

HO WAH GENTING BERHAD (“HWGB”)

Company No: 272923-H
(Incorporated In Malaysia)

**NOTES TO FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 financial year to date, 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

There was no corporate proposal announced during the current quarter.

10. Segmental Reporting

Analysis of the Group's segment revenue and segment result for business segments for the current financial period ended 30 September 2013 are given as follows:

	Segment Revenue RM'000	Profit/(Loss) Before Tax RM'000
Investments	504	(4,643)
Manufacturing	168,060	(3,762)
Mining	1,103	(2,468)
Trading	13,710	60
	183,377	(10,813)
Share in results of associates		(20)
		(10,833)

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 3 September 2013, HWGB acquired the entire issued and paid-up capital of RM2.00 divided into 2 ordinary shares of RM1.00 each in Skyflower Sdn. Bhd. (“Skyflower”) and upon acquisition Skyflower had become a wholly-owned subsidiary of the Company. Skyflower has an authorized share capital of RM400,000 comprising 400,000 ordinary shares of RM1.00 each. It has not commenced business since the date of acquisition.

On 6 September 2013, HWGB incorporated a new subsidiary, Marvel Theme Park City Sdn. Bhd. (“MTPC”) with an initial paid-up capital of RM2.00 divided into 2 ordinary shares of RM1.00 each at par value. MTPC has an authorized share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each. MTPC has not commenced business since the date of incorporation.

On 2 October 2013, HWGB entered into a Shares Sale and Purchase Agreement with Mr. Quek Wang and Mr. Liew Jenn Lim (“ROSB Vendors”) to acquire from the ROSB Vendors the entire issued and paid-up capital of 400,000 ordinary shares of RM1.00 each in Rex Oriental Sdn. Bhd. (“ROSB”) for cash consideration of RM3,000,000 (“ROSB Acquisition”). ROSB has a 70% owned subsidiary, Orient Sun Motors Sdn. Bhd. (“OSM”), involved in trading of automotive and automotive spare parts.

The ROSB Acquisition was completed on 8 November 2013, thereafter, ROSB and OSM had become subsidiaries of HWGB.

On 15 November 2013, HWGB entered into a Shares Sale and Purchase Agreement (“Agreement”) with Actvanguard Sdn Bhd, Mr. Wong Chong Weng and Mr. Poon Mun Cheong (collectively referred to as “Vitaxel Vendors”) to acquire from the Vitaxel Vendors the entire issued and paid-up capital of 1,500,000 ordinary shares of RM1.00 each in Vitaxel Sdn Bhd (“Vitaxel”) for a cash consideration of RM120,000 (“Proposed Vitaxel Acquisition”). The Proposed Vitaxel Acquisition is expected to be completed within one month from the date of the Agreement or such other date to be mutually agreed by both the Company and the Vitaxel Vendors. The principal activity of Vitaxel is selling of energy food and beverages. It has yet to commence business. Vitaxel has a valid direct sale license from the Controller of Direct Sales of Ministry of Domestic Trade, Co-operative and Consumerism.

Other than the above, 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 at the end of the current quarter.

15. Capital Commitments

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 third quarter and current financial period to date

In the current financial period to date, the Group recorded revenue of RM183.38 million and loss before taxation of RM10.83 million as compared to its preceding year's corresponding period revenue of RM186.30 million and loss before taxation of RM11.24 million.

The Group's manufacturing division recorded operating revenue of RM168.06 million and loss before taxation of RM3.76 million for the current financial period ended 30 September 2013 as compared to its preceding year's corresponding period operating revenue of RM145.34 million and loss before taxation of RM3.21 million.

The improvement in the demand of housing market and higher employment rate in US had contributed higher operating revenue in our Group's manufacturing division. However the sharp increased in labour cost in Indonesia had resulted in higher production cost and higher loss incurred for the financial period ended 30 September 2013.

The Group's trading division posted operating revenue of RM13.71 million and a profit before taxation of RM60,000 for the current financial period ended 30 September 2013 as compared to its preceding year's corresponding period operating revenue of RM34.16 million and profit before taxation of RM180,000.

The decrease in operating revenue in the trading division as compared to the preceding year's corresponding period was due to reduced orders from the distributor. The trading division had begun selling directly to wholesalers to increase the revenue.

The Group's tin mining division recorded an operating revenue of RM1.10 million and loss before taxation of RM2.47 million for the current financial period ended 30 September 2013 as compared to its preceding year's corresponding period operating revenue of RM6.33 million and loss before taxation of RM4.37 million.

A total of 53 metric tons of tin concentrates had been produced during the current financial period ended 30 September 2013 as compared to its preceding year's corresponding period output of 184 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 RM4.35 million for the current financial period ended 30 September 2013 as compared to a loss of RM3.66 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 September 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 RM65.93 million and RM2.92 million respectively as compared to the preceding quarter's operating revenue and loss before taxation of RM69.17 million and RM2.87 million respectively.

The decrease in the Group's operating revenue was due to lower sales recorded by the trading division whilst the increase in loss before taxation was due to higher losses recorded in 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 and the rising labour cost in Indonesia.

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.

Going forward and to improve performance, the Group would continue to focus on production efficiencies by implementing in stages semi automated production cycles and replacement of old machineries to reduce cost of production. The Group will also develop new products and penetrate new markets particularly in Asia which have higher growth rates as compared to the US to increase revenue.

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 local economy and boost domestic market moving forward.

Due to the rising cost of production in Indonesia and the slow economic recovery in US, the Group will continue to tighten its cost control measures to contain the losses 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	
	30/09/2013	30/09/2012	30/09/2013	30/09/2012
	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 September 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	16,310

7. Investments in Associates

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

7. Investments in Associates (continued)

Investments in Associates as at 30 September 2013 are as follows:

	RM'000
i. At cost	2,400
ii. At carrying amount	1,020

8. Group Borrowings and Debt Securities

	As At 30/09/2013 RM'000	As At 31/12/2012 RM'000
i. Short Term Borrowings		
Secured		
- Bank overdraft	2,716	622
- Bankers' acceptances	68,269	61,347
- Hire purchase and finance lease liabilities	62	63
- Term loans	1,351	7,767
Unsecured		
- Bank overdrafts	-	-
	72,398	69,799
ii. Long Term Borrowings		
Secured		
- Hire purchase and finance lease liabilities	134	180
- Term loans	-	-
	134	180

Breakdown of borrowings in foreign denominated debts included above is:

	USD'000	USD'000
iii. Secured		
- Bills payable	21,061	20,106
- Short term loan	417	1,667
- Long term loan	-	-
	21,478	21,773

9. Off Balance Sheet Financial Instruments

The Group did not have any financial instruments with off balance sheet risk as at 19 November 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 19 November 2013, being the latest practicable date.

12. Dividends

No dividend has been declared for the current quarter and financial period ended 30 September 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 19 November 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	1,166	2,834	Within 6 months
Group's working capital	6,951	6,318	633	Within 6 months
Estimated expenses on the private placement	300	530	(230)	Within 1 month
TOTAL	13,701	10,564	3,137	

14. Quarterly Updates on Tin Mining Activities

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

On 10 June 2013, HWG Tin Mining Sdn Bhd (“HWG Tin Mining”) 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.

14. Quarterly Updates on Tin Mining Activities (continued)

The fieldwork was completed on 27 July 2013 and a copy of the geological and geophysical report dated 16 August 2013 was issued. The report indicated a rough resource estimation of tin deposits and iron deposits of approximately 44,000 metric tons and 29,250,000 metric tons respectively. The report also recommended HWG Tin Mining to undertake a deep drilling plan to determine the essential features such as the possibility of the ore body continuance, origin and type of the deposit and economic feasibility.

HWG Tin Mining has yet to engage the drilling contractor to do the drilling works as at the latest practicable date of this report.

15. Loss per share

Basic

	Individual Quarter		Cumulative Quarter	
	30/09/2013	30/09/2012	30/09/2013	30/09/2012
Loss attributable to shareholders (RM'000)	(2 468)	(2,696)	(9,496)	(9,029)
Weighted average number of ordinary shares ('000) – basic	559,515	542,155	559,515	527,820
Basic (sen)	(0.44)	(0.50)	(1.70)	(1.71)

Diluted

	Individual Quarter		Cumulative Quarter	
	30/09/2013	30/09/2012	30/09/2013	30/09/2012
Loss attributable to shareholders (RM'000)	(2,468)	(2,696)	(9,496)	(9,029)
<u>Add</u>				
Notional interest savings due to repayment of bank borrowings (RM'000)	622	608	1,866	1,824
Adjusted Loss attributable to shareholders (RM'000)	(1,846)	(2,088)	(7,630)	(7,205)
Weighted average number of ordinary shares ('000) – basic	559,515	542,155	559,515	527,820
<u>Add</u>				
Assuming conversion of ESOS and Warrants ('000)	159,850	160,032	159,850	160,032
Weighted average number of ordinary shares ('000) – diluted	719,365	702,187	719,365	687,852
Diluted (sen)	N/A	N/A	N/A	N/A

15. 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 30 September 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 September 2013.

By Order of the Board

Coral Hong Kim Heong
(MAICSA 7019696)
Company Secretary

Date: 26 November 2013