

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

**NOTES TO FINANCIAL REPORT**  
**FOR THE FIRST QUARTER ENDED 31 MARCH 2012**

**1. Basis of Preparation**

The interim financial report is unaudited and has been prepared and presented in accordance with the requirements of Malaysian Financial Reporting Standard (“MFRS”) 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. The interim financial report does not include all of the information required for full annual financial statements and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2011.

**2. Significant 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 2011.

**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 2011.

**4. 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 gradually increase in the second quarter and normally peak in the third quarter arising from increase in customer demand in anticipation of the festive seasons towards year end and subsequently, demand would slowly decline in the fourth quarter before reaching its plateau in the first quarter 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.

**6. Material Change in Estimates**

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

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

During the current quarter, a total of 665,100 employee share options (“ESOS”) had been converted into 665,100 new ordinary shares of RM0.20 par value each in HWGB and a total proceeds of RM133,020 had been raised.

Following the completion of the private placement of 48,725,300 new ordinary shares of RM0.20 par value each in HWGB and at an issue price of RM0.365 each, a total proceeds of RM17,784,734 had also been raised during the current quarter.

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.

## **8. Dividends Paid**

No dividend was paid in the current quarter.

## **9. The Status of Corporate Proposal**

On 19 January 2012, the Company had announced to BMSB that it would implement a private placement of up to 48,725,300 new ordinary shares of RM0.20 each in HWGB (“Placement Shares”) to independent third party investor(s) to be identified at a later date.

The issue price of the Placement Shares had been fixed at RM0.365 per Placement Share by the Board on 28 February 2012, after having obtained approval from BMSB vide its letter dated 17 February 2012.

The aforesaid private placement which raised a total proceeds amounting to RM17.78 million was completed on 8 March 2012 following the listing and quotation of 48,725,300 Placement Shares on the Main Market of BMSB.

## 10. Segmental Reporting

Analysis of the Group's segment revenue and segment result for business segments for the current quarter ended 31 March 2012 are given as follows: -

	Segment Revenue RM'000	Profit/(Loss) Before Tax RM'000
Investments	155	(1,448)
Manufacturing	33,097	(3,011)
Mining	3,675	277
Trading	12,332	205
	<u>49,259</u>	<u>(3,977)</u>
Share in results of associates		<u>(7)</u>
		<u>(3,984)</u>

## 11. 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.

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

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

## 13. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current quarter.

## 14. Contingent Liabilities and Contingent Assets

There were no material contingent liabilities and contingent assets for the Company and the Group during the current quarter.

## 15. Capital Commitments

The tin mining division of HWGB had capital commitments amounting to RM3.70 million which was not provided for in the financial statements as at 31 March 2012.

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 first quarter and current financial period to date**

For the first quarter of the current financial year, the Group recorded revenue of RM49.26 million and loss before taxation of RM3.98 million as compared to its preceding year's corresponding period revenue of RM51.64 million and loss before taxation of RM2.76 million.

The Group's manufacturing division recorded operating revenue of RM33.10 million and loss before taxation of RM3.01 million for the current financial period ended 31 March 2012 as compared to its preceding year's corresponding period operating revenue of RM39.56 million and profit before taxation of RM1,000.

The US economy continued its struggle to recovery with high unemployment rates and a sluggish housing market. With the US market becoming ever more competitive, our manufacturing division recorded a lower operating revenue. This coupled with the deterioration in margin, high trade financing costs and inflationary cost pressure further affected our bottom line and therefore, resulted in a loss position for the current financial period ended 31 March 2012.

The Group's trading division posted operating revenue of RM12.33 million and profit before taxation of RM205,000 for the current financial period ended 31 March 2012 as compared to its preceding year's corresponding period operating revenue of RM11.92 million and profit before taxation of RM555,000.

Though our domestic economy continued with its growth performance, it also began to show signs of slowing down with the property market softening and the banks being cautious in lending during the current quarter. Therefore, only a marginal increase of 3% in operating revenue was recorded during the current quarter as compared to the preceding year's corresponding period and this together with the intense competition in the local market caused our trading division reporting a lower profit before taxation for the current financial period ended 31 March 2012.

The Group's tin mining division recorded an operating revenue of RM3.68 million and profit before taxation of RM277,000 for the current financial period ended 31 March 2012. A total output of 91 metric tons of tin concentrates had been produced during the current financial period under review.

In the preceding year's corresponding period, the Group's tin mining division did not record any operating revenue since the tin mining production had yet to begin and recorded a loss before taxation of RM0.84 million.

The tin mining division is currently continuing its exploration activities and top soil removal to reach the higher grade of tin ore deposits underground.

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

At Company level, the Company recorded a loss before taxation of RM1.41 million for the current financial period ended 31 March 2012 as compared to a loss of RM1.38 million in the preceding year's corresponding period.

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 31 March 2012 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 RM49.26 million and RM3.98 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM56.04 million and RM9.11 million respectively.

The higher loss before taxation recorded in the preceding quarter was due to write down of inventories amounting to RM1.78 million in the manufacturing division and operating losses of RM2.44 million incurred by the 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, volatility in prices of commodities or raw materials, inflationary cost pressure, 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 Group would continue to focus on production efficiencies by implementing tighter cost control measures and also development and penetration of new products and new markets.

The outlook for domestic demand for the coming quarters would be underpinned by domestic consumption, market demand for local real estate properties, accommodative monetary policies and continued fiscal stimulus by the public sector. The Board expects the roll out of mega projects and the Economic Transformation Program ("ETP") would help to sustain the momentum of our local economy and boost our domestic market moving forward.

The Board is hopeful that the tin mining division would continue to improve its performance and soon generate an additional and sustainable source of revenue and income to the HWGB Group.

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.

## 5. Taxation

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

	Individual Quarter		Cumulative Quarters	
	31/03/2012	31/03/2011	31/03/2012	31/03/2011
	RM'000	RM'000	RM'000	RM'000
I Current tax expense				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	-	-	-	-
II Over/(under) provision in prior year				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	-	-	-	-
III Deferred tax expense				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 6. Purchase or Disposal of Quoted Securities

There was no purchase or disposal of quoted securities for the current quarter.

Investments in quoted securities as at 31 March 2012 are as follows:

	RM'000
(i) Equity shares quoted in Malaysia at cost	1,332
(ii) Equity shares quoted in Hong Kong at cost	17,050
(ii) Market value of quoted equity shares	26,556

## 7. Investments in Associates

There was no purchase or disposal of equity stakes in Associates during the current quarter.

Investments in Associates as at 31 March 2012 are as follows:

	RM'000
(i) At cost	2,400
(ii) At carrying amount	1,048

8. Group Borrowings and Debt Securities

	As At 31/03/2012 RM'000	As At 31/12/2011 RM'000
<b>(i) Short Term Borrowings</b>		
<b>Secured</b>		
- Bank overdraft	1,470	1,445
- Bankers' acceptances	49,363	55,947
- Finance lease liabilities	61	61
- Term loans	7,508	7,425
<b>Unsecured</b>		
- Bank overdrafts	-	-
	<b>58,402</b>	<b>64,878</b>
<b>(ii) Long Term Borrowings</b>		
<b>Secured</b>		
- Finance lease liabilities	229	259
- Term loans	6,246	8,668
	<b>6,475</b>	<b>8,927</b>

Breakdown of borrowings in foreign denominated debts included above is:

<b>(iii) Secured</b>	<b>USD'000</b>	<b>USD'000</b>
- Bills payable	16,108	17,610
- Short term loan	1,666	1,666
- Long term loan	1,250	1,667
	<b>19,024</b>	<b>20,943</b>



## 9. Status of Utilization of Proceeds raised from Rights Issue and Private Placement

The proposed and actual utilization (as of 18 May 2012) of RM10,663,238 proceeds raised from the rights issue of 23,696,084 new ordinary shares of RM0.20 each (“Rights Shares”) (“RS”) at an issue price of RM0.45, which was completed on 28 September 2011, is given as follows:-

Description	Proposed Utilization RM'000	As at 18 May 2012		Estimated timeframe for utilization of proceeds
		Actual Utilization RM'000	Balance RM'000	
Working Capital	9,663	9,663	Nil	Within one (1) year from listing and quotation of RS
Expenses for Rights Issue	1,000	1,000	Nil	Within one (1) month from listing and quotation of RS
<b>TOTAL</b>	<b>10,663</b>	<b>10,663</b>	<b>Nil</b>	

The proposed and actual utilization (as of 18 May 2012) of RM17,784,734 proceeds raised from the private placement of 48,725,300 new ordinary shares of RM0.20 each (“Placement Shares”) (“PS”) at an issue price of RM0.365, which was completed on 8 March 2012, is given as follows:-

Description	Proposed Utilization RM'000	As at 18 May 2012		Estimated timeframe for utilization of proceeds
		Actual Utilization RM'000	Balance RM'000	
Repayment of Bank Loans	4,200	3,200	1,000	Within six (6) months from listing and quotation of PS
Working Capital	13,485	2,485	11,000	Within six (6) months from listing and quotation of PS
Expenses for Private Placement	100	100	Nil	Within one (1) month from listing and quotation of PS
<b>TOTAL</b>	<b>17,785</b>	<b>5,785</b>	<b>12,000</b>	

## **10. Off Balance Sheet Financial Instruments**

The Group did not have any financial instruments with off balance sheet risk as at 18 May 2012, being the latest practical date that shall not be earlier than 7 days from the date of issue of this quarterly report.

## **11. Financial Risk Management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2011.

## **12. Material Litigation**

There is no material litigation for the Group as at 18 May 2012, 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 and financial period ended 31 March 2012.

#### 14. Loss per share

##### Basic

	Individual Quarter		Cumulative Quarters	
	31/03/2012	31/03/2011	31/03/2012	31/03/2011
Loss attributable to shareholders (RM'000)	(4,120)	(2,352)	(4,120)	(2,352)
Weighted average number of ordinary shares ('000) – basic	499,492	460,174	499,492	460,174
<b>Basic (sen)</b>	<b>(0.82)</b>	<b>(0.51)</b>	<b>(0.82)</b>	<b>(0.51)</b>

##### Diluted

	Individual Quarter		Cumulative Quarters	
	31/03/2012	31/03/2011	31/03/2012	31/03/2011
Loss attributable to shareholders (RM'000)	(4,120)	(2,352)	(4,120)	(2,352)
<u>Add</u>				
Notional interest savings due to repayment of bank borrowings (RM'000)	640	605	640	605
Adjusted (Loss)/Profit attributable to shareholders (RM'000)	(3,480)	(1,747)	(3,480)	(1,747)
Weighted average number of ordinary shares ('000) – basic	499,492	460,174	499,492	460,174
<u>Add</u>				
Assuming conversion of ESOS and Warrants ('000)	160,496	146,298	160,496	146,298
Weighted average number of ordinary shares ('000) – diluted	659,988	606,472	659,988	606,472
<b>Diluted (sen)</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

#### 14. 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 loss per share during the current quarter and financial period ended 31 March 2012. The additional notional interest savings and the increase in the number of ordinary shares arising from the abovementioned conversion of all ESOS and warrants, both of which would have a positive effect of reducing the loss per share for the current quarter and financial period ended 31 March 2012.