Nestlé
Good Food, Good Life

INTERIM REPORT

NESTLÉ (MALAYSIA) BERHAD
(110925-W)
(Incorporated in Malaysia)

The Directors are pleased to present the Interim Report for the period ended 30 September 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2018

	3 months ended 30 Sept			9 months ended 30 Sept		
	2018 RM'000	2017 Restated * RM'000	%	2018 RM'000	2017 Restated * RM'000	%
Revenue - Sales of goods	**1,432,452**	**1,323,253**	**8.3%**	**4,171,182**	**3,978,765**	**4.8%**
Cost of sales	(877,221)	(867,388)		(2,560,795)	(2,495,268)	
Gross profit	**555,231**	**455,865**	**21.8%**	**1,610,387**	**1,483,497**	**8.6%**
Operating expenses	(357,550)	(302,529)		(885,697)	(810,480)	
Operating profit	**197,681**	**153,336**	**28.9%**	**724,690**	**673,017**	**7.7%**
Finance costs	(11,901)	(9,637)		(32,023)	(27,668)	
Finance income	779	363		2,083	1,031	
Share of post tax profit of an associate	162	281		1,204	871	
Profit before tax	**186,721**	**144,343**	**29.4%**	**695,954**	**647,251**	**7.5%**
Tax expense	(49,034)	(25,331)		(160,890)	(136,112)	
Profit after tax	**137,687**	**119,012**	**15.7%**	**535,064**	**511,139**	**4.7%**
Minority interests	-	-		-	-	
Profit after tax and minority interest	**137,687**	**119,012**	**15.7%**	**535,064**	**511,139**	**4.7%**
Profit for the period	**137,687**	**119,012**	**15.7%**	**535,064**	**511,139**	**4.7%**
Other comprehensive income/(expense), net of tax						
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge	(720)	5,539		25,502	(17,297)	
Item that will not be reclassified subsequently to profit or loss	-	-		-	-	
Total other comprehensive income/(expense) for the period, net of tax	(720)	5,539		25,502	(17,297)	
Total comprehensive income for the period	**136,967**	**124,551**	**10.0%**	**560,566**	**493,842**	**13.5%**
Basic earnings per share (sen)	58.72	50.75		228.17	217.97	
Proposed/Declared dividend per share-net (sen)	70.00	70.00		140.00	140.00	

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END (RESTATED) *
Net assets per share attributable to equity holders (RM)	3.02 **	2.71 **

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017.

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

** Calculation based on the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2017).

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018

	As at 30.09.2018 RM'000	As at 31.12.2017 Restated * RM'000
Assets		
Property, plant and equipment	1,194,240	1,295,463
Right of use assets	272,332	134,681
Intangible assets	64,572	61,986
Investment in an associate	5,493	4,709
Deferred tax assets	21,069	20,519
Trade and other receivables	24,734	24,283
Total non-current assets	1,582,440	1,541,641
Trade and other receivables	672,769	580,848
Inventories	461,795	467,316
Current tax assets	163	12,333
Assets classified as held for sale	73,485	-
Cash and cash equivalents	156,941	12,615
Total current assets	1,365,153	1,073,112
Total assets	**2,947,593**	**2,614,753**
Equity		
Share capital	267,500	267,500
Hedging reserve	16,330	(9,172)
Retained earnings	424,946	377,562
Total equity attributable to owners of the Company	708,776	635,890
Liabilities		
Loans and borrowings	84,264	84,264
Lease obligation	169,212	17,836
Employee benefits	93,461	89,749
Deferred tax liabilities	128,317	120,987
Total non-current liabilities	475,254	312,836
Trade and other payables	1,370,520	1,296,619
Loans and borrowings	281,384	305,631
Lease obligation	42,527	43,969
Current tax liabilities	69,132	19,808
Total current liabilities	1,763,563	1,666,027
Total liabilities	2,238,817	1,978,863
Total equity and liabilities	**2,947,593**	**2,614,753**
Net assets per share attributable to shareholders (RM)	3.02 **	2.71 **

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017.

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

** Calculation based on the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2017).

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 SEPTEMBER 2018

	Non Distributable		Distributable	
	Share capital RM'000	*Hedging reserve* RM'000	*Retained profits* RM'000	Total Equity RM'000
At 1 January 2017, as previously reported	*** **267,500**	**10,895**	**368,826**	**647,221**
Adjustments from adoption of MFRS 16 **	-	-	(2,965)	(2,965)
Restated balance as at 1 January 2017	267,500	10,895	365,861	644,256
Cash flow hedge	-	(17,297)	-	(17,297)
Profit for the period	-	-	511,139	511,139
Total comprehensive (expense)/income for the period	**-**	**(17,297)**	**511,139**	**493,842**
Dividends paid:				
- Final dividend for the financial year 2016	-	-	(304,850)	(304,850)
- Interim dividend for the financial year 2017	-	-	(164,150)	(164,150)
Restated balance as at 30 September 2017	**267,500**	**(6,402)**	**408,000**	**669,098**
At 31 December 2017, as previously reported	*** **267,500**	**(9,172)**	**381,600**	**639,928**
Adjustments from adoption of MFRS 16 **	-	-	(4,038)	(4,038)
Restated balance as at 31 December 2017	**267,500**	**(9,172)**	**377,562**	**635,890**
Opening balance adjustments from adoption of MFRS 9 **	-	-	(6,955)	(6,955)
Restated balance as at 1 January 2018	**267,500**	**(9,172)**	**370,607**	**628,935**
Cash flow hedge	-	25,502	-	25,502
Profit for the period	-	-	535,064	535,064
Total comprehensive income for the period	**-**	**25,502**	**535,064**	**560,566**
Dividends paid:				
- Final dividend for the financial year 2017	-	-	(316,575)	(316,575)
- Interim dividend for the financial year 2018	-	-	(164,150)	(164,150)
At 30 September 2018	**267,500**	**16,330**	**424,946**	**708,776**

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017.

** Adjustments of MFRS 9 *Financial Instruments* and MFRS 16 *Leases* is net of deferred tax.

*** In accordance to Section 618 of Companies Act 2016, share premium amounted to RM33 million has been transferred to share capital and the number of shares remain unchanged at 234.5 million.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED
30 SEPTEMBER 2018

	9 months ended 30.09.2018 RM'000	9 months ended 30.09.2017 Restated * RM'000
Cash flows from operating activities		
Profit before tax	695,954	647,251
Adjustments for:		
Amortisation and depreciation	123,205	123,893
Net finance costs	29,940	26,637
Less:		
Movement in working capital	13,266	(196,487)
Income tax paid	(98,475)	(79,040)
Others	6,813	17,438
Net cash from operating activities	**770,703**	**539,692**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(59,139)	(75,759)
Acquisition of intangible assets	(2,893)	-
Others	2,865	2,400
Net cash used in investing activities	**(59,167)**	**(73,359)**
Cash flows from financing activities		
Finance costs paid	(32,023)	(26,488)
Proceed from borrowings	-	173,120
Dividend payment	(480,725)	(469,000)
Payment of lease obligation	(24,537)	(24,071)
Net cash used in financing activities	**(537,285)**	**(346,439)**
Net increase in cash and cash equivalents	**174,251**	**119,894**
Cash and cash equivalents at 1 January	**(17,310)**	**(155,757)**
Cash and cash equivalents at 30 September	**156,941**	**(35,863)**

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017.

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

Notes:

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia and International Financial Reporting Standards. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017.

The accounting policies applied in this interim financial report are the same as those applied in the Group’s consolidated financial statements for the year ended 31 December 2017, except as described below.
The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements for the year ending 31 December 2018.
The Group has adopted MFRS 15 *Revenue from Contracts with Customers* (see A), MFRS 9 *Financial Instruments* (see B) and MFRS 16 *Leases* (see C) from 1 January 2018. Other new standards with effective date from 1 January 2018 do not have material effect on the Group’s financial statements. The changes arising from these adoptions are as described below:

A. Adoption of MFRS 15 *Revenue*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts* , MFRS 118, *Revenue* , IC Interpretation 13, *Customer Loyalty Programmes* , IC Interpretation 15, *Agreements for Construction of Real Estate* , IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services* . MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards.
The Group has concluded that the initial application of MFRS 15 does not have any material financial impacts to the current period and prior period financial statements of the Group.

B. Adoption of MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.
In order to measure the consequences of this new standard, the Group has engaged a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets.
In respect to hedge accounting, the Group reviewed the definition of the hedging relationship in line with the risk management activities and policies, with a specific attention to the identification of the components in the pricing of the commodities. The Group has assessed that there is no significant impact on the initial application of MFRS 9 on the derivatives.

In respect of impairment of financial assets, MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at fair value through other comprehensive income, but not to investments in equity instruments.
On the date of initial application, MFRS 9 did not affect the classification and measurement assets and financial liabilities, except that impairment of trade receivables has increased by RM9.2 million as at 1 January 2018 as a result of applying the ECL model on receivables, deposits and contract assets. As permitted by the transitional provisions of MFRS 9, the Group has elected not to restate comparative figures and thus these adjustments (RM7.0 million net of deferred tax) were recognised in the opening retained earnings.

C. Adoption of MFRS 16 *Leases*

The Group has elected early adoption of MFRS 16 *Leases* with effective of 1 Janaury 2018. MFRS 16 replaces the guidance in MFRS 117, *Leases* , IC Interpretation 4, *Determining whether an Arrangement contains a Lease* , IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* .
MFRS 16 introduces a single on-balance-sheet lease accounting model for lessees and the main changes are explained below:

1. A lessee recognizes:
   a. a right-of-use asset representing its right to use the underlying asset; and
   b. a lease liability representing its obligation to make lease payments.
2. Operating leases expenses are now replaced by:
   a. Depreciation of right-of-use asset.
   b. Interest expense on lease liability.

In accordance with the transitional provisions in MFRS 16, the Group has elected to adopt the retrospective approach, requiring the restatement of the comparative period presented in the financial statements. Refer to Note 1(D) for the adjustments made to the comparative figures.

D. Restatement of comparative figures

(i) Reconciliation of profit or loss and comprehensive income

	As at 30.9.2017		
	Previously reported	**Effect of MFRS 16**	**Restated** *
Revenue - Sales of goods	**3,978,765**	**-**	**3,978,765**
Cost of sales	(2,494,479)	(789)	(2,495,268)
Gross profit	**1,484,286**	**(789)**	**1,483,497**
Operating expenses	(811,337)	857	(810,480)
Operating profit	**672,949**	**68**	**673,017**
Finance costs	(26,488)	(1,180)	(27,668)
Finance income	1,031	-	1,031
Share of post tax profit of an associate	871	-	871
Profit before tax	**648,363**	**(1,112)**	**647,251**
Tax expense	(136,112)	-	(136,112)
Profit after tax	**512,251**	**(1,112)**	**511,139**
Profit after tax and minority interest	**512,251**	**(1,112)**	**511,139**
Profit for the period	**512,251**	**(1,112)**	**511,139**
Total comprehensive income for the period	**494,954**	**(1,112)**	**493,842**
Basic earnings per share (sen)	**218.44**		**217.97**

(ii) Reconciliation of financial position and equity

	As at 31.12.2017		
	Previously reported	**Effect of MFRS 16**	**Restated** *
Assets			
Right of use assets	78,189	56,492	134,681
Other non-current assets	1,405,685	1,275	1,406,960
Total non-current assets	**1,483,874**	**57,767**	**1,541,641**
Total current assets	**1,073,112**	**-**	**1,073,112**
Total assets	**2,556,986**	**57,767**	**2,614,753**
Equity			
Share capital	267,500	-	267,500
Hedging reserve	(9,172)	-	(9,172)
Retained earnings	381,600	(4,038)	377,562
Total equity attributable to owners of the Company	**639,928**	**(4,038)**	**635,890**
Liabilities			
Lease obligation	-	17,836	17,836
Other non-current liabilities	295,000	-	295,000
Total non-current liabilities	**295,000**	**17,836**	**312,836**
Lease obligation	-	43,969	43,969
Other current liabilities	1,622,058	-	1,622,058
Total current liabilities	**1,622,058**	**43,969**	**1,666,027**
Total liabilities	**2,556,986**	**57,767**	**2,614,753**

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

(iii) Reconciliation of cash flows

	9 months ended 30.9.2017		
	Previously reported	Effect of MFRS 16	Restated *
Cash flows from operating activities			
Profit before tax	648,363	(1,112)	647,251
Adjustments for:-			
Amortisation, depreciation and impairment	99,890	24,003	123,893
Net finance costs	25,457	1,180	26,637
Movement in working capital	(196,487)	-	(196,487)
Income tax paid	(79,040)	-	(79,040)
Others	17,438	-	17,438
Net cash from operating activities	**515,621**	**24,071**	**539,692**
Cash flows from investing			
Acquisition of Property, plant and equipment	(75,759)	-	(75,759)
Others	2,400	-	2,400
Net cash used in investing activities	**(73,359)**	**-**	**(73,359)**
Cash flows from financing activities			
Finance cost paid	(26,488)	-	(26,488)
Proceed from borrowings	173,120	-	173,120
Dividend payment	(469,000)	-	(469,000)
Payment of lease obligation	-	(24,071)	(24,071)
Net cash used in financing activities	**(322,368)**	**(24,071)**	**(346,439)**
Net increase in cash and cash equivalents	**119,894**	**-**	**119,894**
Cash and cash equivalents at 1 January	**(155,757)**	**-**	**(155,757)**
Cash and cash equivalents at 30 September	**(35,863)**	**-**	**(35,863)**

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

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

3 The Group's operations are affected by economic cycles and festive seasons.

4 Items affecting assets, liabilities, equity, net income or cash flow

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group.

a. Property, plant and equipment

As at the end of this quarter, the Group has acquired / disposed the following assets:

	3 months ended 30 Sept 2018		9 months ended 30 Sept 2018	
	Assets acquired RM'000	Assets disposed/ write-off RM'000	Assets acquired RM'000	Assets disposed/ write-off RM'000
Building (improvements and additions)	1,277	-	2,349	4
Plant and machinery (include AUC)	25,645	50	45,538	246
Tools and furniture	4,654	190	8,361	284
Motor vehicles	-	-	1,297	138
Information systems	1,345	3	1,594	132
	32,921	**243**	**59,139**	**804**

b. Right of use

In 2nd quarter of this year, the Group has new lease assets (right-of-use) of RM172.9 milion (where lease obligation is RM171.5 million and initial direct cost is RM1.4 million) from the new Distribution Center in Sijangkang with 10 years' tenure.

Addition to lease assets in 3rd quarter of 2018 relates to recognition of NESPRESSO Boutique in Mid Valley Megamall (RM1.5 million).

c. Intangible Assets

In 3rd quarter of this year, the Group has recognised development cost of RM2.9 million to migrate to new system environment on 1st January 2019.

5 Changes in estimates

There were no significant changes in estimates for prior periods that have materially affected the results of this quarter.

6 Debts and equity security

There is no issuance of debts and equity security in this quarter.

7 Dividends paid

Dividends paid during the reporting period are as follows:

	3 months ended 30.09.2018 (RM'000)	9 months ended 30.09.2018 (RM'000)
Interim dividend for the financial year ending 31 December 2018		
70.00 sen per share (single-tier)	164,150	164,150
Final dividend for the financial year ended 31 December 2017		
135.00 sen per share (single-tier)	-	316,575
Total	**164,150**	**480,725**

8 Operating segment

MFRS 8 requires separate reporting of segmental information for operating segments. Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker, which is defined as the Executive Board.
The Group is focused in two areas of activity, Food & Beverages and Others which include Nutrition, Nestlé Professional, Nestlé Health Science and NESPRESSO.

	9 months ended 30 Sept 2018		
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	3,345,838	825,344	4,171,182
Operating Profit	585,145	139,246	724,391

	9 months ended 30 Sept 2017		
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	3,190,413	788,352	3,978,765
Operating Profit	554,052	118,631	672,683

The comments on page 8 apply to both segments Food & Beverages (80% of total sales) and Others (20% of total sales).

Reconciliations of reportable segment operating profit:	9 months ended 30.09.2018 RM'000	9 months ended 30.09.2017 Restated * RM'000
Total operating profit for reported segments	724,391	672,683
Other unallocated income	299	334
Consolidated operating profit	**724,690**	**673,017**

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

9 Valuation of property, plant and equipment

There were no changes or amendments to the valuation of property, plant and equipment from the previous annual financial statements.

10 Events subsequent to balance sheet date

On 9 October 2018, the Group announced that it would move existing MILO manufacturing operations in Petaling Jaya (PJ) Factory to Chembong Factory, as part of its strategy to establish Chembong Factory as the world's biggest MILO Manufacturing Centre of Excellence. Pursuant to this plan, Nestlé Products Sdn Bhd ("NPS") and Nestlé Manufacturing (Malaysia) Sdn Bhd ("NMM"), subsidiaries of the Group, have entered into a Business Transfer Agreement with Lactalis Trading Malaysia Sdn. Bhd. and Lactalis Manufacturing Malaysia Sdn. Bhd., a global leader in the dairy business, to sell and transfer the Chilled Dairy business, PJ factory and a segment of manufacturing assets for a total cash consideration of RM155.3 million.

The divestment of PJ factory, including the manufacturing of chilled dairy products and cold sauces and the packing of milk powder, is expected to take effect on 1 July 2019. The Chilled Dairy business however is expected to be taken over by Lactalis Trading Malaysia Sdn. Bhd. effective from 1 January 2019.

As of 30 September 2018, the carrying amount of assets at PJ factory and Chilled Dairy business classified as Assets Held for Sale amounting to RM73.5 million (2017: Nil).

11 Changes in the composition of the Group

There were no changes in the composition of the Group in this quarter.

12 Changes in contingent liabilities

As of the date of this report, there were no contingent liabilities to the Group.

13 Related party transactions

Transactions related to Nestlé S.A. and companies owned by Nestlé S.A. and other affiliates are as follows:

	3 months ended 30.09.2018 RM'000	9 months ended 30.09.2018 RM'000
IT shared service	5,772	20,590
Net finance costs	3,084	7,443
Purchases of goods and services	205,107	529,933
Sales of finished goods	247,624	685,879
Royalties	70,951	208,053

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1 Review of performance (Quarter 3, 2018 vs Quarter 3, 2017)

For the third quarter ended 30 Sept 2018, the Group increased its revenue by 8.3%, from RM1.32 billion to RM1.43 billion (+RM109 million) compared to Q3 2017. This growth was driven by strong Domestic and Export sales. The 0% GST implementation from June 2018 to August 2018 further boosted consumer spending, leading to higher demand and increased sales. With the move and transition to the new National Distribution Centre (NDC) in late Quarter 2 fully completed in July, the Group benefitted from the encouraging market situation.

The higher turnover coupled with an improved margin contributed to an additional Gross Profit of almost RM100 million (Q3 2017: RM456 million ; Q3 2018: RM555 million). The favourable price trend in major raw materials and our continuous drive for efficiency increases along the supply chain led to this margin improvement. The quarter also saw strong marketing and promotional activities supporting the higher sales, and this was reflected in the higher operational expenses recorded. As a result, the profit before tax increased by 29.4% from RM144.3 million to RM186.7 million, while profit after tax improved from RM119.0 million to RM137.7 million.

2 Review of performance (Year-to-date, 2018 vs Year-to-date, 2017)

For the first nine months ended 30 Sept 2018, the Group registered a turnover of RM4.2 billion, 4.8% higher than the previous year's corresponding period. The strong growth was driven by improved consumer sentiment as well as our successful innovations and renovations. Our MAGGI Noodles range saw especially strong growth, mainly contributed by the launch of our Pedas Giler variety. Other innovative product launches were Nestlé Tropicana Lychee Yogurt Flavour Ice Cream, MILO 3-in-1 Less Sugar and NESCAFÉ Cold Brew.

The turnover growth combined with an improved margin led to an increase in Gross Profit from RM1.48 billion to RM1.61 billion, reflecting a 8.6% jump. Operating Profit was also up by 7.7% from RM673 million to RM725 million. These strong results were achieved despite the one-off expenses incurred due to the relocation of Nestlé's new National Distribution Centre (NDC) in the second quarter, which is also the Group's largest NDC in Asia. Profit after tax rose by RM24 million, from RM511 million to RM535 million.

3 Variation of results against previous quarter (Quarter 3, 2018 vs. Quarter 2, 2018)

In the third quarter, the Group registered a turnover of RM1.4 billion, 9.4% higher than the previous quarter. The 0% GST from June 2018 to August 2018 helped to boost consumer confidence which led to a stronger demand and higher sales..
Profit before tax reduced to a level of RM186.7 million, mainly driven by an anticipated and planned phasing of the Marketing Investments. Q3 shows normally higher investments than Q2.

4 Current year prospects

Against the backdrop of a more encouraging year for the Malaysian economy, we remain committed to our long-term strategy to 'Fuel the Growth' via our innovative drive and enhancing our strong brand portfolio. We are confident that our investments, including the new Nestlé Distribution Centre, will enable us to maintain our solid growth momentum. In line with this committment, the Group has recently announced the RM100 miilion investment in MILO manufacturing making the Chembong Factory the largest MILO manufacturing Centre of Excellence in the world. The Company strives to improve efficiencies across our supply chain and reinvest savings to achieve suatainable and profitable growth.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

	3 months ended 30.09.2018 RM'000	9 months ended 30.09.2018 RM'000
Current tax		
Malaysian - current year	51,045	163,954
- prior year	(1)	(3,985)
Total current tax expense	**51,044**	**159,969**
Deferred tax		
Origination and reversal of temporary differences	(2,010)	921
Total deferred tax expense	**(2,010)**	**921**
Total income tax expense	**49,034**	**160,890**

7 Unquoted investments

Not applicable in this quarter.

8 Quoted investments

Not applicable to the Group.

9 Status of corporate proposals

There were no corporate proposals in this quarter.

10 Loans and borrowings

Group Borrowings and Debt Securities are:

	As at 30.09.2018 RM'000
Short term - Unsecured loans	
Loan from a related company	281,384
Bank overdraft	-
Total short term loans	**281,384**
Long term - Unsecured loans	
Loan from a related company	84,264
Total long term loans	**84,264**

The Group has a short-term unsecured loan from Nestlé Treasury Centre - Middle East & Africa for the amount of USD69 million (RM281 million). This loan is for 6-months tenor with roll-over option. Long term unsecured loan of RM84 million is also from Nestlé Treasury Centre - Middle East & Africa. The Group also obtained a bank overdraft facility from a local bank in Malaysia.

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 30.09.2018 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	(368)	(367)	-	Less than 1 year
Commodity futures	58	58	-	Less than 1 year

12 Material litigation

As of the date of this report, there were no material litigations against the Group.

13 Dividend

The Board of Directors has declared an interim dividend of 70.00 sen per share (2017: 70.00 sen per share) in respect of financial year ending 31 December 2018 which will be paid on 13 December 2018 to shareholders whose names appear on the Record of Depositors on 21 November 2018. Under current rules, single-tier dividends are not taxable in the hand of shareholders.

A Depositor shall qualify for entitlement only in respect of:
a. shares transferred into the Depositor's Securities Account before 4.00 p.m. on 21 November 2018 in respect of ordinary transfers.
b. shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of the Bursa Malaysia Securities Berhad.

14 Profit for the period

	3 months ended 30 Sept		9 months ended 30 Sept	
	2018 RM'000	2017 Restated * RM'000	2018 RM'000	2017 Restated * RM'000
Profit for the period is arrived at after charging:				
Amortisation of right of use	7,974	8,256	22,112	24,003
Amortisation of intangible assets	106	106	310	310
Depreciation of property, plant and equipment	34,439	36,587	100,783	102,265
Finance cost of lease obligation	1,950	360	3,144	1,180
Loss on derivatives	4,999	-	-	-
Loss on disposal of property, plant and equipment	4	-	134	-
Provision & write off of receivables	1,709	816	11,642	624
Provision & write off of inventories	389	-	1,203	-
Property, plant and equipment written off	215	17	307	86
and after crediting:				
Gain on derivatives	-	333	309	569
Gain on disposal of property, plant and equipment	-	63	-	1,200
Reversal of provision of inventories	-	727	-	4,802
Net foreign exchange gain	881	58	6,818	11,193

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases* . Please refer to Note 1(C) of page 4.

15 Financial instruments disclosure

Fair value information

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:

	As at 30.09.2018				
	Fair value of financial instruments carried at fair value				Carrying amount
	Level 1	Level 2	Level 3	Total fair value	
	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets					
Commodity futures	432	-	-	432	432
Forward exchange contracts	-	19,960	-	19,960	19,960
Financial liabilities					
Forward exchange contracts	-	(5,531)	-	(5,531)	(5,531)
Commodity futures	(2,212)	-	-	(2,212)	(2,212)
	Fair value of financial instruments not carried at fair value				**Carrying amount**
	Level 1	**Level 2**	**Level 3**	**Total fair value**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets					
Loans to employees	-	-	39,337	39,337	39,337
Financial liabilities					
Loan from a related company	-	-	(365,648)	(365,648)	(365,648)

	As at 30.09.2017				
	Fair value of financial instruments carried at fair value				Carrying amount
	Level 1	Level 2	Level 3	Total fair value	
	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets					
Commodity futures	513	-	-	513	513
Forward exchange contracts	-	5,727	-	5,727	5,727
Financial liabilities					
Forward exchange contracts	-	(11,830)	-	(11,830)	(11,830)
Commodity futures	(6,127)	-	-	(6,127)	(6,127)
	Fair value of financial instruments not carried at fair value				**Carrying amount**
	Level 1	**Level 2**	**Level 3**	**Total fair value**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets					
Loans to employees	-	-	40,051	40,051	40,051
Financial liabilities					
Loan from a related company	-	-	(371,531)	(371,531)	(371,531)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 2 fair value

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the period (2017: no transfer in either directions).

Level 3 fair value

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

16 Basic earnings per share

a. Basic earnings per share

The calculation of the basic earnings per share is based on the net profit attributable to ordinary shareholders of RM535.1 million (RM511.1 million in September 2017) and the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2017).

b. Diluted earnings per share

Not applicable for the Group

BY ORDER OF THE BOARD

Tengku Ida Adura Binti Tengku Ismail, *MCCS* (MACS 01686)

Company Secretary

Date : October 30, 2018