

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

**NOTES TO FINANCIAL REPORT  
FOR THE SECOND QUARTER ENDED 30 JUNE 2010**

**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 2009.

**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 2009 except for the adoption of the following new FRS, Amendments to FRSs and IC Interpretations which are relevant to its operations and applicable to its financial statements effective from 1 January 2010:

FRS 7	Financial Instruments: Disclosures
FRS 8	Operating Segments
FRS 101	Presentation of Financial Statements (Revised)
FRS 123	Borrowing Costs (Revised)
FRS 139	Financial Instruments: Recognition and Measurement
Amendment to FRS 2	Share-based Payment – Vesting Condition and Cancellation
Amendment to FRS 5	Non current Assets Held for Sale and Discontinued Operations
Amendment to FRS 8	Operating Segments
Amendment to FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to FRS 117	Leases
Amendment to FRS 119	Employee Benefits
Amendment to FRS 127	Consolidated and Separate Financial Statements
Amendment to FRS 128	Investments in Associates
Amendment to FRS 131	Interest in Joint Ventures
Amendment to FRS 134	Interim Financial Reporting
Amendment to FRS 138	Intangible Assets

## 2. Changes in Accounting Policies (continued)

Amendment to FRS 140	Investment Property
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The principal effects of the changes in presentation, changes in methods of computation and in accounting policies resulting from the adoption of the new FRSs, Amendments to FRSs and IC Interpretations are set out below:

### **FRS 101 (Revised), Presentation of Financial Statements**

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes to the financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, a statement of comprehensive income (which can be presented as a single statement or two statements comprising the income statement and statement of comprehensive income), a statement of changes in equity, a statement of cash flows and notes to the financial statements.

The following items that were recognized directly in equity in the preceding year's corresponding period are now presented as components in other comprehensive income in the statement of comprehensive income:

- (i) The foreign currency gains or losses arising from translation of foreign branch and subsidiaries;
- (ii) The gains arising from revaluation of property, plant and equipment; and
- (iii) The gains or losses arising from marked to market values of quoted investments.

The total comprehensive income is presented as a one line item in the statement of changes in equity and the comparative information has been re-presented in order to conform with the revised standard. This standard only affects the presentation aspects and does not have any impact on the earnings/(loss) per share for the current financial period ended 30 June 2010 and its preceding year's corresponding period.

### **FRS 139, Financial Instruments: Recognition and Measurement**

Prior to the adoption of FRS 139, financial derivatives are recognized on their settlement dates. Outstanding derivatives at the balance sheet date were not recognized.

The adoption of FRS 139 has resulted in changes to accounting policies relating to recognition and measurement of financial instruments. All financial assets and financial liabilities, including derivatives, are recognized at contract dates when the Company or any of its subsidiary becomes a party to the contractual provisions of the instruments.

## 2. Changes in Accounting Policies (continued)

### FRS 139, Financial Instruments: Recognition and Measurement (continued)

The financial instruments of the Group are categorized, recognized and measured as follows:

#### **Financial Assets**

(a) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorized as loans and receivables are subsequently measured at amortized cost using the effective interest method.

Prior to the adoption of FRS 139, an allowance for doubtful debts was made when a receivable is considered irrecoverable by the management.

With the adoption of FRS 139, an impairment loss is recognized for trade and other receivables and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

(b) Available for sale financial assets

Available for sale category comprises investments in non current equity securities and non current debt instruments that are not held for trading.

Investments in non current equity securities that do not have quoted market prices in an active market and whose fair values cannot be reliably measured are measured at cost.

Other available for sale financial assets are subsequently measured at their fair values with the gain or loss recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognized in profit and loss.

Interest calculated for a debt instrument using the effective interest method is recognized in profit and loss.

Prior to the adoption of FRS 139, investments in non current equity securities (other than investments in subsidiaries and associates) and non current debt instruments were stated at cost less allowance for diminution in value which is other than temporary. With the adoption of FRS 139, these two categories of investments are now categorized and measured as available for sale as detailed above.

## 2. Changes in Accounting Policies (continued)

### **FRS 139, Financial Instrument: Recognition and Measurement (continued)**

All financial assets, except for those measured at fair value, are subject to review for impairment.

A financial asset or part of it is derecognized when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in equity is recognized in the profit and loss.

### **Financial Liabilities**

All financial liabilities are subsequently measured at amortized cost, other than those measured at fair value.

A financial liability or a part of it is derecognized when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid (including any non cash assets transferred or liabilities assumed) is recognized in the profit and loss.

In accordance with the transitional provisions of FRS 139, the required changes are applied prospectively from 1 January 2010 and the comparative information is not restated. The effects of the remeasurement on 1 January 2010 of the financial assets and financial liabilities brought forward from the previous financial year are adjusted to the opening accumulated losses and other opening reserves as disclosed in the Condensed Consolidated Statement of Changes in Equity for the current financial period ended 30 June 2010.

This standard does not have any material impact on the results and financial position of the Group for the current financial period ended 30 June 2010 and its preceding year's corresponding period.

### **Amendment to FRS 117, Leases**

Prior to the adoption of the Amendment to FRS 117, leasehold lands were classified as operating leases. The considerations paid were classified and presented as prepaid lease payments on the statement of financial position. With the adoption of the Amendment to FRS 117, the classification of a leasehold land as a finance lease or an operating lease is based on the extent to which risks and rewards incidental to ownership lie. In making this judgement, the Directors have concluded that lands with initial lease period of 50 years or more are finance leases because the present value of the minimum lease payments (ie. consideration paid or payable) is substantially equal to the fair value of the land.

This change in classification has no material effect on the results and financial position of the Group for the current financial period ended 30 June 2010 and its preceding year's corresponding period.

**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 2009.

**4. Seasonality or Cyclicity of Operations**

Based on past historical trend, sales of the manufacturing division (which is the main contributor of revenue to the Group) would normally peak in the third quarter arising from increase in customer demand in anticipation of the festive seasons towards year end and demand would slowly decline in the fourth quarter before reaching its plateau in the first and second quarters of the following year.

During the current quarter, sales of the manufacturing division continued to surge upwards following its improved performance in the preceding quarter of the current financial year due to increase in orders from new customers and existing buyers.

**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 to date.

**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**

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

- (a) 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;
- (b) Amendments to the Memorandum and Articles of Association of HWGB to facilitate the change in the par value of the ordinary shares of RM1.00 each in HWGB as a result of the Capital Reduction;
- (c) Renounceable rights issue of up to 137,888,954 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 Capital Reduction; and
- (d) Establishment of an employee share option scheme (“ESOS”) of up to 10% of the issued and paid up share capital in HWGB after the Capital Reduction.

With all the requisite approvals obtained from the relevant authorities, the corporate exercise had been successfully completed with the listing of 137,888,954 Rights Shares together with 137,888,954 Warrants on the Main Market of BMSB on 13 April 2010.

A total proceeds amounting to RM27,577,790 had also been raised from the abovementioned rights issue.

Other than the above, there was no issuance, cancellation, repurchase, resale nor repayments of debts and equity securities, share buy-backs during the current quarter and financial year to date.

## **8. Dividends Paid**

No dividend was paid in the current quarter and financial year to date.

## 9. Segmental Reporting

Analysis of the Group's segment revenue and segment result for business segments for the current financial period ended 30 June 2010 are as follows: -

	Segment Revenue RM'000	Profit/(Loss) Before Tax RM'000
Investments	66	(3,586)
Manufacturing	80,110	(5,314)
Mining	-	(273)
Trading	17,845	282
	<u>98,021</u>	<u>(8,891)</u>
Gain on deemed disposal of a quoted associate		15,419
Share in losses of associates		(2,061)
		<u>4,467</u>

## 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.

## 11. Material Events Subsequent to the End of the Interim Period

There is no material event subsequent to the end of the current quarter.

## 12. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current quarter and financial year to date.

## 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 to date.

## 14. Capital Commitments

During the second quarter of the current financial year, the tin mining division of HWGB had committed capital expenditure to acquire mining machineries amounting to RM3.83 million which was not provided for in the financial statements as at 30 June 2010.

Other than the aforesaid, 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 second quarter and current financial year-to-date**

For the current financial year to date, the Group recorded revenue of RM98.02 million and profit before taxation of RM4.47 million compared to its preceding year's corresponding period revenue of RM58.60 million and loss before taxation of RM11.09 million.

The Group's manufacturing division recorded operating revenue of RM80.11 million and loss before taxation of RM5.31 million for the current financial period ended 30 June 2010 compared to its preceding year's corresponding period operating revenue of RM48.19 million and loss before taxation of RM8.14 million.

The significant increase of 66% in operating revenue had resulted in a 35% decline in loss before taxation. However, the manufacturing division continued to remain in a loss position amidst volatile raw material prices and high trade financing costs. The strengthening of Indonesian Rupiah against the USD had also increased our costs of production.

With the US economy still in its early stage of recovery, our products' selling prices and margins continued to remain suppressed and accordingly, our manufacturing division underperformed with a loss during the first half of the current financial year.

The Group's trading division posted an operating revenue of RM17.84 million and profit before taxation of RM282,000 for the current financial period ended 30 June 2010 compared to its preceding year's corresponding period operating revenue of RM10.14 million and profit before taxation of RM397,000. Our domestic economy continued its path of recovery and showed significant improvement in its gross domestic product ("GDP") during the first half of the current year as compared to last year's performance. This chain effect via the construction and building sector ie. our main domestic market segment had resulted in the trading division reporting an increase of 76% in operating revenue. However, stiff competition in the local market continued to exert pressure on its margin and this had resulted in a lower profit before taxation.

The Group's tin mining division recorded a loss before taxation of RM273,000 for the current financial period ended 30 June 2010. Site preparation at the mining location is currently in progress and the tin mining division is targeting to kick start its project by end of this financial year.

The Group's share of loss in its quoted associate, CVM Minerals Limited ("CVM") was RM2.06 million for the current financial period ended 30 June 2010. Its magnesium smelter plant had commenced its production.

**1. Review of Performance for the second quarter and current financial year to date (continued)**

During the current financial period under review, CVM had increased its share capital from HKD45.10 million to HKD54.10 million via issuance of additional new 360.00 million ordinary shares (at par value of HKD0.025 per share) at the subscription price of HKD0.36 per share. All the said shares had been successfully listed on the Stock Exchange of Hong Kong Limited (“SEHK”). The aforesaid resulted in HWGB’s shareholding in CVM being diluted from 41.25% as of 31 December 2009 to 34.39% on 10 February 2010 and this gave rise to a gain on deemed disposal amounting to RM15.42 million for the current financial period ended 30 June 2010.

At Company level, the Company recorded a loss before taxation of RM3.35 million for the current financial period ended 30 June 2010 compared to a loss of RM2.04 million in the preceding year’s corresponding period. Included in loss before taxation for the current financial period is an amount of RM888,000 due to share based payment for services being charged out as staff costs in the statement of comprehensive income as a result of granting of share options to employees.

In the opinion of the Directors, other than as disclosed above, the results for the current quarter have not been affected by any transactions or events of a material or unusual nature which have arisen between 30 June 2010 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 RM57.35 million and RM5.44 million respectively as compared to the preceding quarter’s operating revenue and profit before taxation of RM40.67 million and RM9.91 million respectively.

The increase of 41% in operating revenue was due to increase in orders from new customers and existing buyers.

Included in the profit before taxation of RM9.91 million for the first quarter of the current financial year is an amount of RM15.42 million gain on deemed disposal of CVM as a result of dilution of HWGB’s shareholding (ie. percentage of equity stake) in CVM as mentioned in note 1 above. This gain had also resulted in an overall profit position for the Group during the current financial period ended 30 June 2010.

### 3. Commentary on Prospects

The Board is of the opinion that business operations will continue to be difficult and challenging in the remaining half of 2010 in view of the volatile prices of raw materials and also the uncertainty of economic recovery in US which accounts for majority of the Group's revenue. Our local currency, Ringgit Malaysia and Indonesian Rupiah may continue to remain strong against USD and this would have a negative impact on HWGB's bottom line since most (ie. approximately 75% or more) of the Group's sales are denominated in USD.

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 to date.

### 5. Taxation

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

	Individual Quarter		Cumulative Quarters	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
	RM'000	RM'000	RM'000	RM'000
I Current tax expense				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
II Over/ (under) provision in prior year				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
III Deferred tax expense				
- Malaysian	-	-	-	-
- Overseas	-	(353)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(353)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>-</b>	<b>(353)</b>	<b>-</b>	<b>-</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. Purchase or Disposal of Quoted Securities

There was no purchase or disposal of quoted securities for the current quarter and financial year to date.

Investments in quoted securities as at 30 June 2010 are as follows:

	RM'000
(i) At cost	1,332
(ii) At carrying amount/market value	107

## 7. Sale of Unquoted Investments and/or Properties

Our wholly owned subsidiary, HWG Kintron Sdn Bhd (“the Vendor”) had on 21 December 2009 entered into a Conditional Sale and Purchase Agreement with Hoe Huat Trading Sdn Bhd (573220-D) (“the Purchaser”) for the disposal of a piece of leasehold land (PM 238 Lot 1281 Seksyen 38 Bandar Kulim, Daerah Kulim, Kedah) together with two units of single storey factory and a unit of warehouse erected thereon (“the Property”) for a total cash consideration of RM5.20 million.

Deposits amounting to RM520,000 had been paid by the Purchaser. The Property had been charged to EON Bank Berhad (“EON”) for banking facility extended by EON to the Vendor. Thus, the balance of sale proceeds will be used to partially settle the bank loan and any incidental cost incurred.

The disposal of the Property had been fully completed on 22 June 2010.

The Property had a carrying book value of RM5.00 million and the disposal did not 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 to date.

## 8. Investments in Associates

HWGB together with other equity shareholders (“Vendors”) of CVM, had on 1 February 2010 placed out 280.00 million ordinary shares (“Shares”) of CVM (of which 78.00 million Shares were placed out by HWGB, whilst the remaining balance of 202.00 million Shares were placed out by other Vendors) to the placing agents to procure buyers for the said Shares.

The disposal price for the Shares was agreed at HKD0.36 per Share. The total proceeds raised from the aforesaid placement had been fully utilized to pay for the subscription of new 280.00 million ordinary shares which were subsequently issued by CVM at the subscription price of HKD0.36 per share.

Following completion of the above, an additional new 80.00 million ordinary shares of CVM had also been successfully issued and listed on the SEHK on 10 February 2010.

With the increase of the above new 360.00 million ordinary shares in CVM, the total number of ordinary shares in CVM had increased from 1,804.00 million to 2,164.00 million whilst the number of ordinary shares in CVM held by HWGB remained unchanged at 744.15 million.

Other than the above, there was no purchase or disposal of equity stakes in Associates during the current quarter and financial year to date.

Investments in Associates as at 30 June 2010 are as follows:

	RM'000
(i) At cost	26,897
(ii) At carrying amount	35,352
(iii) Market value of a quoted associate	83,536

## 9. Group Borrowings and Debt Securities

	As At 30/06/2010 RM'000	As At 31/12/2009 RM'000
<b>(i) Short Term Borrowings</b>		
<b>Secured</b>		
- Bank overdraft	1,407	1,267
- Bankers' acceptances	51,992	58,017
- Finance lease liabilities	78	29
- Term loans	4,040	6,718
<b>Unsecured</b>		
- Bank overdrafts	-	-
	<b>57,517</b>	<b>66,031</b>
<b>(ii) Long Term Borrowings</b>		
<b>Secured</b>		
- Finance lease liabilities	468	187
- Term loans	24,220	30,813
	<b>24,688</b>	<b>31,000</b>

Breakdown of borrowings in foreign denominated debts included above is:

	USD'000	USD'000
<b>(iii) Secured</b>		
- Bills payable	15,849	16,932
- Short term loan	500	-
- Long term loan	5,000	5,000
	<b>21,349</b>	<b>21,932</b>

## 10. Status of Utilization of Proceeds raised from Rights Issue

The proposed and actual utilization (as of 20 August 2010) of RM27,577,790 proceeds raised from the Rights Issue of 137,888,954 HWGB Rights Shares (“RS”) of RM0.20 each at an issue price of RM0.20, which was completed on 13 April 2010, is given as follows:-

Description	Proposed Utilization RM'000	As at 20 Aug 2010		Estimated timeframe for utilization of proceeds
		Actual Utilization RM'000	Balance RM'000	
Repayment of bank borrowings	10,000	10,000	0	Within one (1) year from the listing of the RS
Working capital	17,058	11,058	6,000	Within one (1) year from the listing of the RS
Rights Issue expenses	520	520	0	Within one (1) month from the listing of the RS
<b>TOTAL</b>	<b><u>27,578</u></b>	<b><u>21,578</u></b>	<b><u>6,000</u></b>	

## 11. Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risk as at 20 August 2010, being the latest practical date that shall not be earlier than 7 days from the date of issue of this quarterly report.

## 12. Material Litigation

There is no material litigation for the Group as at 20 August 2010, being the latest practicable date that shall not be earlier than 7 days from the date of issue of this quarterly report.

## 13. Dividends

No dividend has been declared for the current financial period ended 30 June 2010.

#### 14. (Loss)/Profit per share

	Individual Quarter		Cumulative Quarters	
	30/06/2010	30/06/2009	30/06/2010	30/06/2009
(Loss)/Profit attributable to shareholders (RM'000)	(5,360)	(5,354)	4,601	(11,013)
Weighted average number of ordinary shares ('000) – basic	333,232	275,778	333,232	275,778
<b>Basic (sen)</b>	<b>(1.61)</b>	<b>(1.94)</b>	<b>1.38</b>	<b>(3.99)</b>

#### **Diluted (sen)**

There is no dilution of (loss)/profit per share for the current quarter and current financial year to date since the exercise price of the unexpired warrants and ESOS options is above the market price of HWGB share. The exercise of the said warrants and ESOS options would have anti dilutive impact.

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