

HO WAH GENTING BERHAD (“HWGB”)

Company No: 272923-H
(Incorporated In Malaysia)

**NOTES TO FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2013**

PART A

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 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 significant 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 except for the adoption of the following standards which are applicable to its financial statements effective from 1 January 2013:

MFRS 3	: Business Combinations
MFRS 10	: Consolidated Financial Statements
MFRS 11	: Joint Arrangements
MFRS 12	: Disclosure of Interest in Other Entities
MFRS 13	: Fair Value Measurement
MFRS 119	: Employee Benefits (Revised)
MFRS 127	: Consolidated and Separate Financial Statements (Revised)
MFRS 128	: Investments in Associates and Joint Ventures (Revised)
Amendments to MFRS 1	: First-time Adoption of MFRS – Government Loans
Amendments to MFRS 7	: Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10	: Consolidated Financial Statements: Transitional Guidance
Amendments to MFRS 11	: Joint Arrangements: Transitional Guidance
Amendments to MFRS 12	: Disclosure of Interest in Other Entities: Transitional Guidance
Amendments to MFRS 101	: Presentation of Items of Other Comprehensive Income
Annual Improvements to IC Interpretations and MFRSs 2009 to 2011 Cycle	

The adoption of the above pronouncements did not have any impact on the financial statements of the Group, except for the following:

2. Significant Accounting Policies (Continued)

Amendment to MFRS 101 Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 *Presentation of Items of Other Comprehensive Income* change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net gains or losses on AFS financial assets) would be presented separately from items that will never be classified (for example, actuarial gains and losses on defined benefit plans).

The adoption of this amendment affects presentation only and has no financial impact on the Group's financial statements.

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 financial year to date, 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 the Company and total proceeds of RM39,460 was raised.

7. Issuance and Repayment of Debt and Equity Securities (Continued)

During the current quarter, the Company had issued 53,728,400 new ordinary shares of RM0.20 each at issue price of RM0.255 each pursuant to the private placement exercise and total proceeds of RM13,700,742 was 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 the Company (“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 RM0.255 per Placement Share by the Board on 31 May 2013, upon receipt of approval from BMSB for listing and quotation of the Placement Shares vide its letter dated 27 May 2013.

The private placement exercise was completed on 12 June 2013 with the Placement Shares listed on the Main Market of BMSB. Total proceeds raised from the private placement amounted to RM13,700,742.

10. Segmental Reporting

Analysis of the Group’s segment revenue and segment result for business segments for the current quarter ended 30 June 2013 are given as follows:

	Segment Revenue RM’000	Profit/(Loss) Before Tax RM’000
Investments	336	(3,173)
Manufacturing	106,694	(3,099)
Mining	1,103	(1,659)
Trading	9,311	21
	117,444	(7,910)
Share in results of associates		(7)
		(7,917)

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 RM155,000 which was not provided for in the financial statements as at 30 June 2013.

Other than the aforesaid, there were no material capital commitments for the Company and the Group at the end of the current quarter.

PART B

ADDITIONAL INFORMATION REQUIRED BY 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 RM117.44 million and loss before taxation of RM7.92 million as compared to its preceding year's corresponding period revenue of RM105.84 million and loss before taxation of RM7.09 million.

The Group's manufacturing division recorded operating revenue of RM106.69 million and loss before taxation of RM3.10 million for the current financial period ended 30 June 2013 as compared to its preceding year's corresponding period operating revenue of RM76.34 million and loss before taxation of RM3.37 million.

The increase of 40% in operating revenue had resulted in a lower loss incurred for the Group's manufacturing division.

However, the weak 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 30 June 2013.

The Group's trading division posted operating revenue of RM9.31 million and a profit before taxation of RM21,000 for the current financial period ended 30 June 2013 as compared to its preceding year's corresponding period operating revenue of RM23.75 million and profit before taxation of RM304,000.

The decrease of 61% 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 distributor. The trading division had begun to sell directly to wholesalers in order to increase revenue.

The Group's tin mining division recorded an operating revenue of RM1.10 million and loss before taxation of RM1.66 million for the current financial period ended 30 June 2013 as compared to its preceding year's corresponding period operating revenue of RM5.44 million and loss before taxation of RM1.54 million.

A total of 48 metric tons of tin concentrates had been produced during the current financial period ended 30 June 2013 as compared to its preceding year's corresponding period output of 152 metric tons of tin concentrates.

During the current quarter, the tin mining division continued to focus on its exploration activities.

At Company level, the Company recorded a loss before taxation of RM3.00 million for the current financial period ended 30 June 2013 as compared to a loss of RM2.46 million in the preceding year's corresponding period. The increased in loss is mainly due to the expenses incurred for the private placement.

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

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 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 RM69.17 million and RM2.87 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM56.58 million and RM3.98 million respectively.

The increase in the Group's operating revenue and decrease in loss before taxation were due to seasonal sales at our manufacturing division which would normally show a gradual uptrend during the second quarter of the financial year and would be reaching its peak during the third quarter of the financial year.

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 US economy is still at its early stage of recovery, any action taken by the United States Federal Reserve under the "Quantitative Easing 3" to scale down its monthly bond purchase may affect 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.

3. Commentary on Prospects (Continued)

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	
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
	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/>	<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 30 June 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	15,306

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 2013 are as follows:

	RM'000
i. At cost	2,400
ii. At carrying amount	1,033

8. Group Borrowings and Debt Securities

	As At 30/06/2013 RM'000	As At 31/12/2012 RM'000
i. Short Term Borrowings		
Secured		
- Bank overdraft	-	622
- Bankers' acceptances	67,670	61,347
- Hire purchase and finance lease liabilities	62	63
- Term loans	2,637	7,767
Unsecured		
- Bank overdrafts	-	-
	70,369	69,799
ii. Long Term Borrowings		
Secured		
- Hire purchase and finance lease liabilities	150	180
- Term loans	-	-
	150	180

Breakdown of borrowings in foreign denominated debts included above is:

	USD'000	USD'000
iii. Secured		
- Bills payable	21,384	20,106
- Short term loan	833	1,667
- Long term loan	-	-
	22,217	21,773

9. Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risk as at 13 August 2013, being the latest practical date.

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 13 August 2013, being the latest practicable date.

12. Dividends

No dividend has been declared for the current quarter and financial period ended 30 June 2013.

13. Status of Utilization of Proceeds Raised from Private Placement

The proposed and actual utilization of RM13,700,742 proceeds raised from the private placement of 53,728,400 new ordinary shares of RM0.20 each (“Placement Shares”) at an issue price of RM0.255 each, which was completed on 12 June 2013 are as follows:

Purpose	Proposed utilization RM'000	Actual utilization as at 13 August 2013 RM'000	Balance RM'000	Estimated timeframe for utilization from listing of Placement Shares
Repayment of bank borrowing	2,450	2,550	(100)	Within 6 months
Financing further tin mining exploration works	4,000	1,000	3,000	Within 6 months
Group's working capital	6,951	5,275	1,676	Within 6 months
Estimated expenses on the private placement	300	530	(230)	Within 1 month
TOTAL	13,701	9,355	4,346	

14. Quarterly Updates on Tin Mining Activities

The tin mining activities are still at the exploratory phase which includes opening new areas or deeper excavation, moving of overburden, earthworks and drilling works to ascertain tin veins.

During the current quarter, the Company had engaged an external exploration consultancy company to carry out resource estimation works entailing among others, evaluation of historical data, geological evaluation, geological mapping, geophysical survey, review of all existing drill data, design drill and exploration plan, field and surface sampling, laboratory chemical analysis, culminating in a resource estimation report.

These activities are still ongoing as at 13 August 2013, being the latest practicable date.

15. Loss per share

Basic

	Individual Quarter		Cumulative Quarter	
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
Loss attributable to shareholders (RM'000)	(2,596)	(2,211)	(7,028)	(6,333)
Weighted average number of ordinary shares ('000) – basic	543,405	541,856	543,405	521,407
Basic (sen)	(0.478)	(0.408)	(1.293)	(1.215)

Diluted

	Individual Quarter		Cumulative Quarter	
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
Loss attributable to shareholders (RM'000)	(2,596)	(2,211)	(7,028)	(6,333)
<u>Add</u>				
Notional interest savings due to repayment of bank borrowings (RM'000)	622	605	1,244	1,210
Adjusted Loss attributable to shareholders (RM'000)	(1,974)	(1,606)	(5,784)	(5,123)
Weighted average number of ordinary shares ('000) – basic	543,405	541,856	543,405	521,407
<u>Add</u>				
Assuming conversion of ESOS and Warrants ('000)	159,850	160,354	159,850	160,354
Weighted average number of ordinary shares ('000) – diluted	703,255	702,210	703,255	681,761
Diluted (sen)	N/A	N/A	N/A	N/A

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 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 30 June 2013.

By Order of the Board

Coral Hong Kim Heong (MAICSA 7019696)
Company Secretary
Date: 20 August 2013