

HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 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.

The Company has implemented share-based payment via Employee Share Option Scheme ("ESOS") which is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 16th February 2004 and subsequently amended at an Extraordinary General Meeting held on 13th December 2004 and shall be in force for a period of five (5) years from the date of implementation on 6th May 2004, with an option to renew for a further period of up to five (5) years.

HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2006

With the adoption of transitional provisions of FRS 2 Para 53 and 56, for ESOS granted before 1 January 2005, the Company is exempted from recognising the expenses relating to ESOS in income statement.

The summary movement of ESOS during the period ended 30 June 2006 were as follows:

Options Exercisable (including Directors) Over Ordinary Shares of RM1/- each

Exercise Price per share	Exercisable at 1 Jan 2006	Additional Exercisable	Exercised	Lapsed	Exercisable at 30 Jun 2006
RM1.3138	1,015,700	74,000	-	165,000	924,700

(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.

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.

HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2006

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 30 June 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 30 June 2006.

8 **DIVIDENDS PAID**

There were no dividend paid during the interim period ended 30 June 2006.

9 **SEGMENTAL REPORT**

	6 months ended 30-June-2006	
	Turnover	Profit before
	<u>RM'000</u>	<u>RM'000</u>
Manufacturing	27,337	407
Trading & others	6,673	119
Total	<u>34,010</u>	<u>526</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.

11 **MATERIAL SUBSEQUENT EVENTS**

There were no material events subsequent to the end of the interim period ended 30 June 2006.

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

There were no changes in the composition of the Group during the interim period ended 30 June 2006.

HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2006

13 **CONTINGENT LIABILITIES**

	<u>RM'000</u>
Bank guarantees issued in favour of third parties -unsecured	192

B. ADDITIONAL INFORMATION - LISTING REQUIREMENTS

14 **REVIEW OF PERFORMANCE FOR CURRENT QUARTER AGAINST CORRESPONDING QUARTER**

The Group's revenue for the current quarter and cumulative quarter ended 30 June 2006 decreased by 11.7% and 13.1% respectively to RM16.61 million and RM34.01 million as compared to previous year corresponding quarter and cumulative quarter of RM18.81 million and RM39.12 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 RM2.24 million loss in the previous year corresponding quarter as compared to RM0.27 million profit for the current quarter. The Group's cumulative profit has improved from RM2.95 million loss to RM0.53 million profit for the current cumulative quarter.

15 **VARIATIONS OF CURRENT QUARTER RESULTS AGAINST PRECEDING QUARTER**

The Group's revenue for the current quarter ended 30 June 2006 decreased by 5% to RM16.61 million as compared to RM17.40 million in the preceding quarter.

The decrease is mainly due to low demand after the festive seasons.

Despite the decrease in the revenue, the Group's pre-tax profit slightly improve from RM0.26 million in the preceding quarter to RM0.27 million profit for the current quarter.

16 **PROSPECTS OF THE GROUP**

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

17 **PROFIT FORECAST**

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

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 for the quarter and cumulative quarter ended 30 June 2006.

On 12 December 2005, a subsidiary company had entered into a conditional sale and purchase agreement to dispose a piece of vacant leasehold land for a total cash consideration of RM7,489,605/- ("the Disposal"). Consent from the Land Office and approval from the Company's Shareholders for the Disposal have been obtained.

The Disposal is expected to result in a gross gain on disposal of approximately RM1.6 million upon completion and finalisation of the payment of the sale consideration.

HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 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. On 7 June 2006, the Company via AmMerchant Bank Berhad submitted to the Securities Commission a second application for extension of the time of a further 6 months up to 22 December 2006 to implement and complete the Proposed Placement. The second application for extension of time was rejected by the Securities Commission.

22 **GROUP BORROWINGS AND DEBT SECURITIES**

Group borrowings as at 30 June 2006:

	Unsecured	Secured	Total
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Short term borrowings	16,062	6,940	23,002
Long term borrowings	0	1,521	1,521
Total borrowings	<u>16,062</u>	<u>8,461</u>	<u>24,523</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.

Danone Biscuits Manufacturing (M) Sdn. Bhd. (the "Plaintiff") have filed an action against Hwa Tai Industries Berhad ("Company") claiming, inter alia, for a permanent injunction restraining the Company from allegedly infringing the Plaintiff's 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 Plaintiff.

The matter came up for case management on 14 November 2005 and the Court proceeded with the trial on 19 June 2006 and 20 June 2006 and after re-examination of the Plaintiff's first witness, the matter was adjourned to 9 November 2006 and 10 November 2006 for continued hearing.

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

HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2006

25 **DIVIDEND**

No interim dividend is recommended for the quarter ended 30 June 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>30-Jun-06</u>	Cumulative Quarter <u>30-Jun-05</u>
Net profit /(loss) for the period (RM'000)	526	(2,951)
Weighted average number of shares ('000)	40,042	40,042
Basic earnings per share (sen)	1.31	(7.37)

(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 22 August 2006.

JESSICA CHIN TENG LI (MAICSA 7003181)

Company Secretary

Dated : 22 August 2006