

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

**NOTES TO FINANCIAL REPORT**  
**FOR THE SECOND QUARTER ENDED 30 JUNE 2011**

**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 2010.

**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 2010 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 2011:

Amendments to FRS 132	Financial Instruments: Presentation – Classification of Rights Issues
FRS 1	First-time Adoption of Financial Reporting Standards (revised)
Amendments to FRS 2	Share-based Payment
FRS 3	Business Combinations (revised)
FRS 127	Consolidated and Separate Financial Statements (revised)
Amendments to FRS 5	Non current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138	Intangible Assets
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters - Additional Exemptions for First-time Adopters
Amendments to FRS 2	Group Cash-settled Share Based Payment Transactions
Amendments to FRS 7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
IC Interpretation 4	Determining whether an Arrangement contains a Lease
Improvements to FRSs (2010)	

## **2. 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 2010.

## **3. Seasonality or Cyclicity of Operations**

Based on past historical trend, sales of the manufacturing division (which is currently 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 quarter of the following year.

During the second quarter of the current financial year, sales of the manufacturing division rebounded from its historical seasonal low in the first quarter after having reached its seasonal peak in the third quarter of the preceding year.

## **4. 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.

## **5. Material Change in Estimates**

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

## **6. Issuance and Repayment of Debt and Equity Securities**

During the current financial year to date, a total of 4,367,500 employee share options ("ESOS") had been converted into 4,367,500 new ordinary shares of RM0.20 each in HWGB at par value and a total proceeds of RM873,500 had been raised.

A total of 3,697,500 ESOS had been converted into 3,697,500 new ordinary shares of RM0.20 each in HWGB during the first quarter of the current financial year whilst the balance of 670,000 ESOS had been converted into 670,000 new ordinary shares of RM0.20 each in HWGB during the second quarter of the current financial year.

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

## **7. Dividends Paid**

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

## **8. The Status of Corporate Proposals Announced But Pending Completion**

On 1 June 2011 and 23 June 2011, the Company had announced to BMSB to undertake the following corporate proposal:-

Proposed renounceable rights issue of up to 152,094,853 new ordinary shares of RM0.20 each in HWGB (“Rights Shares”) together with up to 76,047,426 new free detachable warrants (“New Warrants”) on the basis of one (1) rights share for every four (4) ordinary shares of RM0.20 each held in HWGB (“Shares”) together with one (1) free new warrant for every two (2) rights shares subscribed (“Proposed Rights Issue”).

The Proposed Rights Issue is conditional upon the approvals being obtained from the following:-

- (a) Controller of Foreign Exchange via Bank Negara Malaysia (“BNM”) for the issuance of New Warrants to non-resident shareholders of HWGB pursuant to the Proposed Rights Issue (approval was obtained vide BNM’s letter dated 1 July 2011);
- (b) BMSB, for the Proposed Rights Issue and for the listing of and quotation for the Rights Shares and New Warrants to be issued pursuant to the Proposed Rights Issue on the Main Market of BMSB (approval was obtained vide BMSB’s letter dated 7 July 2011);
- (c) Shareholders of HWGB at the Extraordinary General Meeting (“EGM”) held on 28 July 2011 (approval was obtained on the same date ie. 28 July 2011); and
- (d) Other relevant authorities, if any.

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Company expects the Proposed Rights Issue to be completed by the third (3<sup>rd</sup>) quarter of the current financial year.

## 9. Segmental Reporting

Analysis of the Group's segment revenue and segment result for business segments for the current financial period ended 30 June 2011 are given as follows: -

	Segment Revenue RM'000	Profit/(Loss) Before Tax RM'000
Investments	319	(2,761)
Manufacturing	90,903	(152)
Mining	804	(3,787)
Trading	28,810	878
	<u>120,836</u>	<u>(5,822)</u>
Gain on deemed disposal of a quoted associate		12,204
Share in results of associates		(4,344)
		<u>2,038</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

The tin mining division of HWGB had capital commitments amounting to RM3 million which was not provided for in the financial statements as at 30 June 2011.

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 first half of the current financial year, the Group recorded revenue of RM120.84 million and profit before taxation of RM2.04 million as compared to its preceding year's corresponding period revenue of RM98.02 million and profit before taxation of RM4.47 million.

Included in the preceding year's corresponding period profit before taxation of RM4.47 million was a gain of RM15.42 million on deemed disposal of its quoted associate, CVM Minerals Limited ("CVM") as a result of dilution in HWGB's equity stake in CVM from 41.25% as of 31 December 2009 to 34.39% on 10 February 2010.

Whilst, the gain on deemed disposal of CVM during the first half of the current financial year as a result of dilution in HWGB's equity stake in CVM from 29.53% as of 31 December 2010 to 21.18% on 19 April 2011 was comparatively lower at RM12.20 million.

The Group's manufacturing division recorded operating revenue of RM90.90 million and loss before taxation of RM152,000 for the current financial period ended 30 June 2011 as compared to its preceding year's corresponding period operating revenue of RM80.11 million and loss before taxation of RM5.31 million.

The increase of 13% in operating revenue had resulted in a marked improvement in financial performance during the first six (6) months of the current financial year.

Though sales of the manufacturing division surged to RM90.90 million, the high trade financing costs, inflationary cost pressure and the strength of Indonesian Rupiah against the USD impacted adversely our bottom line. With the US economy still in its fragile stage and the market becoming more competitive, our products' selling prices and margins remained under intense competitive pressure.

The Group's trading division posted an operating revenue of RM28.81 million and a profit before taxation of RM878,000 for the current financial period ended 30 June 2011 as compared to its preceding year's operating revenue of RM17.84 million and profit before taxation of RM282,000.

Our domestic economy continued to show its resilience during the current financial period under review. The strength in our domestic market segment via the construction and building sectors had resulted in the trading division reporting an increase in operating revenue and profit before taxation.

The Group's tin mining division recorded an operating revenue of RM0.80 million and a loss before taxation of RM3.79 million for the current financial period ended 30 June 2011. Commencement of tin mining operation had begun and a total output of 19 metric tons of tin concentrate had been produced during the current financial period under review. Currently, the tin mining division is continuing its exploration activities and removing the top soil prior to reaching the tin ore deposits underground.

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

The Group's share of loss in its quoted associate, CVM was RM4.35 million for the current financial period ended 30 June 2011. Though production has commenced, CVM is currently working on its magnesium smelter plant to achieve the commercial level of production.

During the first quarter of the current financial year, CVM had increased its share capital from HKD62.99 million to HKD71.49 million via Share Placement pursuant to which an additional new 340 million ordinary shares ("Placement Shares") (at par value of HKD0.025 per share) had been issued to Independent Third Parties at an issue price of HKD0.228 per share.

All the said Placement Shares had since been listed on the Stock Exchange of Hong Kong Limited ("SEHK"). The aforesaid resulted in HWGB's equity stake in CVM being diluted from 29.53% as of 31 December 2010 to 26.02% on 14 February 2011 and this gave rise to a gain on deemed disposal amounting to RM1.42 million for the first quarter ended 31 March 2011.

During the second quarter of the current financial year, CVM had acquired 51% of the issued share capital of Step Pacific Development Limited ("SPDL") via issuance of new 653,125,000 ordinary shares ("Consideration Shares") (at par value of HKD0.025 per share) at an issue price of HKD0.32 per share.

SPDL via its subsidiary PT Laskbang Mediatama ("PT LM") (a company incorporated in Indonesia) is the holder of exploration mining permit for the exploration of manganese in Yogyakarta Province, Indonesia.

All the said Consideration Shares had since been listed on the SEHK. This resulted in further dilution of HWGB's equity stake in CVM to 21.18% on 19 April 2011 with a corresponding gain on deemed disposal amounting to RM10.79 million for the second quarter ended 30 June 2011.

At Company level, the Company recorded a loss before taxation of RM2.71 million for the current financial period ended 30 June 2011 as compared to a loss of RM3.35 million in the preceding year's corresponding period. Included in the preceding year's corresponding period loss before taxation of RM3.35 million was an expense 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 2011 and the date of issue of this quarterly report.

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

The Group's operating revenue and profit before taxation for the quarter under review were RM69.19 million and RM4.80 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM51.64 million and RM2.76 million respectively.

Included in the current quarter's profit before taxation was a gain of RM10.79 million on deemed disposal of CVM as a result of dilution in HWGB's equity stake in CVM from 26.02% as of 14 February 2011 to 21.18% on 19 April 2011.

Whilst the preceding quarter's loss before taxation had a gain of RM1.42 million on deemed disposal of CVM as a result of dilution in HWGB's equity stake in CVM from 29.53% as of 31 December 2010 to 26.02% on 14 February 2011.

Despite the significant increase of 34% in operating revenue during the current quarter, the Group's profitability had underperformed as compared to the preceding quarter's results. This was due to deterioration in our manufacturing products' margins as result of intense competition and the increase in operating losses incurred by our tin mining division.

## **3. Commentary on Prospects**

The Board is of the opinion that business operations in moulded power supply cord sets and wires and cables will continue to be challenging in view of the intense competition in the US market, high prices of commodities or raw materials, inflationary cost pressure, potential further hikes in interest rates in Indonesia, fiscal debt situation in major economies, high unemployment rate in US and also the uncertainty of economic recovery in US which accounts for a majority of the Group's revenue.

The Board is hopeful that the commencement of its tin mining business would generate an additional source of revenue and income to the HWGB Group and the Economic Transformation Program ("ETP") would help to sustain the momentum of our local economy and boost our domestic market.

Barring any unforeseen circumstances, the Board expects the results of the HWGB Group to be satisfactory in the second half of year 2011.

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	
	30/06/2011	30/06/2010	30/06/2011	30/06/2010
	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	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<hr/>	<hr/>	<hr/>	<hr/>

## 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 2011 are as follows:

	RM'000
(i) At cost	1,332
(ii) At carrying amount/market value	96



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

On 9 November 2010 HWG Kintron (“the Vendor”) had entered into a Conditional Sale and Purchase Agreement with Vista Property Management Sdn Bhd (790669-A) (“the Purchaser”) for the disposal of all that remaining piece of leasehold land (Hakmilik HSM 7887, PT No. 5, Bandar Kulim, Daerah Kulim, Kedah) together with premises known as Lot 5, Kulim Industrial Estate, 09000 Kulim, Kedah erected thereon (“Lot 5”) for a cash consideration of RM1.85 million (“Disposal”).

The Disposal is still pending completion as at 30 June 2011 and is expected to be completed before this financial year ending on 31 December 2011.

Lot 5 has a carrying book value of RM1.85 million and the Disposal is not expected to have any material effect on the earnings and net assets per share of the HWGB Group.

The Disposal is in line with HWGB’s strategy to dispose off its non core assets and reduce the gearing of the Group.

Other than the abovementioned, there was no sale of unquoted investments or properties for the current financial period ended 30 June 2011 and financial year to date.

## 8. Investments in Associates

On 28 January 2011, CVM entered into a Share Placing Agreement with the Placing Agent pursuant to which the Placing Agent agreed to place out, on a best effort basis, up to 340 million new ordinary shares (at par value of HKD0.025 per share) at an issue price of HKD0.228 per Placing Share to not less than six Independent Third Party Investors.

The aforesaid Share Placing was completed on 14 February 2011 and the total number of issued ordinary shares in CVM increased from 2,519.56 million to 2,859.56 million whilst the number of ordinary shares in CVM held by HWGB remained the same at 744.15 million. The consequential effect of this Share Placing had resulted in HWGB's equity stake in CVM being diluted from 29.53% to 26.02%.

On 28 January 2011, CVM had also entered into a Warrant Placing Agreement with the same Placing Agent pursuant to which the Placing Agent agreed to place out, on a best effort basis, 163.90 million Warrants at an issue price of HKD0.005 per Warrant to not less than six Independent Third Party Investors. Each Warrant carries the right to subscribe for one (1) new ordinary share (at par value of HKD0.025 per share) at an exercise price of HKD0.27 per share. The aforesaid Warrant Placing was also completed on 14 February 2011.

On 23 February 2011, CVM had entered into a conditional Sale and Purchase Agreement to acquire 51% of the issued share capital of Step Pacific Development Limited ("SPDL") via issuance of new 653,125,000 ordinary shares ("Consideration Shares") (at par value of HKD0.025 per share) at an issue price of HKD0.32 per share. All the conditions precedent had been fulfilled and the acquisition was completed on 19 April 2011. The consequential effect of this acquisition had resulted in HWGB's equity stake in CVM being further diluted from 26.02% to 21.18%.

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 2011 are as follows:

	RM'000
(i) At cost	26,897
(ii) At carrying amount	47,825
(iii) Market value of a quoted associate	51,983

## 9. Group Borrowings and Debt Securities

	As At 30/06/2011 RM'000	As At 31/12/2010 RM'000
<b>(i) Short Term Borrowings</b>		
<b>Secured</b>		
- Bank overdraft	1,411	1,514
- Bankers' acceptances	51,843	52,848
- Finance lease liabilities	49	46
- Term loans	5,606	8,886
<b>Unsecured</b>		
- Bank overdrafts	-	-
	<b>58,909</b>	<b>63,294</b>
<b>(ii) Long Term Borrowings</b>		
<b>Secured</b>		
- Finance lease liabilities	197	221
- Term loans	15,440	15,962
	<b>15,637</b>	<b>16,183</b>

Breakdown of borrowings in foreign denominated debts included above is:

	USD'000	USD'000
<b>(iii) Secured</b>		
- Bills payable	17,164	17,128
- Short term loan	833	1,667
- Long term loan	3,333	3,333
	<b>21,330</b>	<b>22,128</b>

## 10. Status of Utilization of Proceeds raised from Private Placement

The proposed and actual utilization (as of 18 August 2011) of RM12,409,980 proceeds raised from the Private Placement of 41,366,600 new ordinary shares of RM0.20 each (“Placement Shares”) (“PS”) at an issue price of RM0.30, which was completed on 30 November 2010, is given as follows:-

Description	Proposed Utilization RM'000	As at	Actual Utilization RM'000	Balance RM'000	Estimated timeframe for utilization of proceeds
		18 Aug 2011			
Working Capital	12,310		12,310	Nil	Within six (6) months from the listing of the PS
Private Placement Expenses	100		100	Nil	Within one (1) month from the listing of the PS
<b>TOTAL</b>	<b>12,410</b>		<b>12,410</b>	<b>Nil</b>	

## 11. Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risk as at 18 August 2011, 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 18 August 2011, 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 quarter ended 30 June 2011.

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

##### Basic

	Individual Quarter		Cumulative Quarters	
	30/06/2011	30/06/2010	30/06/2011	30/06/2010
Profit/(Loss) attributable to shareholders (RM'000)	6,246	(5,360)	3,895	4,601
Weighted average number of ordinary shares ('000) – basic	463,098	390,685	461,636	333,232
<b>Basic (sen)</b>	<b>1.35</b>	<b>(1.37)</b>	<b>0.84</b>	<b>1.38</b>

##### Diluted

	Individual Quarter		Cumulative Quarters	
	30/06/2011	30/06/2010	30/06/2011	30/06/2010
Profit/(Loss) attributable to shareholders (RM'000)	6,246	(5,360)	3,895	4,601
<u>Add</u>				
Notional interest savings due to repayment of bank borrowings (RM'000)	605	556	1,210	556
Adjusted Profit/(Loss) attributable to shareholders (RM'000)	6,851	(4,804)	5,105	5,157
Weighted average number of ordinary shares ('000) – basic	463,098	390,685	461,636	333,232
<u>Add</u>				
Assuming conversion of ESOS and Warrants ('000)	145,126	154,047	145,126	154,047
Weighted average number of ordinary shares ('000) – diluted	608,224	544,732	606,762	487,279
<b>Diluted (sen)</b>	<b>1.13</b>	<b>N/A</b>	<b>N/A</b>	<b>1.06</b>

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

The diluted earnings or profit per share is calculated based on the adjusted net profit attributable to equity holders of the Company divided by the weighted average number of ordinary shares in issue during the period, adjusted to assume full conversion of all ESOS and warrants into new ordinary shares.

The adjusted net profit attributable to equity holders of the Company is arrived at by adding notional interest savings as a result of repayment of bank borrowings from proceeds made available through exercise of ESOS and warrants into new ordinary shares.

There was no dilution in earnings or profit per share during the current financial period ended 30 June 2011 as the additional notional interest savings would have compensated for the increase in the number of ordinary shares arising from the abovementioned conversion of all ESOS and warrants.