

HO WAH GENTING BERHAD (“HWGB”)

**Company No: 272923-H
(Incorporated In Malaysia)**

**NOTES TO FINANCIAL REPORT
FOR THE FIRST QUARTER ENDED 31 MARCH 2013**

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 2012.

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 2012.

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 2012.

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.

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 197,300 employee share options (“ESOS”) had been converted into 197,300 new ordinary shares of RM0.20 par value each in HWGB and a total proceeds of RM39,460 had been raised.

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 2 April 2013, the Company had announced to BMSB that it proposed to implement a private placement of up to 53,728,400 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 indicative price of the Placement Shares is at RM0.21 per Placement Share and the gross proceeds is approximately RM11,282,964.

The proposed private placement is subject to the approvals being obtained from the following:-

- (a) BMSB, for the listing of and quotation for the Placement Shares to be issued pursuant to the proposed private placement on the Main Market of BMSB; and
- (b) Any other relevant persons or authorities, if required.

The listing application for the Placement Shares had been submitted to BMSB on 29 April 2013 and the Company is targeting to complete the private placement by end of the second quarter of the current financial year.

10. Segmental Reporting

Analysis of the Group’s segment revenue and segment result for business segments for the current quarter ended 31 March 2013 are given as follows: -

	Segment Revenue RM’000	Profit/(Loss) Before Tax RM’000
Investments	170	(1,293)
Manufacturing	44,787	(2,492)
Mining	495	(1,197)
Trading	2,826	(65)
	48,278	(5,047)
Share in results of associates		(5)
		(5,052)

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 the Group had capital commitments amounting to RM1.6 million which was not provided for in the financial statements as at 31 March 2013.

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 RM48.28 million and loss before taxation of RM5.05 million as compared to its preceding year's corresponding period revenue of RM49.26 million and loss before taxation of RM3.98 million.

The Group's manufacturing division recorded operating revenue of RM44.79 million and loss before taxation of RM2.49 million for the current financial period ended 31 March 2013 as compared to its preceding year's corresponding period operating revenue of RM33.10 million and loss before taxation of RM3.01 million.

The increase of 35% in operating revenue had resulted in a lower loss position for the Group's manufacturing division.

However, the lackluster consumer spending in the US due to a decline in household income and high unemployment rates, a slow pace recovery in the US housing market, deterioration in margin and inflationary cost pressure had continued to affect our manufacturing division which recorded a loss for the current financial period ended 31 March 2013.

The Group's trading division posted operating revenue of RM2.83 million and loss before taxation of RM65,000 for the current financial period ended 31 March 2013 as compared to its preceding year's corresponding period operating revenue of RM12.33 million and profit before taxation of RM205,000.

The decrease of 77% in operating revenue in the trading division as compared to the preceding year's corresponding period operating revenue was due to reduced orders from the existing sole distributor. The trading division had since changed its marketing and selling strategy by selling directly to the wholesalers.

The Group's tin mining division recorded an operating revenue of RM0.50 million and loss before taxation of RM1.20 million for the current financial period ended 31 March 2013 as compared to its preceding year's corresponding period operating revenue of RM3.68 million and profit before taxation of RM277,000.

A total of 28 metric tons of tin concentrates had been produced during the current financial period ended 31 March 2013 as compared to its preceding year's corresponding period output of 91 metric tons of tin concentrates.

During the current quarter, the tin mining division focused on its exploration activities and removal of top soil to reach the higher grade of tin ore deposits underground in order to increase its tin output.

At Company level, the Company recorded a loss before taxation of RM1.22 million for the current financial period ended 31 March 2013 as compared to a loss of RM1.41 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 2013 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 RM48.28 million and RM5.05 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM57.27 million and RM22.56 million respectively.

The decline in the Group's operating revenue was due to the nature of seasonal sales of our manufacturing division which would normally show a gradual downtrend in the fourth quarter of the preceding financial year and first quarter of the current financial year after reaching its peak during the third quarter of the preceding financial year.

The higher loss before taxation for the preceding quarter was due to inclusion of impairment charge for investment in quoted securities/other financial assets which amounted to RM21.16 million.

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 copper and PVC resins and inflationary cost pressure.

The increase in payroll tax and higher tax rates on wealthy Americans and the possibility of reduction in public expenditures may add further uncertainty to the economic recovery in US which accounts for a majority of the Group's revenue.

The economic contraction in the euro zone countries with its potential spillover effects on the global economy is another risk concern for the Group.

Going forward and to improve performance, the Group would continue to focus on production efficiencies by implementing tighter cost control measures and also development of new products and penetration of new markets particularly in Asia which have higher growth rates as compared to the US.

The outlook for domestic demand 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 (including construction of affordable homes) and the Economic Transformation Program ("ETP") would help to sustain the momentum of our local economy and boost our domestic market moving forward.

Barring any unforeseen circumstances, the Group is targeting to achieve a better operating and financial performance for the financial year ending 31 December 2013.

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

4. Profit Forecast or Profit Guarantee

The Group did not issue any 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 Quarter	
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
	RM'000	RM'000	RM'000	RM'000
I Current tax expense				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
II Over/(under) provision in prior year				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
III Deferred tax expense				
- Malaysian	-	-	-	-
- Overseas	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-

6. Purchase or Disposal of Quoted Securities/Other Financial Assets

There was no purchase or disposal of quoted securities/other financial assets for the current quarter.

Investments in quoted securities as at 31 March 2013 are as follows:

	RM'000
(i) Shares quoted in Malaysia at cost	1,332
(ii) Shares quoted in Hong Kong at cost	17,050
(iii) Market value of quoted equity shares	17,913

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 2013 are as follows:

	RM'000
(i) At cost	2,400
(ii) At carrying amount	1,035

8. Group Borrowings and Debt Securities

	As At 31/03/2013 RM'000	As At 31/12/2012 RM'000
(i) Short Term Borrowings		
Secured		
- Bank overdraft	693	622
- Bankers' acceptances	65,177	61,347
- Finance lease liabilities	62	63
- Term loans	5,818	7,767
Unsecured		
- Bank overdrafts	-	-
	71,750	69,799
(ii) Long Term Borrowings		
Secured		
- Finance lease liabilities	166	180
- Term loans	-	-
	166	180

Breakdown of borrowings in foreign denominated debts included above is:

	USD'000	USD'000
(iii) Secured		
- Bills payable	21,069	20,106
- Short term loan	1,250	1,667
- Long term loan	-	-
	22,319	21,773

9. Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risk as at 21 May 2013, being the latest practical date that shall not be earlier than 7 days from the date of issue of this quarterly report.

10. 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 2012.

11. Material Litigation

There is no material litigation for the Group as at 21 May 2013, being the latest practicable date that shall not be earlier than 7 days from the date of issue of this quarterly report.

12. Dividends

No dividend has been declared for the current quarter and financial period ended 31 March 2013.

13. Loss per share

Basic

	Individual Quarter		Cumulative Quarter	
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
Loss attributable to shareholders (RM'000)	(4,432)	(4,120)	(4,432)	(4,120)
Weighted average number of ordinary shares ('000) – basic	537,252	499,492	537,252	499,492
Basic (sen)	<u>(0.82)</u>	<u>(0.82)</u>	<u>(0.82)</u>	<u>(0.82)</u>

Diluted

	Individual Quarter		Cumulative Quarter	
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
Loss attributable to shareholders (RM'000)	(4,432)	(4,120)	(4,432)	(4,120)
<u>Add</u>				
Notional interest savings due to repayment of bank borrowings (RM'000)	622	640	622	640
Adjusted Loss attributable to shareholders (RM'000)	<u>(3,810)</u>	<u>(3,480)</u>	<u>(3,810)</u>	<u>(3,480)</u>
Weighted average number of ordinary shares ('000) – basic	537,252	499,492	537,252	499,492
<u>Add</u>				
Assuming conversion of ESOS and Warrants ('000)	160,052	160,496	160,052	160,496
Weighted average number of ordinary shares ('000) – diluted	<u>697,304</u>	<u>659,988</u>	<u>697,304</u>	<u>659,988</u>
Diluted (sen)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

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 2013. 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 2013.