

**HWA TAI INDUSTRIES BERHAD (Company No. 19688-V)
INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 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 recognize share-based payment transactions in its financial statement, 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 SEPTEMBER 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 recognizing the expenses relating to ESOS in income statement.

The summary movements of ESOS during the period ended 30 September 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 September 2006
RM1.3138	1,015,700	74,000	-	185,000	904,700

(b) FRS 5: Non-current Assets Held for Sales 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 recognized 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 recognized 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 SEPTEMBER 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 interim period ended 30 September 2006 except as disclosed in Note 19.

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 September 2006.

8. DIVIDENDS PAID

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

9. SEGMENTAL REPORT

	9 months ended 30-September-2006	
	Turnover	Profit before
	<u>RM'000</u>	<u>RM'000</u>
Manufacturing	41,884	768
Trading & others	10,276	1,557
	-----	-----
Total	52,160	2,325
	=====	=====

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 period ended 30 September 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 September 2006.

13. CONTINGENT LIABILITIES

Bank guarantees issued in favour of third parties	RM'000
	240

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

B. ADDITIONAL INFORMATION – LISTING REQUIREMENTS

14. REVIEW OF PERFORMANCE FOR CURRENT QUARTER AGAINST CORRESPONDING QUARTER

The Group's revenue for the current quarter had decreased by 16.1% to RM18.15 million as compared to previous year corresponding 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 was RM1.80 million as compared to loss of RM0.95 million in the previous year corresponding quarter. This was mainly contributed by the profit from disposal of a piece of vacant land as disclosed in Note 19.

15. VARIATIONS OF CURRENT QUARTER RESULTS AGAINST PRECEDING QUARTER

The Group's revenue for the current quarter ended 30 September 2006 increased by 9.3% to RM18.15 million as compared to RM16.61 million in the preceding quarter. This was mainly attributed to additional advertising and promotional activities carried out and festive season in the second half of the year.

The Group's pre-tax profit increased to RM1.80 million as compared to RM0.27 million in the preceding quarter. This was mainly contributed by the profit from disposal of a piece of vacant land as disclosed in Note 19.

16. PROSPECTS OF THE GROUP

Barring unforeseen circumstances, the Group expects to perform favourably in the coming quarter.

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 September 2006 except the disposal of a piece of vacant leasehold land via conditional sale and purchase agreement entered by its subsidiary on 12 December 2006 has been completed on 7 September 2006 ("the Disposal"). The Disposal had resulted a disposal gain as follow:

	Current Quarter RM'000	Cumulative Quarter RM'000
Profit from disposal of a piece of vacant leasehold land	1,539	1,539
	=====	=====

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

There are no ongoing corporate proposals at the date of this announcement.

22. GROUP BORROWINGS AND DEBT SECURITIES

Group borrowings as at 30 September 2006:

	Unsecured	Secured	Total
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Short term borrowings	16,155	3,626	19,781
Long term borrowings	-	602	602
Total borrowings	<u>16,155</u>	<u>4,228</u>	<u>20,383</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, 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 case is still pending and 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 SEPTEMBER 2006

25. DIVIDEND

No interim dividend is recommended for the quarter ended 30 September 2006.

26. EARNINGS / (LOSS) 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-September-06</u>	Cumulative Quarter <u>30-September-05</u>
Net profit/(loss) for the period (RM'000)	2,325	(3,699)
Weighted average number of shares (RM'000)	40,042	40,042
Basic earnings /(loss) per share (sen)	5.81	(9.24)

(b) Diluted

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

27. SANCTION

The Securities Commission ("SC") had on 8 September 2006 issued a public reprimand on the Company for non-compliance of Paragraph 6.02 of the SC guidelines on Abridged Prospectus in relation to the Company's Rights Issue Exercise implemented in 2004.

28. AUTHORISATION FOR ISSUE

The interim financial reports were authorized for release by the Board of Directors.

JESSICA CHIN TENG LI (MAICSA 7003181)

Company Secretary

Dated : 22 November 2006