

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

	Note	3 months ended		9 months ended	
		30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Revenue	8	50,148	48,499	157,684	147,165
Cost of sales		(33,247)	(28,965)	(106,369)	(88,926)
Gross profit		16,901	19,534	51,315	58,239
Other income		2,486	1,032	3,098	1,693
Selling & distribution expenses		(10,865)	(7,736)	(30,430)	(27,014)
Administrative expenses		(5,018)	(4,630)	(14,386)	(12,676)
Finance costs	18	(237)	(266)	(746)	(374)
Profit before tax	17	3,267	7,934	8,851	19,868
Income tax expense	19	(724)	(838)	(1,986)	(2,673)
Profit for the period		2,543	7,096	6,865	17,195
Other comprehensive income					
Exchange differences on translation of foreign operations		(543)	322	(490)	(640)
Total comprehensive income for the period		2,000	7,418	6,375	16,555
Profit attributable to:					
Owners of the company		2,688	7,096	7,010	17,195
Non-controlling interest		(145)	-	(145)	-
Profit for the period		2,543	7,096	6,865	17,195
Total comprehensive income attributable to:					
Owners of the company		2,145	7,418	6,520	16,555
Non-controlling interest		(145)	-	(145)	-
Total comprehensive income for the period		2,000	7,418	6,375	16,555
Earnings per share					
Basic (sen)	24	0.75	1.97	1.95	4.78
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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019

	Note	30.9.2019 RM'000 Reviewed	31.12.2018 RM'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		243,826	244,423
Investment properties		1,928	2,469
Prepaid lease payments		2,807	2,935
Deferred tax assets		465	475
		<u>249,026</u>	<u>250,302</u>
Current assets			
Other investments		7,658	2,414
Inventories		22,390	23,466
Current tax assets		4,310	5,778
Trade and other receivables		49,811	52,788
Prepayments		4,855	2,713
Cash and cash equivalents		36,357	39,459
		<u>125,381</u>	<u>126,618</u>
Total assets		<u><u>374,407</u></u>	<u><u>376,920</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital		179,760	179,760
Translation reserve		8,341	8,831
Retained earnings		130,896	132,874
Equity attributable to owners of the Company		<u>318,997</u>	<u>321,465</u>
Non-controlling interest		1,055	-
Total equity		<u><u>320,052</u></u>	<u><u>321,465</u></u>
Liabilities			
Non-current liabilities			
Loans and borrowings	21	10,264	12,981
Deferred tax liabilities		6,100	5,660
		<u>16,364</u>	<u>18,641</u>
Current liabilities			
Loan and borrowings	21	6,538	3,621
Trade and other payables		31,109	32,456
Current tax liabilities		344	737
		<u>37,991</u>	<u>36,814</u>
Total liabilities		<u><u>54,355</u></u>	<u><u>55,455</u></u>
Total equity and liabilities		<u><u>374,407</u></u>	<u><u>376,920</u></u>
Net assets per share attributable to owners of the Company (RM)		<u><u>0.89</u></u>	<u><u>0.89</u></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.

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

	<-----Attributable to Owners of the Company----->				Non- Controlling Interests RM'000	Total Equity RM'000
	<----Non-distributable---->		Distributable			
(Audited)	Share Capital RM'000	Translation Reserve RM'000	Retained Earnings RM'000	Sub Total RM'000		
At 1 January 2018	179,760	9,985	119,055	308,800	-	308,800
Net profit for the financial year	-	-	22,807	22,807	-	22,807
Other comprehensive expense for the financial year	-	(1,154)	-	(1,154)	-	(1,154)
Total comprehensive (expense)/income for the financial year	-	(1,154)	22,807	21,653	-	21,653
Contributions by and distributions to owners -dividends to owners of the Company	-	-	(8,988)	(8,988)	-	(8,988)
At 31 December 2018	179,760	8,831	132,874	321,465	-	321,465
(Reviewed)						
At 1 January 2019	179,760	8,831	132,874	321,465	-	321,465
Net profit for the financial period	-	-	7,010	7,010	(145)	6,865
Other comprehensive expense for the financial year	-	(490)	-	(490)	-	(490)
Total comprehensive income for the financial year	-	(490)	7,010	6,520	(145)	6,375
Contributions by and distributions to owners -NCI acquired in new subsidiary	-	-	-	-	1,200	1,200
-dividends to owners of the Company	-	-	(8,988)	(8,988)	-	(8,988)
At 30 September 2019	179,760	8,341	130,896	318,997	1,055	320,052

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

	Reviewed 30.9.2019 RM'000	Audited 31.12.2018 RM'000
Cash flows from operating activities		
Profit before tax	8,851	29,244
Adjustments for:		
Depreciation and amortisation	12,441	6,967
Finance income from deposits	(367)	(655)
Interest expense	638	413
Gain on disposal of property, plant and equipment	(1,517)	(48)
Trade and other receivables written off	-	653
Net gain/ impairment loss on financial assets	(190)	683
Unrealised foreign exchange differences	(1)	(243)
<i>Operating profit before working capital changes</i>	<u>19,855</u>	<u>37,014</u>
Changes in working capital:		
Inventories	1,076	(8,256)
Trade and other receivables, prepayments and other financial assets	965	(6,509)
Trade and other payables	<u>(1,437)</u>	<u>(942)</u>
<i>Cash generated from operations</i>	<u>20,459</u>	<u>21,307</u>
Income tax paid	(2,355)	(3,329)
Income tax refund	2,378	-
Net cash from operating activities	<u>20,482</u>	<u>17,978</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment, net of interest capitalised	(12,881)	(21,279)
Proceeds from disposal of property, plant and equipment	2,520	51
Finance income from deposits	367	655
Changes in investment in unit trusts	(5,054)	(2,225)
Net cash used in investing activities	<u>(15,048)</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	(6,120)	(7,761)
Finance cost on loans and borrowings	(638)	(413)
Proceeds from issuance of shares	1,200	-
Drawdown of loans and borrowings	6,492	-
Net cash used in financing activities	<u>(8,054)</u>	<u>(17,162)</u>
Net increase/(decrease) in cash and cash equivalents	(2,620)	(21,982)
Effect of changes in foreign exchange rate	(482)	(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>36,357</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.

KAWAN FOOD BERHAD (640445-V)
(Incorporated in Malaysia)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 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.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

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 financial period ended 30 September 2019.

5 Changes in estimates

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

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.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	3 months ended			Year-to-date ended		
	30 Sep 2019	30 Sep 2018	Changes	30 Sep 2019	30 Sep 2018	Changes
	RM'000	RM'000	(%)	RM'000	RM'000	(%)
Malaysia	18,062	16,611	8.7%	63,142	60,175	4.9%
China	4,304	3,235	33.0%	11,540	8,464	36.3%
Rest of Asia	6,758	5,573	21.3%	22,550	19,586	15.1%
Europe	4,177	3,962	5.4%	14,611	13,394	9.1%
North America	13,719	16,410	-16.4%	37,670	38,155	-1.3%
Oceania	3,128	2,639	18.5%	7,852	7,151	9.8%
Africa	-	69	-100.0%	319	240	32.9%
Consolidated	50,148	48,499	3.4%	157,684	147,165	7.1%

9 Valuation of property, plant and equipment

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

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

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.

11 Capital commitments

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

	RM'000
Property, plant and equipment	
Contracted but not provided for	<u>2,484</u>

12 Related party transactions

The Group's related party transactions in the current quarter and the financial period ended 30 September 2019 are as follows:

	3 months ended 30 Sep 2019 RM'000	Year-to-date ended 30 Sep 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>133</u>	<u>837</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>-</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		
-Sales	-	184
-Purchases	<u>262</u>	<u>1,162</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>3,974</u>	<u>13,986</u>
-Rental of factory	<u>-</u>	<u>-</u>
Transactions with companies in which Nareshchandra Gordhandas Nagrecha, a Director of the Company has interest:		
Shana Foods Limited		
-Sales	<u>3,183</u>	<u>9,866</u>
Rubicon Food Products Limited		
-Sales	<u>479</u>	<u>3,845</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.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

13 Review of performance

	3 months ended 30 Sep 2019 ("3Q 2019") RM'000	3 months ended 30 Sep 2018 ("3Q 2018") RM'000	Changes (%)	Year-to-date ended 30 Sep 2019 (YTD 2019") RM'000	Year-to-date ended 30 Sep 2018 ("YTD 2018") RM'000	Changes (%)
Revenue	50,148	48,499	3.4%	157,684	147,165	7.1%
Profit before tax	3,267	7,934	-58.8%	8,851	19,868	-55.5%
Profit after tax	2,543	7,096	-64.2%	6,865	17,195	-60.1%
Profit attributable to owners of the Company	2,688	7,096	-62.1%	7,010	17,195	-59.2%

Comparison between 3Q 2019 with 3Q 2018

For the 3Q 2019, the Group achieved revenue of RM50.1 million, an increase of 3.4% as compared to corresponding quarter of RM48.5 million. The increase in revenue were mainly due to rising demand in Domestic, China and Rest of Asia market. Despite the higher revenue attained, the Group's profit after tax decreased by 64.2% (-RM4.6 million) from RM7.1 million in 3Q 2018 to RM2.5 million in 3Q 2019. The decrease was principally due to higher operating cost and depreciation charged for the capacity expansion.

Comparison between YTD 2019 with YTD 2018

The Group achieved revenue of RM157.7 million for YTD 2019, an increase of 7.1% from the corresponding period of RM147.2 million. The increase was attributable to sales growth in Domestic, China and Rest of Asia market. Continuing the positive sales trend from prior year, our sales in China achieved the greatest growth of 36.3% from RM8.5 million in YTD 2018 to RM11.5 million in YTD 2019 mainly driven by the growing demand of western style convenience food (tortilla). Nevertheless, the Group profit after tax decreased by 60.1% (-RM10.3 million) from RM17.2 million in YTD 2018 to RM6.9 million in YTD 2019. The decrease was principally due to higher operating cost and depreciation charged for the capacity expansion

14 Variance of quarterly results compared to preceding quarter

	Current Quarter 30 Sep 2019 RM'000	Immediate Preceding Quarter 30 Jun 2019 RM'000	Changes (%)
Revenue	50,148	57,212	-12.3%
Profit before tax	3,267	3,513	-7.0%
Profit after tax	2,543	2,747	-7.4%
Profit attributable to owner of the Company	2,688	2,747	-2.1%

For the current quarter under review, the Group achieved revenue of RM50.1 million, an decrease of 12.3% from the preceding quarter of RM57.2 million principally attributable to stronger sales demand of Hari Raya festive season in the preceding quarter. Accordingly with the low revenue attained, the Group reported a lower profit after tax of 7.4% from RM2.7 million in preceding quarter to RM2.5 million in current quarter.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

15 Commentary on the prospect

KAWAN new plant in Pulau Indah has achieved greater production efficiency in the second half of 2019, attributable to the on-going cost optimisation and automation solution. The production capacity is currently ahead of demand growth, but the new capacity will eventually be taken up by the growing demand in the domestic and export market. Next quarter, the domestic revenues shall be higher as driven by the winter solstice festival. For export market, we are stepping up efforts to develop new innovative products at untapped market. We are penetrating chinese community in US and UK with the new products branded "Jia You Liang Yuan" targeted to be launched in the first quarter of 2020.

The overview of the business environment remains challenging with rising operating costs such as minimum wage increase in the budget 2020. To mitigate the potential margin pressure, KAWAN will continue to focus on the cost optimisation and investing in automation solutions in order to reduce dependency on manual labour, reduce human error and further enhancing the operational 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 on the cost optimisation and automation solutions are expected to mitigate the potential escalating cost 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 new products sales such as rice bites, potato croquettes, low GI range, etc. In August 2019, KAWAN "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 Sep 2019 RM'000	3 months ended 30 Sep 2018 RM'000	Year-to-date ended 30 Sep 2019 RM'000	Year-to-date ended 30 Sep 2018 RM'000
Profit before tax is arrived at after charging:				
Interest expense	200	210	638	7
Depreciation and amortisation	4,074	1,514	12,441	3,059
Foreign exchange (gain)/loss				
-Realised	(346)	(564)	(559)	(494)
-Unrealised	(170)	-	(1)	562
Net (gain)/loss on financial assets	(123)	213	(190)	263
and after crediting:				
Interest income	113	168	367	319
Other income	106	301	464	410
Gain on disposal of property, plant and equipment	1,571	51	1,517	51

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

18 Finance cost

	3 months ended 30 Sep 2019 RM'000	3 months ended 30 Sep 2018 RM'000	Year-to-date ended 30 Sep 2019 RM'000	Year-to-date ended 30 Sep 2018 RM'000
Interest expense of financial liabilities that are -not at fair value through profit or loss:				
Term loans, secured	200	216	638	427
Other bank charges	37	60	108	102
	<u>237</u>	<u>276</u>	<u>746</u>	<u>529</u>
Recognised in profit or loss	237	60	746	109
Capitalised on qualifying assets: -property, plant and equipment	-	216	-	420
	<u>237</u>	<u>276</u>	<u>746</u>	<u>529</u>

19 Income tax expense

	3 months ended 30 Sep 2019 RM'000	Year-to-date ended 30 Sep 2019 RM'000
Tax expense - Current year	540	1,537
Deferred tax expense -origination and reversal of temporary differences Total	<u>184</u>	<u>449</u>
	<u>724</u>	<u>1,986</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 Sep 2019 RM'000	As at 30 Sep 2018 RM'000
Short term borrowings:		
in Malaysia Ringgit	3,622	3,622
in US Dollar	2,916	-
	<u>6,538</u>	<u>3,622</u>
Long term borrowings: in Malaysia Ringgit	<u>10,264</u>	<u>14,792</u>

22 Material litigation

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

23 Dividends

31 December 2019 has been paid on 29 March 2019.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER AND FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

24 Earnings per share ("EPS")

a) Basic earnings per share

	3 months ended 30 Sep 2019	3 months ended 30 Sep 2018	Year-to-date ended 30 Sep 2019	Year-to-date ended 30 Sep 2018
Profit attributable to equity holders of the parent (RM'000)	2,688	7,096	7,010	17,195
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)	0.75	1.97	1.95	4.78

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: 26 November 2019