

**HO WAH GENTING BERHAD (“HWGB”)**  
**Company No: 272923-H**  
**(Incorporated In Malaysia)**

**NOTES TO INTERIM FINANCIAL REPORT**  
**FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2009**

**1. Basis of Preparation**

The interim financial report is unaudited and has been prepared and presented in accordance with the requirements of Financial Reporting Standard (“FRS”) 134: Interim Financial Reporting, issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Bursa Malaysia Securities Berhad (“BMSB”) Listing Requirements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2008.

**2. Changes in Accounting Policies**

The accounting policies and presentation adopted for the interim financial report are consistent with those adopted in the audited financial statements for the year ended 31 December 2008 except for the following:

The entire class of freehold land and buildings (freehold and leasehold) had been revalued at open market values on 31 March 2009 (with a subsequent update on 30 June 2009) by independent professional valuers and these values had been incorporated into the financial statements for the current financial year ended 31 December 2009 as allowed under the revaluation model in compliance with FRS 116: Property, Plant and Equipment.

The abovementioned change in accounting policy did not have any material impact on the income statement of the Company and the Group for the current quarter and financial year ended 31 December 2009.

**3. Qualification of Financial Statements**

There has not been any qualification made by the auditors on the annual financial statements of the Group for the year ended 31 December 2008.

**4. Seasonality or Cyclicity of Operations**

Sales of the manufacturing division which is the main contributor of revenue to the Group normally peak in the third quarter arising from increase in customer demand due to year end festive seasons and demand would slowly decline in the fourth quarter before reaching its plateau in the first and second quarters of the following year.

**5. Unusual Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows**

There were no items of unusual nature affecting the assets, liabilities, equity, net income, or cash flows of the Group during the current quarter and financial year ended 31 December 2009.

**6. Material Change in Estimates**

There were no changes in estimates that had a material effect in the current quarter's results.

**7. Issuance and Repayment of Debt and Equity Securities**

There was no issuance, cancellation, repurchase, resale nor repayments of debts and equity securities, share buy-backs during the current quarter and financial year ended 31 December 2009.

**8. Dividends Paid**

No dividend was paid in the current quarter and financial year ended 31 December 2009.

**9. Segmental Reporting**

Analysis of the Group's segment revenue and segment result for the current year ended 31 December 2009 are as follows: -

	Segment Revenue RM'000	Profit/(Loss) Before Tax RM'000
Investments	517	(4,423)
Manufacturing	121,644	(18,518)
Mining	-	(360)
Trading	21,885	474
	<b>144,046</b>	<b>(22,827)</b>
Share in losses of associates		(2,298)
		<b>(25,125)</b>

## **10. Valuations of Property, Plant and Equipment**

The valuations of property, plant and equipment of the Group have been brought forward without amendment from the previous audited financial statements. As mentioned in item no. 2 above, the latest professional valuations for the entire class of freehold land and buildings had been incorporated into the financial statements for the current financial year ended 31 December 2009.

## 11. Material Events Subsequent to the End of the Current Quarter

HWGB together with other vendors (ie. other equity shareholders in CVM), had on 1 February 2010 entered into a Placing and Subscription Agreement (“PSA”) with CVM Minerals Limited (“CVM”), a 41.25% associate company of HWGB and Cinda International Capital Limited and Athens Capital Limited (collectively known as the “Placing Agents”), whereby the appointed Placing Agents have agreed to act on behalf of HWGB and other vendors, on a best effort basis, to procure buyers to purchase up to 280.00 million ordinary Shares of CVM (of which 78.00 million Shares to be placed by HWGB whilst the balance of Shares to be placed by other vendors) (“the Placing”).

With the above Placing, HWGB and other vendors have agreed to subscribe the same number of ordinary shares sold by them respectively under the Placing up to a maximum of 280.00 million new Shares (of which 78.00 million new Shares will be subscribed by HWGB whilst the balance will be subscribed by the other vendors) (“the Subscription”).

The Placing Price for the Shares was agreed at HKD0.36 per Share after arm’s length negotiations between CVM and the Placing Agents (with the approval of HWGB and other vendors).

The total proceeds raised by HWGB from the placement of the 78.00 million Shares amounting to HKD28.08 million (equivalent to approximately RM12,310,693) would be fully utilized to pay for the subscription of 78.00 million new Shares in CVM within 14 days from the date of PSA.

The Subscription Price for the new Shares in CVM is identical to the Placing Price ie. HKD0.36 per Share.

The Placing and Subscription represents a good opportunity to raise additional capital for CVM and also enhance its equity base.

The total original cost of investment for 78.00 million existing Shares held by HWGB in CVM was approximately RM1.79 million on 16 October 2006.

After the completion of Placing and Subscription, HWGB’s shareholding in CVM will be diluted from 41.25% to 35.71%.

The effect of the aforesaid dilution will give rise to a gain on deemed disposal of approximately RM12.00 million to the HWGB Group. This would result in a corresponding increase in shareholders’ fund and translate into an increase in EPS and Net Asset per Share of approximately 4.4 sen.

Subsequent to the completion of the above, CVM had on 8 February 2010 obtained the approval from the Stock Exchange of Hong Kong Limited (“SEHK”) for the issuance and listing of an additional new 80.00 million ordinary shares (“New Shares”). The 80.00 million New Shares had been successfully allotted which resulted in HWGB’s shareholding in CVM being further diluted from 35.71% to 34.39%.

Other than the above, there is no material event subsequent to the end of the current quarter.

## 12. Changes in the Composition of the Group

### **Subscription of Shares in Super Champion Group Limited (“SCGL”)**

HWGB had on 18 May 2009 subscribed for and was allotted 9,500 new ordinary shares of USD1-00 each representing 95% of the total issued and paid up share capital of Super Champion Group Limited (“SCGL”) for cash at par. With the subscription, SCGL has become a subsidiary of HWGB.

SCGL was incorporated under the Business Companies Act, 2004 in British Virgin Islands on 23 March 2009 with an authorized share capital of USD50,000-00 divided into 50,000 ordinary shares of USD1-00 each and an issued and paid up share capital of USD10,000-00 divided into 10,000 ordinary shares of USD1-00 each. Its proposed principal activity is investment holding.

### **Acquisition and Subscription of Shares by SCGL in China Good Holdings Limited (“CGHL”)**

Subsequent to the above subscription, SCGL had on even date acquired one (1) ordinary share of HKD1-00 each in the capital of China Good Holdings Limited (“CGHL”) for cash at par and subscribed for and was allotted 9,999 new ordinary shares of HKD1-00 each, for cash at par. With the acquisition and subscription, CGHL has become a wholly-owned subsidiary of SCGL.

CGHL was incorporated in Hong Kong on 10 March 2009 with an authorized share capital of HKD10,000-00 divided into 10,000 ordinary shares of HKD1-00 each and an issued and paid up share capital of HKD10,000-00 divided into 10,000 ordinary shares of HKD1-00 each. CGHL is presently dormant and its proposed principal activity is investment holding.

### **Disposal of HWGB’s Entire Equity Interest in SCGL**

The Company had on 30 December 2009 disposed of its entire equity interest in SCGL to Mr Chan Kuong Ian for a total cash consideration of USD1.00. As a result of the disposal, SCGL and CGHL are no longer subsidiaries of HWGB.

Other than the above, there were no changes in the composition of the Group for the current financial year ended 31 December 2009.

**13. Contingent Liabilities and Contingent Assets**

There were no material contingent liabilities and contingent assets for the Company and the Group during the current quarter and financial year ended 31 December 2009.

**14. Capital Commitments**

There were no material capital commitments for the Company and the Group at the end of the current quarter.

## **ADDITIONAL INFORMATION REQUIRED BY THE BMSB'S LISTING REQUIREMENTS**

### **1. Review of Performance for the fourth quarter and financial year ended 31 December 2009**

For the current financial year ended 31 December 2009, the Group recorded revenue of RM144.05 million and a loss before taxation of RM25.12 million compared to its preceding year's revenue of RM220.79 million and loss before taxation of RM7.77 million.

The Group's manufacturing division recorded operating revenue of RM121.64 million and loss before taxation of RM18.52 million for the current financial year ended 31 December 2009 compared to its preceding year's operating revenue of RM190.92 million and loss before taxation of RM9.89 million. The decline in revenue was a consequence of weak consumer spending in US. The price of copper (our major raw material) had surged more than 100% during the current financial year and we were not able to pass on the increase in cost to our customers in a weak US market. These two major factors had eroded our gross profit margin and resulted in a loss position for the Group's manufacturing division.

The Group's trading division posted an operating revenue of RM21.88 million and profit before taxation of RM474,000 for the current financial year ended 31 December 2009 compared to its preceding year's operating revenue of RM29.40 million and a profit before taxation of RM16,000. Our domestic economy continued to feel the adverse impact of the weak global economy, as a result of which, our trading division reported lower revenue.

The Group's tin mining division recorded a loss before taxation of RM360,000 for the current financial year ended 31 December 2009 compared to its preceding year's loss before taxation of RM306,000. The tin mining division is presently conducting additional drilling and exploratory works to complete its ongoing feasibility studies.

The Group's share of loss in its associate, CVM Minerals Limited was RM2.27 million for the current financial year ended 31 December 2009. Its magnesium mining division is presently commissioning its production plant and is expected to commence production by mid 2010.

At Company level, the Company recorded a loss before taxation of RM5.35 million for the current financial year ended 31 December 2009 compared to a loss of RM6.16 million in the preceding year.

In the opinion of the Directors, other than as disclosed above, the results for the current financial period have not been affected by any transactions or events of a material or unusual nature which have arisen between 31 December 2009 and the date of issue of this quarterly report.

## **2. Comparison with Preceding Quarter's Results**

The Group's operating revenue and loss before taxation for the quarter under review were RM34.20 million and RM11.13 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM51.24 million and RM2.90 million respectively.

The decrease in revenue and higher loss before taxation was due to lower sales of the Group's products compared to its preceding quarter which was at its peak.

## **3. Commentary on Prospects**

The Board is of the opinion that business operations will continue to be difficult and challenging for the year 2010 in view of the weak economic situation in US as it accounts for the majority of the Group's revenue.

The Board remains optimistic that the US economy would soon recover as there are indicative signs such as stabilization of housing markets and consumer spending, a lessening of financial turmoil, smaller declines in auto sales and slower pace of job losses point to the sign that the economic recession may have already gone past its bottom. The Board is confident that the concerted efforts from US government and its central bank to revive consumer demand via fiscal stimulus packages and expansionary monetary policies would gain further traction in the coming quarters of 2010 and beyond.

Meanwhile, the Company will continue to explore viable, synergistic and profitable business ventures to improve the Group's performance.

## **4. Profit Forecast or Profit Guarantee**

There is no profit forecast or profit guarantee for the current quarter and financial year.



## 5. Taxation

Taxation for current quarter and financial year under review comprises the following:

	Individual Quarter		Cumulative Quarter	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
	RM'000	RM'000	RM'000	RM'000
I Current tax expense				
- Malaysian	-	1	-	-
- Overseas	-	530	-	-
	-	531	-	-
II Over/ (under) provision in prior year				
- Malaysian	1,180	(573)	1,180	(565)
- Overseas	-	-	-	-
	1,180	(573)	1,180	(565)
III Deferred tax expense				
- Malaysian	-	-	-	-
- Overseas	324	2,455	324	2,208
	324	2,455	324	2,208
<b>Total</b>	<b>1,504</b>	<b>2,413</b>	<b>1,504</b>	<b>1,643</b>

The Group's effective tax rate is higher than the statutory tax rate due to the non availability of group relief allowance for losses incurred by the Company and its subsidiary companies.

## **6. Sale of Unquoted Investments and/or Properties**

Further to the announcement dated 8 October 2008 concerning the disposal of two pieces of leasehold land together with the buildings erected thereon (both located in Bandar Kulim, Daerah Kulim, Kedah) for a total cash consideration of RM7 million, Ho Wah Genting Kintron Sdn Bhd (“HWG Kintron”) (187449-H), a wholly owned subsidiary of the Company and Ivan Khor Property Holding Sdn Bhd (659603-H) (“the Purchaser”) had mutually agreed to rescind the Conditional Sale and Purchase Agreement dated 8 October 2008 as the Purchaser was unable to obtain financing to pay for the balance of the purchase price.

The 10% deposit amounting to RM700,000 paid by the Purchaser was forfeited.

Following the aforesaid rescission, HWG Kintron (“the Vendor”) had on 21 December 2009 entered into a new Conditional Sale and Purchase Agreement (“SPA”) with Hoe Huat Trading Sdn Bhd (573220-D) for the proposed disposal of the bigger piece of leasehold land (“the Property”) (out of the two mentioned above) together with two units of single storey factory and a unit of warehouse erected thereon for a total cash consideration of RM5.20 million.

Deposits amounting to RM520,000 had been paid by Hoe Huat Trading Sdn Bhd (573220-D) and the balance of the purchase price amounting to RM4.68 million shall be paid within four (4) months from the date the letter of consent is received from Perbadanan Kemajuan Negeri Kedah (“PKNK”), the registered owner of the Property.

The Property is presently charged to EON Bank Berhad (“EON”) for banking facility extended by EON to the Vendor. Thus, the sale proceeds will be used to partially settle the bank loan and any incidental cost incurred.

The Property has a carrying book value of RM5.00 million and the proposed disposal is not expected to have any material effect on the earnings and net assets per share of the HWGB Group. It is in line with HWGB’s strategy of disposing its non core assets and lower the gearing of the Group.

Other than the abovementioned, there was no sale of unquoted investments or properties for the current quarter and financial year ended 31 December 2009.

## 7. Purchase or Disposal of Quoted Securities

There was no purchase or disposal of quoted securities during the current financial year to date except for the following transaction which was recorded in the second quarter of the current financial year:

Five thousand (5,000) of quoted equity shares of RM1-00 each in TH Group Berhad (a public listed company on the Main Market of Bursa Malaysia) had been disposed off at RM0.75 each via a privatization exercise of the said company in the second quarter of the current financial year. The quoted investments had been carried in the books at a value of RM3,000. The said disposal gave us a proceed of RM3,750 which resulted in a gain of RM750.

Investments in quoted securities as at 31 December 2009 are as follows:

	RM'000
(i) At cost	1,332
(ii) At carrying amount	184
(iii) At market value	172

## 8. Investments in Associates

There was no purchase or disposal of equity stakes in Associates for the current quarter and financial year.

Investments in Associates as at 31 December 2009 are as follows:

	RM'000
(i) At cost	26,897
(ii) At carrying amount	23,442
(iii) Market value of a quoted associate	138,095

## **9. The Status of Corporate Proposals Announced And Approved But Pending Completion**

On 14 October 2009, the Company had announced to BMSB to undertake the following corporate proposals:-

- (a) Proposed reduction of the share premium account of HWGB and capital reduction by the cancellation of RM0.80 of the par value of every existing ordinary share of RM1.00 each in HWGB to be offset against the accumulated losses of HWGB (“Proposed Capital Reduction”);
- (b) Proposed amendments to the Memorandum and Articles of Association of HWGB (“M&A”) to facilitate the change in the par value of the ordinary shares of RM1.00 each in HWGB as a result of the Proposed Capital Reduction (“Proposed Amendments to the M&A”);
- (c) Proposed renounceable rights issue of up to 137,888,954 new ordinary shares of RM0.20 each in HWGB (“Rights Shares”) at an issue price of RM0.20 per rights share together with up to 137,888,954 free detachable warrants (“Warrants”) on the basis of one (1) Rights Share with one (1) free Warrant for every two (2) ordinary shares of RM0.20 each held in HWGB (“Shares”) after the Proposed Capital Reduction (“Proposed Rights Issue”); and
- (d) Proposed establishment of an employee share option scheme (“ESOS”) of up to 10% of the issued and paid up share capital in HWGB after the Proposed Capital Reduction (“Proposed ESOS”).

(Collectively referred to as “the Proposals”)

The Proposals are conditional upon the approvals being obtained from the following:-

- (a) High Court of Malaya pursuant to Section 64 of the Companies Act, 1965 for the Proposed Capital Reduction (approval from the High Court of Malaya had been obtained on 13 January 2010 and the sealed order had been lodged with the Companies Commission of Malaysia on 28 January 2010 which marked the completion of HWGB’s capital reduction exercise);
- (b) Bank Negara Malaysia (“BNM”), for the issuance of Warrants to foreign shareholders pursuant to the Proposed Rights Issue (which was obtained vide the BNM’s letter dated 17<sup>th</sup> November 2009);
- (c) BMSB, for the Proposals and for the listing of and quotation for the new Shares and Warrants to be issued pursuant to the Proposed Rights Issue and the Proposed ESOS on the Main Market of BMSB (which was obtained vide the BMSB’s letter dated 13<sup>th</sup> November 2009) and;
- (d) Shareholders of HWGB at the Extraordinary General Meeting (“EGM”) (all the Special Resolutions and Ordinary Resolutions set out in the Notice of the EGM dated 20 November 2009 were duly passed and approved by the shareholders of HWGB on 16 December 2009).

Barring any unforeseen circumstances, the implementation of the Proposals shall be in due course and is targeted for completion by second (2<sup>nd</sup>) quarter of 2010.

## 10. Group Borrowings and Debt Securities

	As At 31/12/2009 RM'000	As At 31/12/2008 RM'000
<b>(i) Short Term Borrowings Secured</b>		
- Bank overdraft	1,268	1,346
- Bankers' acceptances	58,016	74,765
- Finance lease liabilities	29	27
- Term loans	2,239	5,668
	<b>61,552</b>	<b>81,806</b>
<b>(ii) Long Term Borrowings Secured</b>		
- Finance lease liabilities	187	213
- Term loans	35,292	19,560
	<b>35,479</b>	<b>19,773</b>

Breakdown of borrowings in foreign denominated debts included above is:

<b>(iii) Secured</b>	USD'000	USD'000
- Bills payable	16,932	21,561
- Short term loan	-	1,000
- Long term loan	5,000	-
	<b>21,932</b>	<b>22,561</b>

## 11. Off Balance Sheet Financial Instruments

	As At 31/12/2009 RM'000	As At 31/12/2008 RM'000
Operating Lease Commitment		
Payable within one year	75	165
Payable within two to five years	121	552
	<b>196</b>	<b>717</b>

Other than as disclosed above, there were no financial instruments with off balance sheet risk as at 24 February 2010, being the latest practicable date from the issue of this quarterly report.

## 12. Material Litigation

There is no material litigation for the Group as at 24 Feb 2010, being the latest practicable date from the issue of this quarterly report.

## 13. Dividends

No dividend has been declared for the current quarter and financial year ended 31 December 2009.

## 14. Loss Per Share

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>31/12/2009</b>	<b>31/12/2008</b>	<b>31/12/2009</b>	<b>31/12/2008</b>
Net loss attributable to shareholders (RM'000)	(9,581)	(2,243)	(23,445)	(3,979)
Weighted average number of ordinary shares ('000)	275,778	275,778	275,778	275,778
<b>Loss per share (sen)</b>	<b>(3.47)</b>	<b>(0.81)</b>	<b>(8.50)</b>	<b>(1.44)</b>