HO WAH GENTING BERHAD ("HWGB" OR THE "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 34,241,766 NEW ORDINARY SHARES OF HWGB ("HWGB SHARE(S)" OR "SHARE(S)") REPRESENTING APPROXIMATELY TEN PERCENT (10%) OF THE TOTAL NUMBER OF ISSUED SHARES OF HWGB ("PROPOSED PRIVATE PLACEMENT")

(Unless otherwise defined, the abbreviations and definitions used in the Company's announcement dated 4 January 2019 ("**First Announcement**") shall apply herein)

We refer to the First Announcement in relation to the Proposed Private Placement.

On behalf of the Board, Kenanga IB wishes to provide the following additional information in relation to the Proposed Private Placement.

1. Commentary on the financial performance and financial position of HWGB Group

The table below sets out the financial information of the Group for the past three (3) years from financial year ended 31 December ("**FYE**") 2015 to FYE 2017 and for the 9-month financial period ended 30 September ("**FPE**") 2017 to FPE 2018:

	Audited			**Unaudited**	
	FYE			**FPE**	
	2015 RM'000	**2016 RM'000**	**2017 RM'000**	**2017 RM'000**	**2018 RM'000**
Revenue by divisions:					
- Investment	48	132	147	99	166
- Moulded Power Supply Cord Sets ("**MPSC**")	153,546	137,342	151,691	111,279	117,551
- Wires and Cables	11,934	2,052	145	77	99
- Tin Mining[(1)]	8,493	1,137	400	400	-
- Travelling Services	5,212	7,438	4,180	3,001	3,443
- Automotive[(2)]	123	-	-	-	-
- Direct Selling[(3)]	9,375	-	-	-	-
	188,731	**148,101**	**156,563**	**114,856**	**121,259**
Loss Before Tax	(20,264)	(19,539)	(22,860)	(3,397)	(2,188)
Taxation	119	111	3,128	-	(2,500)
Loss After Tax	(20,145)	(19,428)	(19,732)	(3,397)	(4,688)
Loss after tax Attributable to:					
- Owners of the Company	(16,252)	(13,617)	(10,816)	(2,931)	(4,327)
- Non-controlling interest	(3,893)	(5,811)	(8,916)	(466)	(361)
	(20,145)	**(19,428)**	**(19,732)**	**(3,397)**	**(4,688)**

Notes:

(1) The Group had disposed of its Tin Mining division pursuant to the disposal of its entire 51% equity holding in HWG Tin Mining Sdn Bhd on 6 December 2018. No revenue was recorded by the Tin Mining division for the FPE 2018 as the Group had temporary halted its mining activities due to low grade of tin ore.

(2) The Group had disposed of its Automotive division pursuant to the disposal of its entire 70% equity holding in Orient Sun Motors Sdn Bhd on 2 April 2015.

(3) The Group had disposed of its Direct Selling division pursuant to the disposal of its entire 100% equity holding in Vitaxel Sdn Bhd on 30 November 2015.

Commentaries:

(a) FYE 2015 vs. FYE 2016

Revenue of the HWGB Group decreased by RM40.63 million or 21.53% from RM188.73 million for the FYE 2015 to RM148.10 million for the FYE 2016. This was mainly due to lower revenue from the MPSC division, Wires and Cables division, and Tin Mining division as well as loss of revenue contribution from the Direct Selling division which was disposed of in FYE 2015. The lower revenue recorded from the MPSC division was due to lower value of copper rod price, intense competition from China-made products and constraint in working capital funding. For the Wires and Cables division, the Group recorded a lower revenue due to the lower demand for building and housing wire as there were fewer new real estate projects launched in FYE 2016 compared to FYE 2015 while the lower revenue recorded from the Tin Mining division was due to lower output of tin concentrates in FYE 2016 compared to FYE 2015.

The loss before tax ("**LBT**") of the Group had decreased by RM0.72 million or 3.55% from RM20.26 million in FYE 2015 to RM19.54 million in FYE 2016. The lower LBT was mainly due to positive impact from the implementation of the semi-automated production cycle and replacement of old machineries in stages in the MPSC division and deconsolidation of the loss-making Direct Selling division following its disposal.

In line with lower LBT, the Group also recorded a lower loss after tax ("**LAT**") of RM19.43 million for FYE 2016 as compared to RM20.15 million for the FYE 2015.

(b) FYE 2016 vs. FYE 2017

The Group recorded a higher revenue of RM156.56 million in FYE 2017 compared to RM148.10 million in FYE 2016 which represents an increase of RM8.46 million or 5.71%. This was attributable to the higher revenue from the MPSC division in FYE 2017 as a result of favourable currency conversion from Unites States Dollar ("**USD**") to Ringgit Malaysia and higher sales recorded in USD for the MPSC division in Indonesia.

The LBT of the Group increased by RM3.32 million or 16.99% from RM19.54 million in FYE 2016 to RM22.86 million in FYE 2017. The increase was mainly due to higher impairment loss provided on fixed assets of the Tin Mining division of RM16.69 million for the FYE 2017 as compared to RM9.53 million for the FYE 2016 due to the uncertainty with regard to the extension of the mining rights lease period for the Group's tin mining site in Perak which will expire in November 2020. However, the impact of the higher impairment loss was mitigated by the improved financial performance of the MPSC division which recorded a profit before tax of RM5.30 million in FYE 2017 as compared to a LBT of RM0.81 million in FYE 2016.

Notwithstanding a RM3.32 million increase in LBT, the Group's LAT only increased by RM0.30 million to RM19.73 million in FYE 2017 from RM19.43 million in FYE 2016 due to deferred taxation asset recognised for the MPSC division of RM2.95 million.

(c) FPE 2017 vs. FPE 2018

Revenue of HWGB Group increased by RM6.40 million or 5.57% from RM114.86 million in FPE 2017 to RM121.26 in FPE 2018 despite not recording any revenue for the Tin Mining division. The higher revenue was due to higher sales of the MPSC division in Indonesia which recorded an increase in sales of USD4.01 million. However, the MPSC division's revenue increased only by RM6.27 million or 5.63% from RM111.28 million in FPE 2017 to RM117.55 million in FPE 2018 due to the appreciation of RM against the USD.

The Group recorded a decrease in LBT of RM1.21 million or 35.59% from RM3.40 million in FPE 2017 to RM2.19 million in FPE 2018. The decrease in LBT was mainly due to higher profit before tax recorded by the MPSC division and lower LBT recorded by the Wires and Cables division.

Despite a lower LBT, the Group's LAT increased by RM1.29 million or 37.94% from RM3.40 million in FPE 2017 to RM4.69 million in FPE 2018 due to current period provision for taxation of RM1.58 million and under provision of taxation for prior years of RM0.92 million.

2. Details of all fund raising exercise undertaken by the Company for the past three (3) years

Fund raising exercises undertaken by the Company in the past three (3) years and details of the utilisation of proceeds raised are as follows:-

Proposal / Completion date / Proceeds raised	Utilisation of proceeds		Balance of proceeds unutilised RM'000
	Details	RM'000	
Rights issue of 306,169,423 Shares at RM0.08 per Share / 22 March 2016 / RM24.49 million	• Repayment of borrowings	7,398	-
	• Payment of trade creditors (MPSC division)	14,519	-
	• Working capital (Tin Mining division)	1,776	-
	• Corporate exercise expenses	800	-
		24,493	**-**
Private placement of 90,731,400 Shares at RM0.055 per Share / 6 December 2016 / RM4.99 million	• Working capital (MPSC division)	4,000	-
	• Working capital (HWGB Group)	758	-
	• Corporate exercise expenses	232	-
		4,990	**-**
Private placement of 74,910,400 Shares at RM0.18 per Share / 29 March 2018 / RM13.48 million	• Equity capital and shareholder's advances into Dufry HWG Shopping Sdn Bhd	7,030	1,970
	• Working capital (MPSC division)	2,564	400
	• Working capital (Tin Mining division)	900	-
	• Corporate exercise expenses	620	-
		11,114	**2,370**

3. Impact of the Proposed Private Placement and value creation to the Group and its shareholders

As set out in Section 2.6 of the First Announcement, the Proposed Private Placement is intended to raise funds for, amongst others, the working capital of HWGB and repayment of bank borrowings of the Wires and Cables division.

As illustrated in Section 1 above, the financial performance of the Wires and Cables division has been in a downward trend since FYE 2016 mainly due to tough competition from local manufacturers which are able to offer better overall terms of sales. In view that the local property market has been slow in recent years, the financial performance of the Wires and Cables division is not expected to improve significantly in the near term.

In this regard, the Proposed Private Placement provides an opportunity to the Group to raise funds for part settlement of the HWGT Term Loan, which will alleviate the division's cash flow constraint pending improvement of its financial performance. The said repayment of the HWGT Term Loan will also result in interest savings of approximately RM0.10 million per annum to the Wires and Cables division, which will in turn enhance its financial performance. In addition, as illustrated in Section 4.3 of the First Announcement, the Proposed Private Placement is expected to improve the Group's gearing level from 0.31 times as at the LPD to 0.26 times after the Proposed Private Placement under the Minimum Scenario.

Part of the proceeds from the Proposed Private Placement will also be allocated for HWGB's working capital requirements which include payment of staff salaries, EPF contributions, office administrative expenses and utilities expenses, as well as loan interest servicing. As such, the management of HWGB views that the Proposed Private Placement will also ease HWGB's overall cash flow burden and provide flexibility to the Company in addressing its short-term working capital needs.

In addition, the Proposed Private Placement will also enable the Group to raise funds expeditiously without incurring additional interest costs as compared to other means of funding such as bank borrowing. Given current market conditions, the management of HWGB also considers the success of the Proposed Private Placement to be more certain as compared to other larger scale equity fund raising exercises such as a rights issue, hence higher certainty that the Group will raise funds for the intended purposes.

As illustrated in Section 4 of the First Announcement, the Proposed Private Placement is expected to enlarge the issued share capital of the Group and in turn increase its shareholder's equity and enhance its overall financial position. Nevertheless, the increase in the total number of issued Shares arising from the Proposed Private Placement will have a dilutive impact on the shareholdings of the Company's existing shareholders. It may also dilute the EPS of the Group if the earnings of the Group does not increase in line with the increased number of HWGB Shares to be issued pursuant to the Proposed Private Placement.

4. The adequacy of the Proposed Private Placement in addressing the Group's financial concerns

The purpose of the Proposed Private Placement is not to fully address the Group's current financial concerns as the estimated proceeds of approximately RM3.00 million to be raised from the Proposed Private Placement is not sufficient to cater for the financial requirements of all business divisions of the Group. However, after due consideration and deliberation, the Company had concluded to proceed with the Proposed Private Placement as an interim measure to address HWGB's immediate short term working capital requirements and the Wires and Cables division's cash flow burden in servicing the HWGT Term Loan.

The Proposed Private Placement will strengthen the financial position of the Group as the proceeds will be partly utilised to repay the HWGT Term Loan, which will reduce the overall gearing level and interest commitment of the Group. This allows the Group to have more flexibility over its cash flows without further incurring interest cost.

The Board is of the view that the Proposed Private Placement is the most appropriate avenue of fund raising at this juncture to address the Group's short term financing needs and it will continue to explore and evaluate other suitable funding proposals for the Group's long term financial requirements.

This announcement is dated 16 January 2019.