

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)**  
**INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006**

**A. NOTES TO INTERIM FINANCIAL REPORT**

**1 BASIS OF PREPARATION**

The Interim financial report has been prepared in accordance with FRS 134: Interim Financial Reporting and Chapter 9 Part K paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The condensed interim financial statements should be read in conjunction with the audited financial statements of the group for the year ended 31 December 2005. These explanatory notes attached to the condensed interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2005

**2 CHANGES IN ACCOUNTING POLICIES**

The accounting policies and methods of computation used in the interim financial statements are the same with those in the audited annual financial statements of the Group for the year ended 31 December 2005 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the new/revised FRSs does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the new/revised FRSs are discussed below:

**(a) FRS 2: Share-based Payment**

This FRS 2 requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)**  
**INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006**

The Company operates an equity-settled, share based compensation plan for the employees of the Group, the Hwa Tai Industries Berhad Employee Share Options Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised in income statement for share option granted. With the adoption of FRS 2, the compensation expenses relating to share options is recognised in income statement over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using a binomial model. At every balance sheet date, the Group revised its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in income statement and a corresponding adjustment to equity over the remaining period.

Under the transitional provisions of FRS 2, for ESOS granted after 1 January 2005 but before 31 December 2005 and had vested before 1 January 2006, this FRS need not be applied in full except for certain disclosure requirements. This change in accounting policy is applied prospectively and the comparatives as at 31 December 2005 are not restated. The changes have not been accounted for due to insignificant financial impact on the Group.

**(b) FRS 5: Non-current Assets Held for Sale and Discontinued Operations**

The Group has applied FRS 5 prospectively in accordance with its transitional provisions, which has resulted in a change in accounting policy on the recognition of a land held for development as held for sale. The result of this change in accounting policy is that a non-current asset held for sale is recognised by the Group at the lower of carrying amount and fair value less costs to sell and has been disclosed as such on the face of the balance sheet. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

**(c) FRS 101: Presentation of Financial Statements**

The adoption of the revised FRS 101 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss of the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also require disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest. The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101.

**(d) FRS 116: Property, Plant and Equipment**

In accordance with FRS 116, the asset's residual values, useful lives and depreciation methods will be assessed at each financial year end and adjusted if necessary. If the residual of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)**  
**INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006**

As at the date of this report, the Group has not applied the following two new FRSs which have been issued by MASB which are not yet effective.

FRS 117	Leases
FRS 124	Related Party Disclosures

The Group will apply the abovementioned new FRSs in the annual financial period commencing 1 January 2007, when they become effective. While there may be changes to the presentation of the Group's financial statements and additional disclosures made, it is expected that there will be no material impact on the Income Statement when the Group applies these two new accounting standards.

3 **AUDIT REPORTS**

There were no qualification in the audit report of the preceding annual financial statements for the financial year ended 31 December 2005.

4 **SEASONAL OR CYCLICAL FACTORS**

The Group is principally engaged in manufacturing and trading of biscuits and food products. The demand for the Group's products generally picks up during the second half of the financial years especially during year end festive seasons.

5 **UNUSUAL ITEMS**

There were no unusual items for the period ended 31 March 2006.

6 **CHANGES IN ESTIMATES**

There were no material changes in the estimates of the amounts previously reported in the prior interim periods of the current financial year or in prior financial years.

7 **ISSUANCE OR REPAYMENTS OF DEBT AND EQUITY SECURITIES**

There were no issuance, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter ended 31 March 2006.

8 **DIVIDENDS PAID**

There were no dividend paid during the interim period ended 31 March 2006.

9 **SEGMENTAL REPORT**

	<b>3 months ended 31-Mar-2006</b>	
	Turnover	Profit before
	<u>RM'000</u>	<u>RM'000</u>
Manufacturing	14,344	165
Trading & others	3,060	96
Total	<u>17,404</u>	<u>261</u>

10 **PROPERTY, PLANT AND EQUIPMENT**

The valuations of property, plant and equipment were brought forward without any amendments from the previous annual financial statements.

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)**  
**INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006**

11 **MATERIAL SUBSEQUENT EVENTS**

There were no material events subsequent to the end of the interim period ended 31 March 2006 except that the consent dated 31 March 2006 from the Land Office was received on 18 April 2006 in respect of the transfer of ownership for a piece of vacant leasehold land disposed by a subsidiary on 12 December 2005 for a total cash consideration of RM7,489,605/-.

The disposal is expected to result in a gross gain on disposal of approximately RM1.6 million upon completion.

12 **CHANGES IN THE COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the interim period ended 31 March 2006.

13 **CONTINGENT LIABILITIES**

	<u>RM'000</u>
Bank guarantees issued in favour of third parties -unsecured	189

**B. ADDITIONAL INFORMATION - LISTING REQUIREMENTS**

14 **REVIEW OF PERFORMANCE**

The Group's revenue for the current quarter and cumulative quarter ended 31 March 2006 decreased by 14.3% to 17.40million as compared to previous year corresponding quarter of RM20.31 million. The decrease is mainly due to the discontinuation of certain agency products in the trading division.

Despite the decrease in the revenue, the Group's pre-tax profit has improved from RM0.71 million loss in the previous year corresponding quarter as compared to RM0.26 million profit for the current quarter.

15 **VARIATIONS OF RESULTS AGAINST PRECEDING QUARTER**

The Group's revenue for the current quarter ended 31 March 2006 decreased by 20.4% to RM17.40 million as compared to RM21.92 million in the preceding quarter. The decrease is mainly due to the discontinuation of certain agency products in the trading division.

Despite the decrease in the revenue, the Group's pre-tax profit has improved from RM15.29 million loss in the preceding quarter to RM0.26 million profit for the current quarter due to the Group's required substantial provision for impairment loss on properties, doubtful debt provision in the trading division and provision for obsolete stock of the discontinued agency products in preceding quarter.

16 **PROSPECTS OF THE GROUP**

Barring unforeseen circumstances, the Group expects to perform better in the remaining quarters.

17 **PROFIT FORECAST**

The Company does not have any comparable profit forecast in respect of actual profit.

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)**  
**INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006**

18 **TAXATION**

There is no tax liability for the Group as it has sufficient tax losses brought forward to offset the current year tax liabilities.

19 **PROFIT ON SALES OF INVESTMENTS AND/OR PROPERTIES**

There were no sales of investments and/or properties except for those mentioned in Note 11 for the quarter ended 31 March 2006.

20 **PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

There were no investment in quoted shares for the quarter or cumulative quarter to date.

21 **CORPORATE PROPOSALS**

On 28 February 2005, AmMerchant Bank Berhad announced on behalf of the Board of Directors that the Company proposes to undertake a private placement of new shares in the Company, representing up to 10% of the issued and paid-up share capital of the Company ("Proposed Placement"). Funds raised from the Proposed Placement shall be utilised for working capital requirements. The Securities Commission had approved the Proposed Placement vide its letter dated 23 June 2005.

The deadline for the implementation of the Proposed Placement which expired on 23 December 2005 had subsequently been approved by the Securities Commission for extension of six months up to 22 June 2006. The Proposed Placement is now pending negotiation and implementation.

22 **GROUP BORROWINGS AND DEBT SECURITIES**

Group borrowings as at 31 March 2006:

	Unsecured RM'000	Secured RM'000	Total RM'000
Short term borrowings	18,231	5,403	23,634
Long term borrowings	0	1,683	1,683
Total borrowings	<u>18,231</u>	<u>7,086</u>	<u>25,317</u>

23 **FINANCIAL INSTRUMENTS**

There were no financial instruments with off balance sheet risk as at the date of this announcement.

24 **MATERIAL LITIGATION**

Save as disclosed below, as at the date of this announcement, the Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, which have a material effect on the financial position or the business of the Group and the Board is not aware of any proceedings pending or threatened against the Group or of any other facts likely to give rise to any proceedings which may materially and adversely affect the financial position and business of the Group.

Generale Biscuit SA and Britannia Brands (M) Sdn Bhd (collectively the "Plaintiffs") have filed an action against Hwa Tai Industries Berhad ("Company") claiming, inter alia, for a permanent injunction restraining the Company from allegedly infringing the Plaintiffs' registered "ChipsMore" trademark as against the Company's "ChipsPlus", an order for delivery up and destruction of all the Company's allegedly offending chocolate chip cookies and an inquiry as to damages due to the Plaintiffs.

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)**  
**INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 31 MARCH 2006**

The Plaintiffs's application for an interlocutory injunction was dismissed with costs on 13 August 2001 in view of the issues raised and the matter is to be set down for trial. The Plaintiff's fresh application for leave to amend the writ of summons and statement of claim so that the first plaintiff be taken out from the action was allowed at the hearing on 17 February 2004. The matter came up for case management on 14 November 2005 and the Court has set the case for trial on 19 June 2006 and 20 June 2006.

The advising solicitors are of the view that the Company has reasonable grounds of defence to the Plaintiffs' claims and demands, and that the Company's defence has merit with a reasonable chance of success.

25 **DIVIDEND**

No interim dividend is recommended for the quarter ended 31 March 2006.

26 **EARNINGS PER SHARE**

**(a) Basic**

Basic profit/(loss) per share is calculated by dividing the net profit/(loss) for the period by the weighted average number of ordinary shares in issue during the period.

	Cumulative Quarter <u>31-Mar-06</u>	Cumulative Quarter <u>31-Mar-05</u>
Net profit /(loss) for the period (RM'000)	261	(712)
Weighted average number of shares ('000)	40,042	40,042
Basic earnings per share (sen)	0.65	(1.78)

**(b) Diluted**

No diluted earnings per share is calculated as potential ordinary share are anti-dilutive

27 **Authorisation for Issue**

The interim financial report were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 May 2006.

JESSICA CHIN TENG LI (MAICSA 7003181)

Company Secretary

Dated : 30 May 2006