q2018. The drop in revenue was caused by decline in export volume in 2Q2019 which was partially compensated by increase in sales volume for the local market

Despite lower revenue recorded in 2Q2019, the Group managed to achieve higher gross profit of S\$2.9 million compared to gross profit of S\$2.6 million in 2Q2018, contributed by improved gross profit margin in 2Q2019 from local sales.

Other Operating Income

Other operating income decreased to S\$1.3 million in 2Q2019 from S\$1.9 million in 2Q2018. The decline was mainly attributed to the reduction in warehousing and rental income of S\$0.3 million and absence of deferred income of S\$0.3 million following the adoption of SFRS(I) 16 Leases.

Distribution, Administrative, Other Operating and Finance Expenses

The Group's distribution expenses decreased to S\$0.1 million in 2Q2019 from S\$0.2 million in 2Q2018, resulted from optimisation of internal fleet to support local sales delivery.

Administrative expenses increased slightly to S\$2.3 million in 2Q2019 as compared to S\$2.1 million in previous corresponding quarter, arising from increased staff headcount and salary cost following the opening of new production facility in Myanmar and in support of the steel production volume growth for the local market

Other operating expenses decreased by 16% from S\$2.0 million in 2Q2018 to S\$1.7 million in 2Q2019. The Group incurred lower operating expenses following the adoption of SFRS(I) 16 Leases. This cost

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saving however was partially offset by increase in foreign exchange loss and fair value loss on forward currency contracts of S\$0.2 million.

The increase in finance costs in 2Q2019 was mainly attributed to the increase in borrowing for trade financing for stock purchases and interest expenses for lease liability recorded under SFRS(I) 16 Leases.

Profitability

The Group recorded a net profit after tax of S\$0.22 million in 2Q2019 compared to a net profit after tax of S\$0.16 million in 2Q2018 due to reasons afore-mentioned.

Results for 1H 2019 versus 1H 2018

Revenue and Gross Profit

The Group's revenue for 1H2019 was S\$61.4 million as compared to S\$91.0 million in 1H2018. The decrease in revenue was mainly due to significant reduction in export volume in 1H2019 as compared to 1H2018, following a change in strategic focus in driving the volume growth for higher margin products in the local market.

Notwithstanding the decline in sales volume and revenue, the Group's gross profit only reduce slightly to S\$5.1 million in 1H2019 from S\$5.2 million in 1H2018, contributed by higher gross profit margin in 1H2019 from local sales.

Other Operating Income

Other operating income decreased from S\$3.9 million in 1H2018 to S\$2.6 million in 1H2019. This was mainly due to reduction in warehousing and rental income of S\$0.6 million and absence of deferred income of S\$0.7 million following the adoption of SFRS(I) 16 Leases.

Distribution, Administrative, Other Operating and Finance Expenses

The Group's distribution expenses decreased to S\$0.2 million in 1H2019 from S\$0.4 million in 1H2018 as a result of cost rationalization efforts and optimization of fleet for local deliveries.

There was no significant increase in administrative expenses as compared to previous corresponding period.

Other operating expenses reduced from S\$4.6 million in 1H2018 to S\$3.4 million in 1H2019, primarily due to the reduction in operating lease expenses following the adoption SFRS(I) 16 Leases.

The finance costs increased to S\$0.3 million in 1H2019 due to higher borrowing for trade financing and interest expenses on lease liability recorded under SFS(I) 16 Leases.

Profitability

The Group recorded a net loss after tax of S\$0.7 million in 1H2019, compared to a net loss after tax of S\$0.4 million in 1H2018.

Balance Sheet

The Group's non-current assets increased to S\$43.7 million as at 30 June 2019 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\$3.1 million in line with the adoption of SFRS(I) 16 Leases and increase in property, plant and equipment of S\$3.8 million, that relates mainly to redevelopment of warehouse facility in Singapore and the steel fabrication plant in Myanmar.

As at 30 June 2019, the Group's inventory on hand increased to S\$37.8 million as compared to S\$30.9 million as at 31 December 2018 as a result of stock replenishment in support of projected volume growth.

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Trade and other receivables decreased slightly to S\$49.8 million as at 30 June 2019 as compared to S\$51.2 million as at 31 December 2018 mainly due to decrease in sales activities.

Trade and other payables decreased to S\$30.0 million as at 30 June 2019 compared to S\$35.5 million as at 31 December 2018 due to repayment made to suppliers in 1H2019.

Bank borrowings increased to S\$11.0 million as at 30 June 2019 due to increased trade financing for stock purchases during the period.

Lease liability arose from the adoption of SFRS(I) 16 and relates mainly to leases of land and building of the Group

Statement of Cash Flows

The net cash flows generated from operating activities was S\$4.6 million in 2Q2019 as compared to net cash flows used in operating activities of S\$7.3 million in 2Q2018. This was mainly attributable to the increase in trade and other payables of S\$3.4 million, the decrease in trade and other receivables of S\$1.2 million and adding back depreciation of S\$1.4 million, offset by increase in inventories of S\$1.5 million.

Net cash flows used in investing activities for 2Q2019 was S\$1.2 million, primarily for the purchase of property, plant and equipment.

Net cash flows used in financing activities for 2Q2019 was S\$6.3 million, mainly due to net bank borrowings of S\$4.9 million, and repayment of lease liabilities of S\$1.4 million.

The net cash flows used in operating activities was S\$9.5 million in 1H2019 as compared to net cash flows used in operating activities of S\$9.8 million in 1H2018. This was mainly attributable to the increase in inventories of S\$7.6 million and reduction in trade and other payables of S\$5.3 million, offset by decrease in trade and other receivables of S\$1.4 million and after adding back depreciation of S\$2.8 million.

Net cash flows used in investing activities for 1H2019 was S\$3.6 million for purchase of property, plant and equipment.

Net cash flows generated from financing activities for 1H2019 was S\$5.6 million, mainly due to contribution of share capital by minority shareholders of S\$0.8 million by our partner in Myanmar and net proceeds from bank borrowings of S\$7.6 million, offset by repayment of lease payments of S\$2.7 million.

The Group's cash and cash equivalents was S\$8.1 million as at 30 June 2019 in comparison to S\$19.0 million as at 30 June 2018.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

The Ministry of Trade and Industry announced in its advance estimate released on 12 July 2019 that the Singapore economy grew by 0.1% on a year-on-year basis in the second quarter of 2019, down from the 1.1% growth achieved in the previous quarter. Growth in the construction sector slowed to 2.2% in Q2 on a y-o-y basis compared to a growth rate of 2.7% in Q1, despite increased public sector construction activities.

In the light of the unresolved U.S.-China trade tension and heightened uncertainties and risk in the global market, the Singapore economy is expected to continue facing strong headwinds in the coming quarters.

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Notwithstanding the current challenging business environment, the Group continues to work on intensifying its marketing efforts and expanding its construction steel and distribution business in the local market to take advantage of the growth opportunities in the construction sector. The order book for the construction steel business remains healthy with the winning of several key projects in the 1st half of this financial year. The Group remains focused on developing the market for its products and services as well as exploring potential partnerships and collaborations to grow the business in the Myanmar market.

The Group will focus on optimising its inventory holding and the balance sheet.

11. Dividend

(a) Current financial period reported on

Any dividend recommended for the current financial year reported on?

None

(b) Corresponding period of the immediately preceding financial year

Any dividend recommended for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.

Not applicable as the Company currently does not have profits available for the declaration of dividend.

13. Interested persons transactions

The Group does not have a general mandate from shareholders for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

There were no interested person transactions with aggregate value of more than S\$100,000 during financial period ended 30 June 2019 pursuant to Rule 907 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

14. Statement pursuant to Rule 705(5) of the Listing Manual

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of HG Metal Manufacturing Limited which may render the unaudited financial results for the quarter ended 30 June 2019 to be false or misleading in any material respect.

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15. Confirmation pursuant to Rule 720(1) of the Listing Manual

We confirm that the Group has procured undertakings to comply with the Listing Manual of the Singapore Exchange Securities Trading Limited from all its directors and executive officers.

On behalf of the Board,

Teo Yi-Dar
Chairman

Foo Sey Liang
Director

8 August 2019