

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

**NOTES TO FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 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, 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 and financial period to date.

6. Material Change in Estimates

There were no changes in estimates that had a material effect in the results of the current quarter and financial period to date.

7. Issuance and Repayment of Debt and Equity Securities

During the first half of the current financial year, a total of 807,500 employee share options (“ESOS”) had been converted into 807,500 new ordinary shares of RM0.20 par value each in HWGB and a total proceeds of RM161,500 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 first 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 period to date.

8. Dividends Paid

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

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 financial period ended 30 June 2012 are given as follows: -

	Segment Revenue RM'000	Profit/(Loss) Before Tax RM'000
Investments	311	(2,473)
Manufacturing	76,343	(3,366)
Mining	5,440	(1,544)
Trading	23,746	304
	<u>105,840</u>	<u>(7,079)</u>
Share in results of associates		<u>(11)</u>
		<u>(7,090)</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

On 18 June 2012, a new company called HWG Consortium Sdn Bhd ("HWG Consortium") was incorporated with an initial paid up capital of RM2 divided equally into two ordinary shares of RM1 each at par value.

Subsequently on 26 June 2012, its paid up capital was increased from RM2 to RM100,000 via issuance of 99,998 new ordinary shares of RM1 each of which 50,999 new ordinary shares of RM1 each were subscribed by HWGB.

As a result of the above shares issuance exercise, HWGB now holds 51% equity stake in HWG Consortium and the remaining 49% being held by bumiputra investors. This effectively made HWG Consortium a subsidiary of the HWGB Group.

Other than the above, there were no changes in the composition of the Group for the current quarter and financial period to date.

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 and financial period to date.

15. Capital Commitments

The tin mining division of HWGB had capital commitments amounting to RM2.38 million which was not provided for in the financial statements as at 30 June 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 second quarter and current financial period to date

For the first half of the current financial year, the Group recorded revenue of RM105.84 million and loss before taxation of RM7.09 million as compared to its preceding year's corresponding period revenue of RM120.84 million and profit before taxation of RM2.04 million.

Included in the preceding year's corresponding period profit before taxation of RM2.04 million was a gain of RM12.20 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 29.53% as of 1 January 2011 to 21.18% on 19 April 2011.

The Group's manufacturing division recorded operating revenue of RM76.34 million and loss before taxation of RM3.37 million for the current financial period ended 30 June 2012 as compared to its preceding year's corresponding period operating revenue of RM90.90 million and loss before taxation of RM152,000.

The weak consumer spending in the US due to high unemployment rates and a sluggish housing market had resulted in our manufacturing division recording a decline of 16% in operating revenue. This coupled with the deterioration in margin, high trade financing costs and inflationary cost pressure further affected our bottom line and as a result, the manufacturing division recorded a higher loss for the current financial period ended 30 June 2012.

The Group's trading division posted operating revenue of RM23.75 million and profit before taxation of RM304,000 for the current financial period ended 30 June 2012 as compared to its preceding year's corresponding period operating revenue of RM28.81 million and profit before taxation of RM878,000.

Though our domestic economy continued with its growth performance, the property market began to soften due to our Central Bank's stricter guidelines on lending. Therefore, a decrease of 18% in operating revenue was recorded during the first half of the current financial year 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 30 June 2012.

The Group's tin mining division recorded an operating revenue of RM5.44 million and loss before taxation of RM1.54 million for the current financial period ended 30 June 2012 as compared to its preceding year's corresponding period operating revenue of RM0.80 million and loss before taxation of RM3.79 million.

A total output of 152 metric tons of tin concentrates had been produced during the current financial period ended 30 June 2012 as compared to its preceding year's corresponding period output of 19 metric tons of tin concentrates.

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

The tin mining division is continuing its exploration activities and top soil removal to reach the higher grade of tin ore deposits underground in order to increase its tin output and also production efficiencies.

At Company level, the Company recorded a loss before taxation of RM2.46 million for the current financial period ended 30 June 2012 as compared to a loss of RM2.71 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 30 June 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 current quarter under review were RM56.58 million and RM3.10 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM49.26 million and RM3.98 million respectively.

The increase in the Group's operating revenue was due to seasonal sales of our manufacturing division which would normally show a gradual uptrend during the second quarter of the financial year and this increase had resulted in a lower loss before taxation for the current quarter.

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 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 projects, 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 be able to improve its performance and generate an additional and sustainable source of revenue and income to the HWGB Group.

Meanwhile, the Group will continue to explore viable, synergistic and profitable business ventures to improve the Group's performance which include the recent venture via HWG Consortium into the business of green technologies such as energy efficient Light Emitting Diodes ("LED") lights and low carbon energy efficient refrigeration technology also known as Hi-Freeze OFR technology.

4. Profit Forecast or Profit Guarantee

There is no profit forecast or profit guarantee for the current quarter and financial period to date.

5. Taxation

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

	Individual Quarter		Cumulative Quarters	
	30/06/2012	30/06/2011	30/06/2012	30/06/2011
	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/>
Total	<hr/>	<hr/>	<hr/>	<hr/>

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 30 June 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	15,415

7. Investments in Associates

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

Investments in Associates as at 30 June 2012 are as follows:

	RM'000
(i) At cost	2,400
(ii) At carrying amount	1,044

8. Group Borrowings and Debt Securities

	As At 30/06/2012 RM'000	As At 31/12/2011 RM'000
(i) Short Term Borrowings		
Secured		
- Bank overdraft	1,036	1,445
- Bankers' acceptances	49,930	55,947
- Finance lease liabilities	62	61
- Term loans	7,716	7,425
Unsecured		
- Bank overdrafts	-	-
	58,744	64,878
(ii) Long Term Borrowings		
Secured		
- Finance lease liabilities	213	259
- Term loans	4,574	8,668
	4,787	8,927

Breakdown of borrowings in foreign denominated debts included above is:

	USD'000	USD'000
(iii) Secured		
- Bills payable	15,655	17,610
- Short term loan	1,667	1,666
- Long term loan	833	1,667
	18,155	20,943

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

The proposed and actual utilization (as of 23 August 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 23 Aug 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
TOTAL	10,663	10,663	Nil	

The proposed and actual utilization (as of 23 August 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 23 Aug 2012		Estimated timeframe for utilization of proceeds
		Actual Utilization RM'000	Balance RM'000	
Repayment of Bank Loans	4,200	4,200	Nil	Within six (6) months from listing and quotation of PS
Working Capital	13,485	11,485	2,000	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
TOTAL	17,785	15,785	2,000	

10. Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risk as at 23 August 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 23 August 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 30 June 2012.

14. (Loss)/Profit per share

Basic

	Individual Quarter		Cumulative Quarters	
	30/06/2012	30/06/2011	30/06/2012	30/06/2011
(Loss)/Profit attributable to shareholders (RM'000)	(2,211)	6,246	(6,333)	3,895
Weighted average number of ordinary shares ('000) – basic	541,856	463,098	521,407	461,636
Basic (sen)	(0.408)	1.349	(1.215)	0.844

Diluted

	Individual Quarter		Cumulative Quarters	
	30/06/2012	30/06/2011	30/06/2012	30/06/2011
(Loss)/Profit attributable to shareholders (RM'000)	(2,211)	6,246	(6,333)	3,895
<u>Add</u>				
Notional interest savings due to repayment of bank borrowings (RM'000)	605	605	1,210	1,210
Adjusted (Loss)/Profit attributable to shareholders (RM'000)	(1,606)	6,851	(5,123)	5,105
Weighted average number of ordinary shares ('000) – basic	541,856	463,098	521,407	461,636
<u>Add</u>				
Assuming conversion of ESOS and Warrants ('000)	160,354	145,126	160,354	145,126
Weighted average number of ordinary shares ('000) – diluted	702,210	608,224	681,761	606,762
Diluted (sen)	N/A	1.126	N/A	0.841

14. (Loss)/Profit 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 30 June 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 30 June 2012.

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