

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2019

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 AND OTHER COMPREHENSIVE INCOME**

For the period ended 30 June 2019 – unaudited

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		Current Quarter Ended 30 Jun 2019 RM'000	Preceding Year Corresponding Quarter Ended 30 Jun 2018 RM'000	Current Year To-Date Ended 30 Jun 2019 RM'000	Preceding Year To-Date Ended 30 Jun 2018 RM'000
Revenue		753,061	491,584	1,401,135	1,011,273
Profit from operations		80,398	57,966	152,179	111,934
Finance costs		(8,865)	(4,747)	(17,448)	(12,097)
Share of profit of associates		511	415	1,156	473
Profit before tax	A10	72,044	53,634	135,887	100,310
Tax expense	A11	(11,047)	(10,604)	(21,750)	(17,948)
Profit for the period		60,997	43,030	114,137	82,362
Other comprehensive income, net of tax					
Exchange differences on translation foreign operations		4,458	12,512	(33)	1,787
Share of other comprehensive (expense) / income of associates		19	695	1	1,129
Total other comprehensive loss for the period, net of tax		4,477	13,207	(32)	2,916
Total comprehensive income for the period		65,474	56,237	114,105	85,278
Profit attributable to:					
Owners of the Company		60,997	43,030	114,137	82,362
Non-controlling interests		-	-	-	-
Profit for the period		60,997	43,030	114,137	82,362
Total comprehensive income attributable to:					
Owners of the Company		65,474	56,237	114,105	85,278
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		65,474	56,237	114,105	85,278
Basic earnings per ordinary share (sen)	A12	12.77	9.01	23.89	17.24

The above condensed consolidated statement of 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.

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 – unaudited

	Note	30 June 2019 RM'000	31 December 2018 RM'000
Assets			
Non-current assets			
Property, plant and equipment		455,761	447,850
Prepaid lease payments	A13	9,830	10,187
Intangible assets	A14	11,956	11,956
Investment property		22,790	23,296
Investment in associates		7,935	6,778
Lease assets		246	-
		508,518	500,067
Current assets			
Inventories		851,457	868,949
Trade and other receivables		395,218	328,456
Derivative financial assets		5,941	41,269
Tax recoverable		708	610
Lease assets		1,333	-
Deposits, bank and cash balances		41,164	44,799
		1,295,821	1,284,083
Total assets		1,804,339	1,784,150
Equity			
Share capital		121,832	121,832
Treasury shares		(5,347)	(5,347)
Foreign currency translation reserve		44,119	44,151
Retained profits		611,086	506,505
Total equity		771,690	667,141
Non-current liabilities			
Loans and borrowings	A16	50,726	43,372
Provision for employee benefit		1,782	1,783
Deferred tax liabilities		35,773	35,784
Lease liabilities		246	-
		88,527	80,939
Current liabilities			
Trade and other payables		192,461	431,391
Derivative financial liabilities		1,193	33,029
Loans and borrowings	A16	719,418	558,995
Tax payable		29,496	12,655
Lease liabilities		1,554	-
		944,122	1,036,070
Total liabilities		1,032,649	1,117,009
Total equity and liabilities		1,804,339	1,784,150
Net assets per share (sen)			
attributable to owners of the Company		161.51	139.62

The above 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.

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2019

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019 – unaudited

	← Non-distributable →			Distributable	
	Share Capital RM'000	Treasury Share RM'000	Foreign Currency Translation Reserve RM'000	Retained Profits RM'000	Total Equity RM'000
Balance as at 1 January 2019	121,832	(5,347)	44,151	506,505	667,141
Profit for the period	-	-	-	114,137	114,137
Other comprehensive income for the period:					
foreign currency translation differences	-	-	(33)	-	(33)
share of other comprehensive expense of associates	-	-	1	-	1
remeasurement of post-employment benefit obligation, net of tax	-	-	-	-	-
Total comprehensive (loss)/income for the period	-	-	(32)	114,137	114,105
Transactions with owners					
Purchase of treasury shares	-	-	-	-	-
Dividends	-	-	-	(9,556)	(9,556)
Contribution from/distribution to owners of the Company	-	-	-	(9,556)	(9,556)
Balance at 30 June 2019	121,832	(5,347)	44,119	611,086	771,690
Balance as at 1 January 2018	121,832	(5,195)	37,073	325,883	479,593
Profit for the year	-	-	-	190,115	190,115
Other comprehensive (loss)/income for the year:					
foreign currency translation differences	-	-	9,038	-	9,038
remeasurement of post-employment benefit obligation, net of tax	-	-	-	63	63
share of other comprehensive loss of associates	-	-	(1,960)	-	(1,960)
Total comprehensive (loss)/income for the year	-	-	7,078	190,178	197,256
Transactions with owners					
Purchase of treasury shares	-	(152)	-	-	(152)
Dividend paid	-	-	-	(9,556)	(9,556)
Total transactions with owners	-	(152)	-	(9,556)	(9,708)
Balance at 31 December 2018	121,832	(5,347)	44,151	506,505	667,141

The above 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.

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2019

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2019 – unaudited

	Six Months Ended	
	30-Jun-19	30-Jun-18
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	135,887	100,310
Adjustments for:		
Non-cash and non-operating items	35,117	(8,572)
Operating profit before working capital changes	171,004	91,738
Changes in working capital		
Net change in current assets	(49,028)	168,030
Net change in current liabilities	(240,007)	(55,423)
Cash (used in) / generated from operations	(118,031)	204,345
Tax paid	(6,857)	(494)
Tax refund	2,054	4,197
Interest paid	(17,448)	(12,097)
Interest received	191	158
Net cash (used in) / from operating activities	(140,091)	196,109
Cash flows from investing activities		
Purchase of property, plant and equipment	(23,046)	(51,112)
Payment to holding company	363	(2,071)
Proceeds from disposal of PPE	1,730	-
Payment for the lease rental	(68)	-
Net cash used in investing activities	(21,021)	(53,183)
Cash flows from financing activities		
Bank and other borrowings	167,283	(137,961)
Changes in Fixed deposit pledged	-	(728)
Purchase of treasury shares	-	(152)
Dividend paid	(9,556)	-
Net cash from / (used in) financing activities	157,727	(138,841)
Net (decrease) / increase in cash and cash equivalents	(3,385)	4,085
Effect of exchange rate changes	(1,000)	7,366
Cash and cash equivalents at the beginning of financial period	31,358	26,938
Cash and cash equivalents at the end of financial period	26,973	38,389
Cash and cash equivalents at the end of financial period comprise of :		
Deposits, bank and cash balances	41,164	51,913
Bank overdrafts	-	-
	41,164	51,913
Less : Non-cash and cash equivalents		
Fixed deposit pledged to bank as collateral	(14,191)	(13,524)
	26,973	38,389

The above 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 INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A. Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of Guan Chong Berhad (“GCB” or the “Company”) and its subsidiaries (“Group”) for the financial year ended 31 December 2018. These explanatory notes attached to the 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 year ended 31 December 2018.

A2. Significant accounting policies

The audited financial statements of the Group for the year ended 31 December 2018 were prepared in accordance with MFRS. The significant accounting policies adopted in preparing this Condensed Report are consistent with those of the audited financial statements for the financial year ended 31 December 2018, except for those standards, amendments and IC interpretations which are effective from the annual period beginning on or after 1 January 2019. The adoptions of these standards, amendments and IC interpretations have no material impact on this Condensed Report.

A3. Seasonal or cyclical factors

The cocoa processing industry is, to a certain extent, subject to the seasonal pattern of the consumption of cocoa-based products within a year.

A4. Unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows

Other than those stated in the notes, there are no other items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size, or incidence.

A5. Material changes in estimates

There was no material changes in estimates of amounts reported that will have a material effect during the current quarter under review.

A6. Issuances and repayment of debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter under review.

A7. Dividends paid

First interim single-tier dividend of 1.5 sen per ordinary share amounting to RM7,167,073.37 in respect of the financial year ending 31 December 2019 was declared on 29 May 2019 and subsequently paid on 5 July 2019. The payment was made to shareholders whose names appeared in the Company’s Record of Depositors on 14 June 2019.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A8. Segmental information

The Group presenting segmental information on the basis of geographical segments, segment revenue and segment assets are based on the geographical location of the assets.

Six Months Ended 30 June 2019	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	554,365	761,688	53,886	31,196	-	1,401,135
Internal segment revenue	1,047,377	1,390,473	561,195	33,900	(3,032,945)	-
Total revenue	1,601,742	2,152,161	615,081	65,096	(3,032,945)	1,401,135
Segment result	80,219	65,741	21,161	33,796	(32,445)	168,472
Interest income						191
Finance cost						(17,448)
Depreciation & amortisation						(15,328)
Profit before tax						135,887
Tax expenses						(21,750)
Profit for the period						114,137
Segment assets	965,756	165,893	567,587	104,395	-	1,803,631
Tax recoverable						708
Total assets						1,804,339
Segment liabilities	48,612	120,266	26,722	1,636	-	197,236
Deferred tax liabilities						35,773
Tax payables						29,496
Borrowings						770,144
						1,032,649

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A8. Segmental information – (cont'd)

Six Month Ended 30 June 2018	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	400,696	564,260	17,327	28,990	-	1,011,273
Internal segment revenue	437,063	689,167	52,831	12	(1,179,073)	-
Total revenue	837,759	1,253,427	70,158	29,002	(1,179,073)	1,011,273
Segment result	45,361	70,009	7,820	3,059	(851)	125,398
Interest income						158
Finance cost						(12,097)
Depreciation & amortisation						(13,149)
Profit before tax						100,310
Tax expenses						(17,948)
Profit for the period						82,362
Segment assets	796,768	326,804	265,485	76,985	-	1,466,042
Tax recoverable						4,099
Total assets						1,470,141
Segment liabilities	39,225	144,280	17,218	2,728	-	203,451
Deferred tax liabilities						32,064
Tax payables						20,358
Borrowings						649,549
						905,422

A9. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter under review.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A10. Profit before tax

Included in the profit before tax are the following items:

	Current Quarter Ended 30-Jun-19 RM'000	Current Year To-Date 30-Jun-19 RM'000
Amortisation of prepaid lease payments	142	282
Amortisation of leases	453	577
Depreciation	7,366	14,469
Realised gain on foreign exchange	(1,174)	(2,054)
Unrealised loss / (gain) on foreign exchange	904	(3,192)
Unrealised (gain) / loss on forward currency contracts	(2,187)	2,272
Realised gain on commodity future contracts	(4,157)	(20,289)
Unrealised loss on commodity future contracts	598	3,059
Unrealised gain on commodity option contracts	(75)	(1,851)
Unrealised gain on currency option contracts	(187)	-
Unrealised loss on interest rate swap	-	4
Impairment loss on trade receivables	155	478
Interest expense	8,865	17,448
Interest income	(91)	(191)

A11. Tax expense

	Current Quarter Ended		Current Year To-Date Ended	
	30-Jun-19	30-Jun-18	30-Jun-19	30-Jun-18
	RM'000	RM'000	RM'000	RM'000
Income tax expense:				
- Current period estimate	11,047	10,602	21,750	17,853
- Underprovision in prior year	-	2	-	95
	11,047	10,604	21,750	17,948

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A12. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the financial period as follows:-

	Current Quarter Ended		Current Year To-Date Ended	
	30-Jun-19	30-Jun-18	30-Jun-19	30-Jun-18
Profit for the financial period attributable to owners of the Company (RM'000)	60,997	43,030	114,137	82,362
Weighted average number of ordinary shares in issue ('000)	477,805	477,833	477,805	477,833
Basic earnings per share (sen)	12.77	9.01	23.89	17.24

A13. Prepaid lease payments

	30-Jun-19	31-Dec-18
	RM'000	RM'000
Cost:		
At 1 January	10,187	10,669
Add: Payment for sub-leases	-	-
Additions	-	-
	10,187	10,669
Less: Amortisation of prepaid lease payments	(282)	(806)
Sub-lease rental	68	124
Foreign exchange difference	(143)	200
Disposal of subsidiaries	-	-
At 30 June / December	9,830	10,187
Analysed as:		
Sub-leases of warehouse	474	542
Leasehold land	9,356	9,645
	9,830	10,187

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A14. Intangible assets

	Goodwill	Trademark	Total
	RM'000	RM'000	RM'000
Cost:			
At 1 January 2018	11,945	13	11,958
Additions	-	-	-
Translation differences	-	-	-
At 31 December 2018 and 1 January 2019	11,945	13	11,958
Additions	-	-	-
Acquisition of subsidiary	-	-	-
Adjustment	-	-	-
At 30 June 2019	11,945	13	11,958
Accumulated amortisation and impairment			
At 1 January 2018	-	(1)	(1)
Amortisation	-	(1)	(1)
Impairment	-	-	-
At 31 December 2018 and 1 January 2019	-	(2)	(2)
Amortisation	-	-	-
Impairment	-	-	-
At 30 June 2019	-	(2)	(2)
Net carrying amount:			
At 31 December 2018	11,945	11	11,956
At 30 June 2019	11,945	11	11,956

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A15. Fair value information

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs are unobservable inputs for the asset or liability.

As at reporting date, the Group held the following financial assets or liabilities that are measured at fair value:

	Fair value of financial instruments carried at fair value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
30 June 2019				
Financial assets				
Derivative assets :				
- forward foreign currency contracts	-	2,739	-	2,739
- commodity futures contract	695	-	-	695
- commodity option contracts	2,507	-	-	2,507
	3,202	2,739	-	5,941
Financial liabilities				
Derivative liabilities :				
- commodity futures contract	765	-	-	765
- commodity option contracts	428	-	-	428
	1,193	-	-	1,193
31 December 2018				
Financial assets				
Derivative assets :				
- forward foreign currency contracts	-	5,282	-	5,282
- commodity futures contract	30,493	-	-	30,493
- commodity option contracts	4,754	-	-	4,754
- interest rate swap	740	-	-	740
	35,987	5,282	-	41,269
Financial liabilities				
Derivative liabilities :				
- forward foreign currency contracts	-	1,004	-	1,004
- commodity futures contract	26,767	-	-	26,767
- commodity option contracts	5,257	-	-	5,257
- interest rate swap	1	-	-	1
	32,025	1,004	-	33,029

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A15. Fair value information (Continued)

As at reporting date, the Group held the following financial assets or liabilities that are not measured at fair value (continued):

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
30 June 2019				
Other financial liabilities :				
- Hire purchases	-	797	-	797
	-	797	-	797
31 December 2018				
Other financial liabilities :				
- Hire purchases	-	881	-	881
	-	881	-	881

A16. Loans and borrowings

The Group's borrowings at the end of the current quarter are as follows:

	Denominated in currency	30-Jun-19 RM'000	31-Dec-18 RM'000
Current			
- Term loans	USD	13,945	15,309
	RM	411	-
- Trade loans	USD	594,573	406,988
	GBP	46,312	5,086
- Revolving credit	USD	62,003	129,442
	RM	2,000	2,000
- Obligation under finance leases	RM	174	170
		719,418	558,995
Non-Current			
- Term loans	USD	47,703	42,661
	RM	2,400	-
- Obligation under finance leases	RM	623	711
		50,726	43,372
		770,144	602,367

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

A17. Contingent liabilities

	Group and company	
	30-Jun-19	31-Dec-18
	RM'000	RM'000
Corporate guarantees - unsecured		
Issued to banks for banking facilities granted to subsidiaries		
- limit of guarantee	1,814,912	1,712,047
- amount utilised	(767,203)	(610,244)

The Directors are of the view that the chances of the financial institutions to call upon the corporate guarantees are remote. Accordingly, the fair values of the above corporate guarantees given to subsidiaries for banking facilities are negligible.

A18. Commitments

(a) Lease commitments

At the end of the current quarter, the Group has the following outstanding land lease rental commitments:-

	RM'000
Authorised and contracted for	<u>4,265</u>

(b) Capital commitments

At the end of the current quarter, capital expenditure of the Group contracted but not provided for are as follows :-

	RM'000
Authorised and contracted for :	
Property, plant and equipment	<u>68,279</u>

A19. Material events subsequent to the end of the current quarter

There was no material events subsequent to the current quarter ended 30 June 2019 that have not been reflected in this quarterly report.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

B. Explanatory notes pursuant to Bursa Malaysia Listing Requirements: Chapter 9, Appendix 9B, Part A

B1. Review of performance

The Group's revenue of RM753.1 million for the current quarter ended 30 June 2019 is higher than the revenue in the previous corresponding quarter ended 30 June 2018 of RM491.6 million. The increase of 53.2% in turnover is mainly due to increase in sales volume of cocoa products.

The Group made a profit before tax for the quarter 30 June 2019 of RM72.0 million as compared with the profit before tax of RM53.6 million in the preceding year corresponding quarter ended 30 June 2018. This is mainly due to higher sales volume achieved during current quarter ended 30 June 2019 as compared to preceding year corresponding quarter ended 30 June 2018.

B2. Comment on material change in profit before tax

The Group recorded a higher profit before tax of RM72.0 million for the current quarter as compared to a profit before tax of RM63.8 million in the immediate preceding quarter. This is mainly due to higher sales volume achieved during this quarter.

B3. Commentary of prospects

The Group expects the business environment for the financial year ending 31 December 2019 to be less volatile. We expect that our overall performance remain positive as strong growth of global demand for chocolate is projected.

The Group will continue to focus on efforts to explore new markets for its wide range of cocoa ingredients, optimise production according to market conditions and expand overall grinding capacity.

B4. Profit forecast or profit guarantee

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

B5. Corporate proposals

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

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2019

B6. Derivative financial instruments

Details of the outstanding derivative financial instruments as at 30 June 2019 are as follows:

	Derivative	Contract Amount RM'000	Fair Value - Net Gains/ (Losses) RM'000	Purpose
1	Forward Foreign Exchange Contracts: Sale Contracts - Less than 1 year Purchase Contracts - Less than 1 year	159,291 0	2,717 0	For hedging currency risk
2	Commodity Futures Sale Contracts - Less than 1 year Purchase Contracts - Less than 1 year	275,023 77,680	1,991 1,797	For hedging price risk

The fair values of the above derivatives are determined by using the market rates at the end of reporting period and changes in the fair values are recognised in the profit and loss. The subsequent cumulative change in the fair value of the commitment attributable to the hedged risk is recognised as an asset or a liability with the corresponding gain or loss recognised in the profit or loss.

There have been no significant changes to the Group's exposure credit risk, market risk and liquidity risk from the previous financial year. Also, there have been no changes to the Group's risk management objectives, policies and processes since the previous financial year end.

B7. Material litigation

There was no material litigation against the Group as at the date of these interim financial statements.

B8. Dividend declared or recommended

On 19 Aug 2019, the board declared the second interim single-tier dividend of 1.5 sen per ordinary share in respect of financial year ending 31 December 2019 to shareholders registered in the Record of Depositors at close of business on 4 September 2019 and subsequently will be paid on 27 September 2019.

B9. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2018 was not qualified.

Tay Hoe Lian
 Managing Director
 Dated: 19.08.2019