

HWA TAI INDUSTRIES BERHAD (Company No.:19688-V)
INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

A. NOTES TO INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

The interim financial report is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standards ('MFRSs'), International Financial Reporting Standards and the requirement of the Companies Act 2016 in Malaysia; Interim Financial Reporting and 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 financial year ended 31 December 2017. 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 2017.

The financial statements of the Group have been prepared under the historical cost basis except as disclosed in the significant accounting policies in the audited financial statements for the financial year ended 31 December 2017.

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has adopted MFRS 15 *Revenue from Contracts with Customers* effective from 1 January 2018 as mentioned below:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS 15 does not have any material financial impact to the current period and prior financial period of the Group except as below :-

	Condensed Consolidated Income Statement for the quarter ended 30 September 2017		
	Previously reported under MFRS 118	Effect of MFRS 15	Restated after MFRS 15
	RM'000	RM'000	RM'000
Revenue	47,899	(1,882)	46,017
Selling and distribution expenses	7,998	(1,882)	6,116

The adoption of other new standards are not expected to have any material financial impact to the Group upon their adoption effective from 1 January 2018.

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2. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2017.

3. AUDIT REPORT

There was no qualification in the auditor's report of the preceding annual financial statements for the financial year ended 31 December 2017.

4. SEASONAL OR CYCLICAL FACTORS

The Group is principally engaged in the manufacturing and trading of biscuits and food products. The demand for the Group's products generally picks up during festive seasons.

5. UNUSUAL ITEMS

There were no material unusual items affecting the Group for the current quarter ended 30 September 2018.

6. CHANGES IN ESTIMATES

There were no material changes in the estimates in the prior financial years which have a material effect on the results for the current quarter and financial year to date.

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 2018.

8. DIVIDENDS PAID

There were no dividends paid for the current quarter ended 30 September 2018.

9. SEGMENTAL REPORT

	9 months ended 30 September 2018	
	Revenue	Loss before taxation
	<u>RM'000</u>	<u>RM'000</u>
Manufacturing	37,938	(1,019)
Trading & others	<u>8,514</u>	<u>69</u>
Total	<u>46,452</u>	<u>(950)</u>

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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 current quarter ended 30 September 2018.

12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current quarter ended 30 September 2018.

13. CAPITAL COMMITMENTS

There were no capital commitments for the current quarter ended 30 September 2018 other than as follows:

	<u>RM'000</u>
Contracted but not provided for property, plant and equipment	<u>411</u>

14. CONTINGENT LIABILITIES

	<u>RM'000</u>
Bank guarantees issued in favour of third parties	<u>343</u>

B. ADDITIONAL INFORMATION – LISTING REQUIREMENTS

15. PERFORMANCE REVIEW

The Group recorded a loss before taxation of RM950,000 in the current year to date as compared to a profit before taxation of RM552,000 in the preceding year corresponding period. This was mainly due to higher advertising and promotional expenses incurred in both domestic and international market and also share of higher loss of associated company.

16. VARIATIONS OF CURRENT QUARTER RESULTS AGAINST PRECEDING QUARTER

The Group recorded loss before taxation of RM243,000 in the current quarter as compared to loss before taxation of RM527,000 for the preceding quarter. This was mainly due to cost saving in energy consumption after fully implementation of conversion from liquefied petroleum gas(“LPG”) to natural gas in the current quarter.

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17. PROSPECTS OF THE GROUP

The Group anticipate macroeconomic conditions in Malaysia to remain challenging.

The Group will be vigilant and respond accordingly to the changing business dynamics and market environment with our constant focus in improving its performance.

18. PROFIT FORECAST OR PROFIT GUARANTEE

There were no profit forecast or profit guarantee issued by the Group.

19. LOSS/ (PROFIT) BEFORE TAXATION

Loss/ (profit) before taxation has been arrived after charging/(crediting):-

	<u>RM'000</u> 30.09.2018	<u>RM'000</u> 30.09.2017
Interest income	(315)	(298)
Interest expense	664	589
Amortisation of prepaid land lease payment	32	33
Depreciation of property, plant and equipment	1,714	1,608
Impairment loss on receivables	848	880
Loss on disposal of property, plant and equipment	66	13
Net loss on foreign exchange	47	43

20. TAXATION

The breakdown of taxation is as follows:

	Individual Quarter		Cumulative Quarter	
	Current year Quarter 30.09.18 <u>RM'000</u>	Preceding year Quarter 30.09.17 <u>RM'000</u>	Current year Quarter 30.09.18 <u>RM'000</u>	Preceding year Quarter 30.09.17 <u>RM'000</u>
Income tax - current period	214	251	561	551
- under provision in prior year	68	175	68	175
	<u>282</u>	<u>426</u>	<u>629</u>	<u>726</u>

21. CORPORATE PROPOSALS

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

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22. STATUS OF UTILISATION OF PROCEEDS

The status of utilisation of the proceeds from the Rights Issue which had been completed on 14 April 2015 is as follows:

Details of Utilisation	Proceeds Raised	Amount Utilised	Amount Unutilised	Expected timeframe for utilisation of proceeds from the date of completion
	RM'000	RM'000	RM'000	
Repayment of bank borrowing	3,403	3,403	-	Within three months
Capital expenditure for business expansion	7,000	-	*7,000	**Within forty eight months
Working capital	3,213	3,213	-	Within twenty four months
Expenses in relation to the Corporate Exercises	<u>300</u>	<u>***300</u>	<u>-</u>	Within three months
	<u>13,916</u>	<u>6,916</u>	<u>7,000</u>	

* Due, inter alia, to the weak Ringgit Malaysia, the proposed acquisition of machinery would be delayed. The unutilised proceeds of RM7.0 million is placed in fixed deposit with a licensed financial institution and the interest earned is used for working capital over the past 3 years.

** The timeframe for utilisation of proceeds for acquisition of machinery was extended from thirty six months to forty eight months as announced on 6 April 2018 and 10 April 2018.

*** The shortfall of funds for the payment of expenses for the Corporate Exercises had been adjusted from the working capital.

23. GROUP BORROWINGS AND DEBT SECURITIES

Group borrowings as at 30 September 2018 are as follows:

	Unsecured RM'000	Secured RM'000	Total RM'000
Short term borrowings	15,827	268	16,095
Long term borrowings	-	604	604
Total borrowings	<u>15,827</u>	<u>872</u>	<u>16,699</u>

24. FINANCIAL INSTRUMENTS

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

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25. MATERIAL LITIGATION

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.

26. DIVIDEND

No interim dividend is recommended for the quarter ended 30 September 2018.

27. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the financial period by the weighted average number of ordinary shares in issue during the financial period:

	Cumulative Quarter <u>30.09.2018</u>	Cumulative Quarter <u>30.09.2017</u>
Loss for the period attributable to owners of the Company (RM'000)	(1,578)	(174)
Weighted average number of shares ('000)	74,833	74,833
Basic loss per share (sen)	(2.11)	(0.23)

28. AUTHORISATION FOR ISSUE

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

By Order of the Board
JESSICA CHIN TENG LI (MAICSA 7003181)
Company Secretary
Dated: 29th November 2018