

INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019

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

For the period ended 31 December 2019 – unaudited

	Note	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		Current Quarter Ended 31 Dec 2019 RM'000	Preceding Year Corresponding Quarter Ended 31 Dec 2018 RM'000	Current Year To-Date Ended 31 Dec 2019 RM'000	Preceding Year To-Date Ended 31 Dec 2018 RM'000
Revenue		796,402	663,370	2,942,145	2,273,424
Profit from operations		68,993	62,861	300,118	234,929
Finance costs		(7,070)	(8,245)	(33,468)	(27,262)
Share of profit of associates		(119)	(107)	1,356	1,054
Profit before tax	A10	61,804	54,509	268,006	208,721
Tax expense	A11	(17,076)	9,372	(48,609)	(18,607)
Profit for the period		44,728	63,881	219,397	190,114
Other comprehensive income, net of tax					
Exchange differences on translation foreign operations		(11,036)	(12)	(5,116)	9,037
Share of other comprehensive (expense) / income of associates		(34)	(1,909)	(13)	(1,960)
Remeasurement of employee benefits liability		(143)	64	(143)	64
Total other comprehensive income for the period, net of tax		(11,213)	(1,857)	(5,272)	7,141
Total comprehensive income for the period		33,515	62,024	214,125	197,255
Profit attributable to:					
Owners of the Company		44,728	63,881	219,397	190,114
Non-controlling interests		-	-	-	-
Profit for the period		44,728	63,881	219,397	190,114
Total comprehensive income attributable to:					
Owners of the Company		33,515	62,024	214,125	197,255
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		33,515	62,024	214,125	197,255
Basic earnings per ordinary share (sen)	A12	8.09	13.37	39.66	39.78

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 FOURTH QUARTER ENDED 31 DECEMBER 2019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 – unaudited

		31 December 2019	31 December 2018
	Note	RM'000	RM'000
Assets			
Non-current assets			
Property, plant and equipment		476,827	447,850
Prepaid lease payments		-	10,187
Intangible assets	A13	11,956	11,956
Investment property		22,234	23,296
Investment in associates		8,121	6,778
Lease assets		12,088	-
		531,226	500,067
Current assets			
Inventories		1,035,656	868,949
Trade and other receivables		415,405	328,456
Derivative financial assets		12,196	41,269
Tax recoverable		1,152	610
Deposits, bank and cash balances		46,790	44,799
		1,511,199	1,284,083
Total assets		2,042,425	1,784,150
Equity			
Share capital		220,407	121,832
Treasury shares		(226)	(5,347)
Foreign currency translation reserve		39,022	44,151
Retained profits		691,787	506,505
Total equity		950,990	667,141
Non-current liabilities			
Loans and borrowings	A15	45,488	43,372
Provision for employee benefit		4,807	1,783
Deferred tax liabilities		44,749	35,784
Lease liabilities		616	-
		95,660	80,939
Current liabilities			
Trade and other payables		322,766	431,391
Derivative financial liabilities		9,402	33,029
Loans and borrowings	A15	637,226	558,995
Tax payable		24,365	12,655
Lease liabilities		2,016	-
		995,775	1,036,070
Total liabilities		1,091,435	1,117,009
Total equity and liabilities		2,042,425	1,784,150
Net assets per share (sen)			
attributable to owners of the Company		94.33	139.61

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 FOURTH QUARTER ENDED 31 DECEMBER 2019

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2019 – unaudited

	← Non-distributable →			Distributable	Total Equity RM'000
	Share Capital RM'000	Treasury Share RM'000	Foreign Currency Translation Reserve RM'000	Retained Profits RM'000	
Balance as at 1 January 2019	121,832	(5,347)	44,151	506,505	667,141
Profit for the period	-	-	-	219,397	219,397
Other comprehensive income for the period:					
foreign currency translation differences	-	-	(5,116)	-	(5,116)
share of other comprehensive expense of associates	-	-	(13)	-	(13)
remeasurement of post-employment benefit obligation, net of tax	-	-	-	(143)	(143)
Total comprehensive income for the period	-	-	(5,129)	219,254	214,125
Transactions with owners					
Disposal of treasury shares	6,114	5,121	-	-	11,235
Issuance of new shares	92,461	-	-	-	92,461
Dividends	-	-	-	(33,972)	(33,972)
Contribution from/distribution to owners of the Company	98,575	5,121	-	(33,972)	69,724
Balance at 31 December 2019	220,407	(226)	39,022	691,787	950,990
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 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 FOURTH QUARTER ENDED 31 DECEMBER 2019

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 December 2019 – unaudited

	Twelve Months Ended	
	31-Dec-19	31-Dec-18
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	268,006	208,722
Adjustments for:		
Non-cash and non-operating items	48,940	47,069
Operating profit before working capital changes	316,946	255,791
Changes in working capital		
Net change in current assets	(253,756)	(85,529)
Net change in current liabilities	(107,979)	163,171
Cash (used in) / generated from operations	(44,789)	333,433
Tax paid	(29,508)	(8,271)
Tax refund	2,136	4,197
Interest paid	(33,468)	(27,262)
Interest received	625	445
Net cash (used in) / from operating activities	(105,004)	302,542
Cash flows from investing activities		
Purchase of property, plant and equipment	(61,121)	(97,589)
Advances from / (payment to) holding company	461	(4,301)
Proceeds from disposal of PPE	1,839	2,839
Payment for the lease rental	(124)	(124)
Net cash used in investing activities	(58,945)	(99,175)
Cash flows from financing activities		
Bank and other borrowings	87,631	(189,549)
Conversion of warrants to ordinary shares	-	-
Changes in Fixed deposit pledged	-	(455)
Proceeds from issuance of new shares	92,461	-
Disposal of treasury shares	11,235	(152)
Dividend paid	(33,972)	(9,556)
Net cash from / (used in) financing activities	157,355	(199,712)
Net (decrease) / increase in cash and cash equivalents	(6,594)	3,655
Effect of exchange rate changes	8,308	765
Cash and cash equivalents at the beginning of financial period	31,358	26,938
Cash and cash equivalents at the end of financial period	33,072	31,358
Cash and cash equivalents at the end of financial period comprise of :		
Deposits, bank and cash balances	46,790	44,799
Bank overdrafts	-	-
	46,790	44,799
Less : Non-cash and cash equivalents		
Fixed deposit pledged to bank as collateral	(13,718)	(13,441)
	33,072	31,358

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 – FOURTH QUARTER ENDED 31 DECEMBER 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 were 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

Third interim single-tier dividend of 1.0 sen per ordinary share amounting to RM10,081,410.37 in respect of the financial year ending 31 December 2019 was declared on 18 November 2019 and subsequently paid on 3 January 2020. The payment was made to shareholders whose names appeared in the Company’s Record of Depositors on 5 December 2019.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – FOURTH QUARTER ENDED 31 DECEMBER 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.

Twelve Months Ended 31 December 2019	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	1,239,768	1,512,444	124,449	65,484	-	2,942,145
Internal segment revenue	1,933,589	2,821,491	1,165,292	58,758	(5,979,130)	-
Total revenue	3,173,357	4,333,935	1,289,741	124,242	(5,979,130)	2,942,145
Segment result	189,141	113,315	31,984	59,692	(60,630)	333,502
Interest income						625
Finance cost						(33,468)
Depreciation & amortisation						(32,653)
Profit before tax						268,006
Tax expenses						(48,609)
Profit for the period						219,397
Segment assets	911,602	269,066	755,703	104,902	-	2,041,273
Tax recoverable						1,152
Total assets						2,042,425
Segment liabilities	65,568	243,785	28,552	1,702	-	339,607
Deferred tax liabilities						44,749
Tax payables						24,365
Borrowings						682,714
						1,091,435

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – FOURTH QUARTER ENDED 31 DECEMBER 2019

A8. Segmental information – (cont'd)

Twelve Months Ended 31 December 2018	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	936,135	1,207,540	74,544	55,205	-	2,273,424
Internal segment revenue	1,143,606	2,342,523	690,632	42	(4,176,803)	-
Total revenue	2,079,741	3,550,063	765,176	55,247	(4,176,803)	2,273,424
Segment result	131,869	146,654	(12,609)	(2,573)	-	263,341
Interest income						445
Finance cost						(27,262)
Depreciation & amortisation						(27,803)
Profit before tax						208,721
Tax expenses						(18,607)
Profit for the period						190,114
Segment assets	901,770	281,208	514,331	86,231	-	1,783,540
Tax recoverable						610
Total assets						1,784,150
Segment liabilities	64,672	344,074	56,309	1,148	-	466,203
Deferred tax liabilities						35,784
Tax payables						12,655
Borrowings						602,367
						1,117,009

A9. Changes in the composition of the Group

Sales and Purchase Agreement for acquisition of 50,000 ordinary shares, representing 100% of the total registered share capital of Schokinag Holding GmbH ("Schokinag") has been executed and completed. Hence, Schokinag is considered as a wholly-owned subsidiary of GCB Cocoa Singapore Pte Ltd, a sub-subsidiary of GCB starting Q1 2020.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – FOURTH QUARTER ENDED 31 DECEMBER 2019

A10. Profit before tax

Included in the profit before tax are the following items:

	Current Quarter Ended 31-Dec-19 RM'000	Current Year To-Date 31-Dec-19 RM'000
Amortisation of leases	1,197	2,490
Depreciation	8,055	30,163
Realised loss on foreign exchange	6,718	2,656
Unrealised gain on foreign exchange	(11,592)	(10,008)
Unrealised loss on forward currency contracts	3,490	8,624
Realised gain on commodity future contracts	(15,235)	(32,988)
Unrealised gain on commodity future contracts	(1)	(2,499)
Unrealised loss / (gain) on commodity option contracts	354	(1,288)
Unrealised loss on currency option contracts	342	540
Unrealised loss on interest rate swap	-	4
Reversal of impairment loss on trade receivables	(422)	(3,161)
Interest expense	7,070	33,468
Interest income	(289)	(625)

A11. Tax expense

	Current Quarter Ended		Current Year To-Date Ended	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
	RM'000	RM'000	RM'000	RM'000
Income tax expense:				
- Current period estimate	8,485	(12,653)	40,018	15,225
- (Over) / Under provision in prior year	(672)	87	(672)	188
Withholding tax	-	-		-
Deferred tax				
- Originated of temporary differences	16,070	1,795	16,070	1,795
- (Over) / Under provision in prior year	(6,807)	1,399	(6,807)	1,399
	17,076	(9,372)	48,609	18,607

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 – FOURTH QUARTER ENDED 31 DECEMBER 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	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Profit for the financial period attributable to owners of the Company (RM'000)	44,728	63,881	219,397	190,114
Weighted average number of ordinary shares in issue ('000)	553,220	477,862	553,220	477,862
Basic earnings per share (sen)	8.09	13.37	39.66	39.78

A13. Intangible assets

	Goodwill RM'000	Trademark RM'000	Total 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 31 December 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 31 December 2019	-	(2)	(2)
Net carrying amount:			
At 31 December 2018	11,945	11	11,956
At 31 December 2019	11,945	11	11,956

NOTES TO THE INTERIM FINANCIAL STATEMENTS – FOURTH QUARTER ENDED 31 DECEMBER 2019

A14. 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
31 December 2019				
Financial assets				
Derivative assets :				
- forward foreign currency contracts	-	124	-	124
- commodity futures contract	1,865	-	-	1,865
- commodity option contracts	10,207	-	-	10,207
	12,072	124	-	12,196
Financial liabilities				
Derivative liabilities :				
- forward foreign currency contracts	-	4,263	-	4,263
- commodity futures contract	1,837	-	-	1,837
- commodity option contracts	3,304	-	-	3,304
- interest rate swap	-	-	-	-
	5,141	4,263	-	9,404
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 – FOURTH QUARTER ENDED 31 DECEMBER 2019

A14. 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
31 December 2018				
Financial liabilities measured at amortised cost :				
- Hire purchases	-	881	-	881
	-	881	-	881

A15. Loans and borrowings

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

	Denominated in currency	31-Dec-19 RM'000	31-Dec-18 RM'000
Current			
- Term loans	USD	11,024	15,309
	RM	411	-
- Trade loans	USD	514,026	406,988
	GBP	48,370	5,086
- Revolving credit	USD	61,395	129,442
	RM	2,000	2,000
- Obligation under finance leases	RM	-	170
		637,226	558,995
Non-Current			
- Term loans	USD	43,295	42,661
	RM	2,193	-
- Obligation under finance leases	RM	-	711
		45,488	43,372
		682,714	602,367

A16. Contingent liabilities

	Group and company	
	31-Dec-19 RM'000	31-Dec-18 RM'000
Corporate guarantees - unsecured		
Issued to banks for banking facilities granted to subsidiaries		
- limit of guarantee	1,927,949	1,712,047
- amount utilised	(675,013)	(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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – FOURTH QUARTER ENDED 31 DECEMBER 2019

A17. 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>110,840</u>

A18. Material events subsequent to the end of the current quarter

There was no material events subsequent to the current quarter ended 31 December 2019 that have not been reflected in this quarterly report.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – FOURTH QUARTER ENDED 31 DECEMBER 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 RM796.4 million for the current quarter ended 31 Dec 2019 is higher than the revenue in the previous corresponding quarter ended 31 Dec 2018 of RM663.4 million. The increase of 20.0% in turnover is mainly due to increase in sales volume of cocoa products.

B2. Comment on material change in profit before tax

The Group made a profit before tax for the quarter 31 Dec 2019 of RM61.8 million as compared with the profit before tax of RM54.5 million in the preceding year corresponding quarter ended 31 Dec 2018. This is mainly due to higher sales volume achieved during current quarter ended 31 Dec 2019 as compared to preceding year corresponding quarter ended 31 Dec 2018.

B3. Commentary of prospects

The Group expects the business environment for the financial year ending 31 December 2020 to be challenging due to existing high market terminal price and uncertain impact of Living Income Differential (LID) implementation. Apart from that, we expect the outbreak of COVID-19 to have slight impact on Asian and world economy. However, with the stable growth of global demand for chocolate, we foresee these impacts to be balanced out and thus having a neutral impact on our overall performance.

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 – FOURTH QUARTER ENDED 31 DECEMBER 2019

B6. Derivative financial instruments

Details of the outstanding derivative financial instruments as at 31 December 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	99,322	(1,547)	For hedging currency risk
	Purchase Contracts - Less than 1 year	0	0	
2	Commodity Futures Sale Contracts - Less than 1 year	168,261	8,665	For hedging price risk
	Purchase Contracts - Less than 1 year	133,628	(889)	
	- 1 year to 3 years	4,316	(489)	

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 is pleased to propose a final single-tier dividend of 1 sen per ordinary share for the financial year ended 31 December 2019. The proposed final dividend is subject to shareholders' approval in the forthcoming Annual General Meeting.

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: 24.02.2020