

KAWAN FOOD BERHAD
(Company No: 640445-V)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	3 months ended		6 months ended	
		30.6.2019 RM'000	30.6.2018 RM'000	30.6.2019 RM'000	30.6.2018 RM'000
Revenue	8	57,212	52,386	107,536	98,666
Cost of sales		(38,840)	(32,117)	(73,122)	(59,960)
Gross profit		18,372	20,269	34,414	38,706
Other income		271	436	612	729
Selling & distribution expenses		(10,679)	(9,983)	(19,565)	(19,278)
Administrative expenses		(4,187)	(3,486)	(9,368)	(8,113)
Finance costs	18	(264)	(60)	(509)	(109)
Profit before tax	17	3,513	7,176	5,584	11,935
Income tax expense	19	(766)	(1,095)	(1,262)	(1,835)
Profit for the period		2,747	6,081	4,322	10,100
Other comprehensive income					
Exchange differences on translation of foreign operations		(60)	974	53	(962)
Total comprehensive income for the period		2,687	7,055	4,375	9,138
Profit attributable to:					
Owners of the company		2,747	6,081	4,322	10,100
Non-controlling interest		-	-	-	-
Profit for the period		2,747	6,081	4,322	10,100
Total comprehensive income attributable to:					
Owners of the company		2,687	7,055	4,375	9,138
Non-controlling interest		-	-	-	-
Total comprehensive income for the period		2,687	7,055	4,375	9,138
Earnings per share					
Basic (sen)	24	0.76	1.69	1.20	2.81
Diluted (sen)		N/A	N/A	N/A	N/A

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

KAWAN FOOD BERHAD
(Company No: 640445-V)
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	30.6.2019 RM'000 Reviewed	31.12.2018 RM'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		242,728	244,423
Investment properties		2,443	2,469
Prepaid lease payments		2,899	2,935
Deferred tax assets		476	475
		<u>248,546</u>	<u>250,302</u>
Current assets			
Other investments		4,511	2,414
Inventories		24,179	23,466
Current tax assets		6,749	5,778
Trade and other receivables		55,126	52,788
Prepayments		4,032	2,713
Cash and cash equivalents		35,209	39,459
		<u>129,806</u>	<u>126,618</u>
Total assets		<u><u>378,352</u></u>	<u><u>376,920</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital		179,760	179,760
Translation reserve		8,884	8,831
Retained earnings		128,208	132,874
Total equity		<u>316,852</u>	<u>321,465</u>
Liabilities			
Non-current liabilities			
Loans and borrowings	21	11,169	12,981
Deferred tax liabilities		5,928	5,660
		<u>17,097</u>	<u>18,641</u>
Current liabilities			
Loan and borrowings	21	8,465	3,621
Trade and other payables		34,948	32,456
Current tax liabilities		990	737
		<u>44,403</u>	<u>36,814</u>
Total liabilities		<u>61,500</u>	<u>55,455</u>
Total equity and liabilities		<u><u>378,352</u></u>	<u><u>376,920</u></u>
Net assets per share attributable to owners of the Company (RM)		<u>0.88</u>	<u>0.89</u>

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2019

	<-----Attributable to owners of the Company----->				
	<-----Non-distributable----->			Distributable	
	Share Capital RM'000	Share Premium RM'000	Translation Reserve RM'000	Retained Earnings RM'000	Total Equity RM'000
(Audited)					
At 1 January 2018	179,760	-	9,985	119,055	308,800
Net profit for the financial year	-	-	-	22,807	22,807
Other comprehensive expense for the financial year	-	-	(1,154)	-	(1,154)
Total comprehensive (expense)/income for the financial year	-	-	(1,154)	22,807	21,653
Contributions by and distributions to owners -dividends to owners of the Company	-	-	-	(8,988)	(8,988)
At 31 December 2018	<u>179,760</u>	<u>-</u>	<u>8,831</u>	<u>132,874</u>	<u>321,465</u>
(Unaudited)					
At 1 January 2019	179,760	-	8,831	132,874	321,465
Net profit for the financial period	-	-	-	4,322	4,322
Other comprehensive expense for the financial year	-	-	53	-	53
Total comprehensive income for the financial year	-	-	53	4,322	4,375
Contributions by and distributions to owners -dividends to owners of the Company	-	-	-	(8,988)	(8,988)
At 30 June 2019	<u>179,760</u>	<u>-</u>	<u>8,884</u>	<u>128,208</u>	<u>316,852</u>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

KAWAN FOOD BERHAD
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Reviewed	Audited
	30.6.2019	31.12.2018
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	5,584	29,244
Adjustments for:		
Depreciation and amortisation	8,367	6,967
Finance income from deposits	(254)	(655)
Interest expense	438	413
(Gain)/Loss on disposal of property, plant and equipment	54	(48)
Trade and other receivables written off	-	653
Net (gain)/loss on financial assets	(67)	683
Unrealised foreign exchange differences	169	(243)
<i>Operating profit before working capital changes</i>	<u>14,291</u>	<u>37,014</u>
Changes in working capital:		
Inventories	(713)	(8,256)
Trade and other receivables, prepayments and other financial assets	(3,751)	(6,509)
Trade and other payables	2,498	(942)
<i>Cash generated from operations</i>	<u>12,325</u>	<u>21,307</u>
Income tax paid	(1,944)	(3,329)
Income tax refund	202	-
Net cash from operating activities	<u>10,583</u>	<u>17,978</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment, net of interest capitalised	(6,730)	(21,279)
Proceeds from disposal of property, plant and equipment	88	51
Finance income from deposits	254	655
Changes in investment in unit trusts	(2,030)	(2,225)
Net cash used in investing activities	<u>(8,418)</u>	<u>(22,798)</u>
Cash flows from financing activities		
Dividends paid to owners of the Company	(8,988)	(8,988)
Repayment of loans and borrowings	(2,492)	(7,761)
Finance cost on loans and borrowings	(438)	(413)
Drawdown of loans and borrowings	5,557	-
Net cash used in financing activities	<u>(6,361)</u>	<u>(17,162)</u>
Net increase/(decrease) in cash and cash equivalents	(4,196)	(21,982)
Effect of changes in foreign exchange rate	(54)	(1,344)
Cash and cash equivalents at beginning of year	<u>39,459</u>	<u>62,785</u>
Cash and cash equivalents at end of year	<u>35,209</u>	<u>39,459</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

1 Basis of Preparation

The condensed consolidated interim financial statements ("interim financial statements") are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards ("MFRS"), MFRS 134: Interim Financial Reporting and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2018. These explanatory notes attached to the interim financial statement 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 2018.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation adopted in audited financial statements for the financial year ended 31 December 2018. The newly issued Malaysia Financial Reporting Standards (MFRS 16 Leases), interpretations and amendments to standards that are mandatory applied beginning on 1 January 2019 did not have any material impact on the financial statements of the Group.

Effective for financial periods beginning on or after 1 January 2020

Amendments to MFRS 2	Shared-based Payments
Amendments to MFRS 3	Business Combinations
Amendments to MFRS 6	Exploration for and Evaluation of Mineral Resources
Amendments to MFRS 14	Regulatory Deferral Accounts
Amendments to MFRS 101	Presentation of Financial Statements
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
Amendments to MFRS 134	Interim Financial Reporting
Amendments to MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
Amendments to MFRS 138	Intangible Assets
Amendments to:-	
IC Interpretation 12	Service Concession Arrangements
IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
IC Interpretation 20	Stripping Cost in the Production Phase of a Surface Mine
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
IC Interpretation 132	Intangible Assets - Web Site Costs

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any material effect to the financial statements of the Group upon their initial application.

2 Qualification of financial statements

There was no qualification made on the preceding audited financial statements.

3 Seasonal or cyclical factors

The business operations of the Group were not significantly affected by any seasonal or cyclical factors.

4 Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current quarter and unaudited financial period ended 30 June 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

5 Changes in estimates

There were no significant changes in estimates for prior periods that have materially affected the results of this quarter and financial period ended 30 June 2019.

6 Debt and equity securities

The Company has implemented an ESOS of up to 15% of the Company's issued and paid-up share capital (excluding treasury shares, if any) for the eligible employees of the Group effective from 2 October 2018. As at the date of this report, the Company has yet to grant any options under the ESOS.

7 Dividends paid

The following dividends were paid during the current and previous financial year ended:

	31 Dec 2019	31 Dec 2018
First interim dividend		
For the financial year ended	31 Dec 2019	31 Dec 2018
Approval and declared on	4 Mar 2019	1 Mar 2018
Date paid	29 Mar 2019	30 Mar 2018
Number of ordinary shares on which dividends were paid ('000)	359,520	359,520
Interim dividend per share (single-tier)	2.5 sen	2.5 sen
Net dividend paid (RM'000)	8,988	8,988

8 Segmental information

The Group's business segments comprise mainly the manufacturing and sale of frozen food products. In presenting segmental information, segment revenue is based on the geographical location of customers.

	3 months ended			Year-to-date ended		
	30 June 2019	30 June 2018	Changes (%)	30 June 2019	30 June 2018	Changes (%)
	RM'000	RM'000		RM'000	RM'000	
Malaysia	25,374	24,390	4.0%	45,080	43,651	3.3%
China	3,605	3,014	19.6%	7,236	5,229	38.4%
Rest of Asia	7,850	6,507	20.6%	15,792	13,925	13.4%
Europe	4,799	4,047	18.6%	10,434	9,432	10.6%
North America	12,410	11,589	7.1%	23,951	21,746	10.1%
Oceania	3,037	2,777	9.4%	4,724	4,512	4.7%
Africa	137	62	121.0%	319	171	86.5%
Consolidated	57,212	52,386	9.2%	107,536	98,666	9.0%

Business segmental information therefore has not been prepared as all the Group's revenue, operating profit, assets employed, liabilities, depreciation and amortisation, and non-cash expenses are mainly confined to one business segment.

9 Valuation of property, plant and equipment

No revaluation of property, plant and equipment were undertaken during the current quarter under review.

10 Material events subsequent to the end of the interim period

There were no material events subsequent to the end of the current quarter up to the date of this report.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

11 Capital commitments

The capital commitments of the Group as at 30 June 2019 is as follows:

	RM'000
Property, plant and equipment	
Contracted but not provided for	<u>4,520</u>

12 Related party transactions

The Group's related party transactions in the current quarter and the cumulative period-to-date ended 30 June 2019 are as follows:

	3 months ended 30 Jun 2019 RM'000	Year-to-date ended 30 Jun 2019 RM'000
Transactions with a company in which the daughter of Gan Thiam Chai and Kwan Sok Kay, the spouse of Timothy Tan Heng Han, Directors of the Company has interests:		
Hot & Roll Sdn Bhd		
-Sales	<u>347</u>	<u>703</u>
Transactions with a company in which the spouse of Gan Thiam Hock, a Director of the Company has interests:		
K.C. Belight Food Industry (M) Sdn Bhd		
-Sales	<u>2</u>	<u>4</u>
Transactions with a company in which the sons and the spouse of Gan Thiam Hock, a Director of the Company has interests:		
MH Delight Sdn Bhd		
-Purchases	<u>470</u>	<u>900</u>
Transaction with a company in which the daughters of Gan Thiam Chai and Kwan Sok Kay, the son of Gan Thiam Hock and the spouse of Timothy Tan Heng Han, Directors of the Company have interests:		
Food Valley Sdn Bhd		
-Purchases	<u>5,118</u>	<u>10,013</u>
Transactions with companies in which Nareshchandra Gordhandas Nagrecha, a Director of the Company has interest:		
Shana Foods Limited		
-Sales	<u>2,598</u>	<u>6,683</u>
Rubicon Food Products Limited		
-Sales	<u>1,494</u>	<u>3,365</u>

The above transactions have been entered in the normal course of business and have been established on terms and condition that are not materially different from those obtainable in similar transactions with unrelated parties.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

13 Review of performance

	3 months ended 30 June 2019 ("2Q 2019") RM'000	3 months ended 30 June 2018 ("2Q 2018") RM'000	Changes (%)	Year-to-date ended 30 June 2019 (YTD 2019) RM'000	Year-to-date ended 30 June 2018 ("YTD 2018") RM'000	Changes (%)
Revenue	57,212	52,386	9.2%	107,536	98,666	9.0%
Profit before tax	3,513	7,176	-51.0%	5,584	11,935	-53.2%
Profit after tax	2,747	6,081	-54.8%	4,322	10,100	-57.2%
Profit attributable to owners of the Company	2,747	6,081	-54.8%	4,322	10,100	-57.2%

Comparison between 2Q 2019 with 2Q 2018

For the 2Q 2019, the Group achieved revenue of RM57.2 million, an increase of 9.2% as compared to corresponding quarter of RM52.3 million. The increase in revenue were mainly due to rising demand in the China and respective regional area of the export market (as stated in Note 8). Despite the higher revenue attained, the Group's profit after tax decreased by 54.8% (-RM3.3 million) from RM6.0 million in 2Q 2018 to RM2.7 million in 2Q 2019. The decrease was principally due to higher depreciation charged (increased by RM2.7 million) for the automation of manufacturing process and capacity expansion.

Comparison between YTD 2019 with YTD 2018

The Group achieved revenue of RM107.5 million for YTD 2019, an increase of 9.0% from the corresponding period of RM98.7 million. The increase was attributable to sales growth in the China and respective regional area of export market. Continuing the positive sales trend from prior year, our sales in China achieved the greatest growth of 38.4% from RM5.2 million in YTD 2018 to RM7.2 million in YTD 2019 mainly driven by the growing demand of western style convenience food (tortilla). Nevertheless, the Group profit after tax decreased by 57.2% (-RM5.8 million) from RM10.1 million in YTD 2018 to RM4.3 million in YTD 2019. This was principally due to higher depreciation charged (increased by RM5.3 million) for the automation of manufacturing process and capacity expansion.

14 Variance of quarterly results compared to preceding quarter

	Current Quarter 30 June 2019 RM'000	Immediate Preceding Quarter 31 Mar 2019 RM'000	Changes (%)
Revenue	57,212	50,324	13.7%
Profit before tax	3,513	2,071	69.6%
Profit after tax	2,747	1,575	74.4%
Profit attributable to owner of the Company	2,747	1,575	74.4%

For the current quarter under review, the Group achieved revenue of RM57.21 million, an increase of 13.7% from the preceding quarter of RM50.32 million principally attributable to stronger sales demand of Hari Raya festive season in domestic market. Accordingly with the higher revenue attained, the Group reported 74.4% increase in profit after tax from RM1.6 million in preceding quarter to RM2.7 million in current quarter.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

15 Commentary on the prospect

With the commissioning of new plant in Pulau Indah, the production capacity is currently ahead of demand growth. However, KAWAN believes that the new capacity available will gradually be taken up by the growing sales demand in the domestic and export market. Overall, the global demand for our products including the domestic market remains in expansionary mode. As such, the improving demand can help in reducing the impact of fixed production cost such as depreciation.

The overview of the business environment remains challenging with rising operating costs such as increase in minimum wage; KAWAN will continue to embark on the cost optimisation to mitigate potential margin pressure. In line with the Industry 4.0 revolution, KAWAN is also investing into the implementation of automation solutions in order to reduce dependency on manual labour, reduction in human error and further enhancing the operation efficiency.

Moving forward, KAWAN remains optimistic on the long term prospects underpinned by four (4) key pillars of our business as follows:-

- 1) Market - the global demand for our products remain in expansionary mode;
- 2) Productivity - the on-going activities for intensify cost optimisation and automation solutions are expected to mitigate the potential escalating cost in operation and further enhance the existing profit margin;
- 3) Distribution channel - the sales growth from the expansion of our distribution channels including e-commerce;
- 4) Product innovation - potential sales growth from the innovative new product sales such as rice bites, potato croquettes, low GI range, etc. In August 2019, KAWAN with the "Cheesy Italian Rice Bites" and "Multigrain Mantou" won the two highest awards (Platinum & Gold) in the Product Innovation 2019 Award organised by the Malaysian Institute of Food Technology (MIFT).

16 Variance of actual and profit forecast

The Group did not issue any profit forecast or profit guarantee for the current financial year.

17 Profit before tax

The following have been included in arriving at profit before tax:

	3 months ended 30 June 2019 RM'000	3 months ended 30 June 2018 RM'000	Year-to-date ended 30 June 2019 RM'000	Year-to-date ended 30 June 2018 RM'000
Profit before tax is arrived at after charging:				
Interest expense	229	7	438	7
Depreciation and amortisation	4,181	1,519	8,367	3,059
Foreign exchange (gain)/loss				
-Realised	(544)	(482)	(213)	(494)
-Unrealised	70	(311)	169	562
Loss on disposal of property, plant and equipment	72	1	54	1
Net (gain)/loss on financial assets	(28)	128	(67)	50
and after crediting:				
Interest income	114	161	254	319
Other income	157	275	358	410

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

18 Finance cost

	3 months ended 30 June 2019 RM'000	3 months ended 30 June 2018 RM'000	Year-to-date ended 30 June 2019 RM'000	Year-to-date ended 30 June 2018 RM'000
Interest expense of financial liabilities that are -not at fair value through profit or loss:				
Term loans, secured	229	216	438	427
Other bank charges	35	60	71	102
	<u>264</u>	<u>276</u>	<u>509</u>	<u>529</u>
Recognised in profit or loss	264	60	509	109
Capitalised on qualifying assets:				
-property, plant and equipment	-	216	-	420
	<u>264</u>	<u>276</u>	<u>509</u>	<u>529</u>

19 Income tax expense

	3 months ended 30 June 2019 RM'000	Year-to-date ended 30 June 2019 RM'000
Tax expense - Current year	469	997
Deferred tax expense		
-origination and reversal of temporary differences	297	265
Total	<u>766</u>	<u>1,262</u>

20 Corporate Proposals

There were no corporate proposal announced but not completed as at date of this report.

21 Borrowings (secured)

	As at 30 June 2019 RM'000	As at 30 June 2018 RM'000
Short term borrowings:		
in Malaysia Ringgit	3,623	3,622
in US Dollar	4,842	-
	<u>8,465</u>	<u>3,622</u>
Long term borrowings:		
in Malaysia Ringgit	11,169	14,792

22 Material litigation

The Group does not have any material litigation as at the date of this announcement.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

23 Dividends

An interim single tier dividend of 2.5 sen per ordinary share totalling RM8,987,995 in respect of the financial year ending 31 December 2019 has been paid on 29 March 2019.

24 Earnings per share ("EPS")

a) Basic earnings per share

	3 months ended 30 June 2019	3 months ended 30 June 2018	Year-to-date ended 30 June 2019	Year-to-date ended 30 June 2018
Profit attributable to equity holders of the parent (RM'000)	2,747	6,081	4,322	10,100
Weighted average number of ordinary shares in issue (units)	359,519,760	359,519,760	359,519,760	359,519,760
Basic earnings per share (sen)	0.76	1.69	1.20	2.81

b) Diluted earnings per share

There are no diluted EPS as the Company does not have any convertible financial instrument as at the end of the current quarter under review.

By Order of the Board

Gan Thiam Chai
Executive Chairman
Date: 27 August 2019