

INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

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

For the period ended 30 September 2018 – unaudited

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		Current Quarter Ended 30 Sept 2018 RM'000	Preceding Year Corresponding Quarter Ended 2017 RM'000	Current Year To-Date Ended 30 Sept 2018 RM'000	Preceding Year To-Date Ended 2017 RM'000
Revenue		598,781	542,860	1,610,054	1,656,476
Profit from operations		60,134	42,197	172,068	85,619
Finance costs		(6,920)	(4,959)	(19,017)	(14,910)
Share of profit / (loss) of associates		688	(888)	1,161	(519)
Profit before tax	A10	53,902	36,350	154,212	70,190
Tax expense	A11	(10,031)	(6,654)	(27,979)	(11,858)
Profit for the period		43,871	29,696	126,233	58,332
Other comprehensive income, net of tax					
Exchange differences on translation foreign operations		7,262	(4,171)	9,049	(14,102)
Share of other comprehensive expense of associates		(1,180)	-	(51)	-
Total other comprehensive (loss)/income for the period, net of tax		6,082	(4,171)	8,998	(14,102)
Total comprehensive income for the period		49,953	25,525	135,231	44,230
Profit attributable to:					
Owners of the Company		43,871	29,696	126,233	58,332
Non-controlling interests		-	-	-	-
Profit for the period		43,871	29,696	126,233	58,332
Total comprehensive income attributable to:					
Owners of the Company		49,953	25,525	135,231	44,230
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		49,953	25,525	135,231	44,230
Basic earnings per ordinary share (sen)	A12	9.18	6.21	26.42	12.21
Diluted earnings per ordinary share (sen)	A12(b)	9.18	6.21	26.42	12.21

The above condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018 – unaudited

		30 Sept 2018	31 December 2017
	Note	RM'000	RM'000
Assets			
Non-current assets			
Property, plant and equipment		431,248	373,033
Prepaid lease payments	A13	10,363	10,669
Intangible assets	A14	11,956	11,957
Investment property		23,548	24,170
Investment in associates		8,794	7,684
		485,909	427,513
Current assets			
Derivative financial assets		8,802	6,604
Inventories		671,072	862,190
Trade and other receivables		317,192	238,221
Tax recoverable		2,851	5,717
Deposits, bank and cash balances		73,673	39,924
		1,073,590	1,152,656
Total assets		1,559,499	1,580,169
Equity			
Share capital		121,832	121,832
Treasury shares		(5,347)	(5,195)
Foreign currency translation reserve		46,071	37,073
Retained profits		442,559	325,883
Total equity		605,115	479,593
Non-current liabilities			
Loans and borrowings	A16	26,743	17,463
Provision for employee benefit		1,689	1,653
Deferred tax liabilities		32,423	32,101
		60,855	51,217
Current liabilities			
Derivative financial liabilities		14,745	20,044
Trade and other payables		190,833	253,321
Loans and borrowings	A16	660,757	769,842
Tax payable		27,194	6,152
		893,529	1,049,359
Total liabilities		954,384	1,100,576
Total equity and liabilities		1,559,499	1,580,169
Net assets per share (sen)			
attributable to owners of the Company		126.63	100.35

The above condensed consolidated statement of financial positioning should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2018 – unaudited

	← Non-distributable →				Distributable	
	Share Capital	Treasury Share	Share Premium	Foreign Currency Translation Reserve	Retained Profits	Total Equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January 2018	121,832	(5,195)	-	37,073	325,883	479,593
Profit for the period	-	-	-	-	126,233	126,233
Other comprehensive income for the period:						
foreign currency translation differences	-	-	-	9,049	-	9,049
share of other comprehensive expense of associates	-	-	-	(51)	-	(51)
Total comprehensive (loss)/income for the period	-	-	-	8,998	126,233	135,231
Transactions with owners						
Purchase of treasury shares	-	(152)	-	-	-	(152)
Dividends	-	-	-	-	(9,557)	(9,557)
Contribution from/distribution to owners of the Company	-	(152)	-	-	(9,557)	(9,709)
Balance at 30 September 2018	121,832	(5,347)	-	46,071	442,559	605,115
Balance as at 1 January 2017	120,040	(5,195)	1,792	60,752	246,844	424,233
Profit for the year	-	-	-	-	91,045	91,045
Other comprehensive (loss)/income for the year:						
foreign currency translation differences	-	-	-	(25,140)	-	(25,140)
remeasurement of post-employment benefit obligation, net of tax	-	-	-	-	(58)	(58)
share of other comprehensive income of associates	-	-	-	1,461	-	1,461
Total comprehensive (loss)/income for the year	-	-	-	(23,679)	90,987	67,308
Transactions with owners						
Dividend paid	-	-	-	-	(11,948)	(11,948)
Transfer pursuant to Companies Act 2016*	1,792	-	(1,792)	-	-	-
Balance at 31 December 2017	121,832	(5,195)	-	37,073	325,883	479,593

*Pursuant to the Companies Act 2016, the credit balance in the share premium account has been transferred to the share capital account.

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 2017 and the accompanying explanatory notes attached to the interim financial statements.

INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2018 – unaudited

	Nine Months Ended	
	30-Sep-18	30-Sep-17
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	154,211	70,190
Adjustments for:		
Non-cash and non-operating items	22,049	23,342
Operating profit before working capital changes	176,260	93,532
Changes in working capital		
Net change in current assets	117,272	30,322
Net change in current liabilities	(74,373)	(120,964)
Cash generated from/(used in) operations	219,159	2,890
Tax paid	(789)	(1,156)
Tax refund	4,197	-
Interest paid	(19,017)	(14,839)
Interest received	310	461
Net cash from operating activities	203,860	(12,644)
Cash flows from investing activities		
Purchase of property, plant and equipment	(76,180)	(9,089)
Payment to holding company	(4,471)	(7,104)
Acquisition of Subsidiary	-	(13,122)
Proceeds from disposal of PPE	-	2,982
Payment for the lease rental	(124)	(124)
Net cash used in investing activities	(80,775)	(26,457)
Cash flows from financing activities		
Bank and other borrowings	(107,286)	53,930
Changes in Fixed deposit pledged	(728)	1,546
Purchase of treasury shares	(152)	-
Dividend paid	(9,556)	-
Net cash used in financing activities	(117,722)	55,476
Net increase / (decrease) in cash and cash equivalents	5,363	16,375
Effect of exchange rate changes	27,678	(3,386)
Cash and cash equivalents at the beginning of financial period	26,938	48,433
Cash and cash equivalents at the end of financial period	59,979	61,422
Cash and cash equivalents at the end of financial period comprise of :		
Deposits, bank and cash balances	73,673	74,088
Bank overdrafts		
	73,673	74,088
Less : Non-cash and cash equivalents		
Fixed deposit pledged to bank as collateral	(13,694)	(12,666)
	59,979	61,422

The above condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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 2017. 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 2017.

A2. Significant accounting policies

The audited financial statements of the Group for the year ended 31 December 2017 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 2017, except for those standards, amendments and IC interpretations which are effective from the annual period beginning on or after 1 January 2018. 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 2.0 sen per ordinary share amounting to RM9,556,095.04 in respect of the financial year ending 31 December 2018 was declared on 13 August 2018 and subsequently paid on 28 September 2018. The payment was made to shareholders whose names appeared in the Company’s Record of Depositors on 29 August 2018.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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.

Nine Months Ended 30 September 2018	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	651,739	873,714	44,029	40,572	-	1,610,054
Internal segment revenue	768,713	1,588,792	376,541	27	(2,734,073)	-
Total revenue	1,420,452	2,462,506	420,570	40,599	(2,734,073)	1,610,054
Segment result	82,682	90,331	15,407	4,934	(347)	193,007
Interest income						310
Finance cost						(19,017)
Depreciation & amortisation						(20,088)
Profit before tax						154,212
Tax expenses						(27,979)
Profit for the period						126,233
Segment assets	938,166	936,054	504,572	240,680	(1,062,824)	1,556,648
Deferred tax assets						-
Tax recoverable						2,851
Total assets						1,559,499
Segment liabilities	728,484	622,392	421,995	114,058	(1,679,662)	207,267
Deferred tax liabilities						32,423
Tax payables						27,194
Borrowings						687,500
						954,384

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

A8. Segmental information – (cont'd)

Nine Months Ended 30 September 2017	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	811,367	729,147	70,853	45,109	-	1,656,476
Internal segment revenue	608,754	1,299,120	55,645	-	(1,963,519)	-
Total revenue	1,420,121	2,028,267	126,498	45,109	(1,963,519)	1,656,476
Segment result	52,235	41,477	15,664	(3,846)	(1,739)	103,791
Interest income						461
Finance cost						(14,910)
Depreciation & amortisation						(19,152)
Profit before tax						70,190
Tax expenses						(11,858)
Profit for the period						58,332
Segment assets	760,716	818,551	299,657	259,275	(687,630)	1,450,569
Deferred tax assets						-
Tax recoverable						-
Total assets						1,450,569
Segment liabilities	620,095	592,370	221,042	111,773	(1,351,455)	193,825
Deferred tax liabilities						19,668
Tax payables						4,396
Borrowings						764,216
						982,105

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 – THIRD QUARTER ENDED 30 SEPTEMBER 2018

A10. Profit before tax

Included in the profit before tax are the following items:

	Current Quarter Ended 30-Sep-18 RM'000	Current Year To-Date 30-Sep-18 RM'000
Amortisation of prepaid lease payments	139	404
Depreciation	6,800	19,684
Realised gain on foreign exchange	(6,320)	(5,252)
Unrealised loss on foreign exchange	1,661	13,925
Unrealised loss / (gain) on forward currency contracts	9,725	(10,017)
Realised gain on commodity future contracts	(8,856)	(26,933)
Unrealised loss on commodity future contracts	10,748	9,007
Unrealised loss / (gain) on commodity option contracts	3,510	(6,781)
Unrealised loss on currency option contracts	34	34
(Reversal of) / Impairment loss on trade receivables	(2,641)	2,415
Interest expense	6,920	19,017
Interest income	(152)	(310)
Unrealised loss on interest rate swap	14	37

A11. Tax expense

	Current Quarter Ended		Current Year To-Date Ended	
	30-Sep-18 RM'000	30-Sep-17 RM'000	30-Sep-18 RM'000	30-Sep-17 RM'000
Income tax expense:				
- Current period estimate	10,025	6,654	27,878	11,858
- Underprovision in prior year	6	-	101	-
	10,031	6,654	27,979	11,858

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 – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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-Sep-18	30-Sep-17	30-Sep-18	30-Sep-17
Profit for the financial period attributable to owners of the Company (RM'000)	43,871	29,696	126,233	58,332
Weighted average number of ordinary shares in issue ('000)	477,862	477,918	477,862	477,918
Basic earnings per share (sen)	9.18	6.21	26.42	12.21

A13. Prepaid lease payments

	30-Sep-18	31-Dec-17
	RM'000	RM'000
Cost:		
At 1 January	12,501	12,501
Add: Payment for sub-leases	-	-
Additions	-	-
	12,501	12,501
Less: Amortisation of prepaid lease payments	(404)	(847)
Sub-lease rental	124	123
Foreign exchange difference	(1,858)	(1,108)
Disposal of subsidiaries	-	-
At 31 December	10,363	10,669
Analysed as:		
Sub-leases of warehouse	553	677
Leasehold land	9,810	9,992
	10,363	10,669

NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

A14. Intangible assets

	Goodwill RM'000	Trademark RM'000	Total RM'000
Cost:			
At 1 January 2017	11,945	-	11,945
Additions	-	14	14
Translation differences	-	(1)	(1)
At 31 December 2017 and 1 January 2018	11,945	13	11,958
Additions	-	-	-
Acquisition of subsidiary	-	-	-
Adjustment	-	-	-
At 30 September 2018	11,945	13	11,958
Accumulated amortisation and impairment			
At 1 January 2017	-	-	-
Amortisation	-	(1)	(1)
Impairment	-	-	-
At 31 December 2017 and 1 January 2018	-	(1)	(1)
Amortisation	-	(1)	(1)
Impairment	-	-	-
At 30 September 2018	-	(2)	(2)
Net carrying amount:			
At 31 December 2017	11,945	12	11,957
At 30 September 2018	11,945	11	11,956

NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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 September 2018				
Financial assets				
Derivative assets :				
- forward foreign currency contracts	-	3,504	-	3,504
- commodity futures contract	34	-	-	34
- commodity option contracts	5,264	-	-	5,264
	5,298	3,504	-	8,802
Financial liabilities				
Derivative liabilities :				
- forward foreign currency contracts	-	36	-	36
- commodity futures contract	9,976	-	-	9,976
- commodity option contracts	4,733	-	-	4,733
	14,709	36	-	14,745
31 December 2017				
Financial assets				
Derivative assets :				
- forward foreign currency contracts	-	1,321	-	1,321
- commodity futures contract	4,314	-	-	4,314
- option foreign currency contracts	-	53	-	53
- commodity option contracts	916	-	-	916
	5,230	1,374	-	6,604
Financial liabilities				
Derivative liabilities :				
- forward foreign currency contracts	-	7,889	-	7,889
- commodity futures contract	4,404	-	-	4,404
- option foreign currency contracts	-	-	-	-
- commodity option contracts	7,751	-	-	7,751
	12,155	7,889	-	20,044

NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
30 September 2018				
Other financial liabilities :				
- Hire purchases	-	613	-	613
	-	613	-	613
31 December 2017				
Other financial liabilities :				
- Hire purchases	-	131	-	131
	-	131	-	131

A16. Loans and borrowings

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

	Denominated in currency	30-Sep-18 RM'000	31-Dec-17 RM'000
Current			
- Term loans	USD	30,822	31,647
- Trade loans	USD	595,143	683,662
- Revolving credit	RM	34,678	54,402
- Obligation under finance leases	RM	114	131
		660,757	769,842
Non-Current			
- Term loans	USD	26,244	17,463
- Obligation under finance leases	RM	499	-
		26,743	17,463
		687,500	787,305

A17. Contingent liabilities

	Group and company	
	30-Sep-18 RM'000	31-Dec-17 RM'000
Corporate guarantees - unsecured		
Issued to banks for banking facilities granted to subsidiaries		
- limit of guarantee	1,662,314	1,325,786
- amount utilised	(722,913)	(823,618)

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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	2,653
	<u>2,653</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	11,321
	<u>11,321</u>

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

There was no material events subsequent to the current quarter ended 30 September 2018 that have not been reflected in this quarterly report.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – THIRD QUARTER ENDED 30 SEPTEMBER 2018

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

B1. Review of performance

The Group's revenue of RM598.8 million for the current quarter ended 30 September 2018 is higher than the revenue in the previous corresponding quarter ended 30 September 2017 of RM542.9 million. The increase of 10.3% in turnover is mainly due to increase in sales volume of cocoa products.

The Group made a profit before tax for the quarter 30 September 2018 of RM53.9 million as compared with the profit before tax of RM36.4 million in the preceding year corresponding quarter ended 30 September 2017. This is mainly due to improved margin for current quarter ended 30 September 2018 as compared to preceding year corresponding quarter ended 30 September 2017.

B2. Comment on material change in profit before tax

The Group recorded a higher profit before tax of RM53.9 million for the current quarter as compared to a profit before tax of RM53.6 million in the immediate preceding quarter. This is mainly due to improved margin.

B3. Commentary of prospects

The Group expects the business environment for the financial year ending 31 December 2018 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 – THIRD QUARTER ENDED 30 SEPTEMBER 2018

B6. Derivative financial instruments

Details of the outstanding derivative financial instruments as at 30 September 2018 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	308,020	3,123	For hedging currency risk
	Purchase Contracts - Less than 1 year	46,107	367	
2	Commodity Futures Sale Contracts - Less than 1 year	33,172	5,266	For hedging price risk
	Purchase Contracts - Less than 1 year	133,513	(14,666)	
	- 1 year to 3 years	440	(9)	

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

The Board of Directors does not recommend any dividend for the current financial quarter.

B9. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2017 was not qualified.

Tay Hoe Lian
 Managing Director
 Dated: 12.11.2018