

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2018

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 AND OTHER COMPREHENSIVE INCOME**
 For the period ended 30 June 2018 – unaudited

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		Current Quarter Ended 30 June 2018 RM'000	Preceding Year Corresponding Quarter Ended 2017 RM'000	Current Year To-Date Ended 30 June 2018 RM'000	Preceding Year To-Date Ended 2017 RM'000
Revenue		491,584	482,302	1,011,273	1,113,616
Profit from operations		57,966	31,649	111,934	43,422
Finance costs		(4,747)	(4,781)	(12,097)	(9,951)
Share of profit of associates		415	205	473	369
Profit before tax	A 10	53,634	27,073	100,310	33,840
Tax expense	A 11	(10,604)	(4,190)	(17,948)	(5,204)
Profit for the period		43,030	22,883	82,362	28,636
Other comprehensive income, net of tax					
Exchange differences on translation foreign operations		12,512	(6,782)	1,787	(9,931)
Share of other comprehensive income of associates		695	-	1,129	-
Total other comprehensive (loss)/income for the period, net of tax		13,207	(6,782)	2,916	(9,931)
Total comprehensive income for the period		56,237	16,101	85,278	18,705
Profit attributable to:					
Owners of the Company		43,030	22,883	82,362	28,636
Non-controlling interests		-	-	-	-
Profit for the period		43,030	22,883	82,362	28,636
Total comprehensive income attributable to:					
Owners of the Company		56,237	16,101	85,278	18,705
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		56,237	16,101	85,278	18,705
Basic earnings per ordinary share (sen)	A 12	9.01	4.79	17.24	5.99

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 SECOND QUARTER ENDED 30 JUNE 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 – unaudited

		30 June 2018	31 December 2017
	Note	RM'000	RM'000
Assets			
Non-current assets			
Property, plant and equipment		409,943	373,033
Prepaid lease payments	A13	10,301	10,669
Intangible assets	A14	11,956	11,957
Investment property		23,656	24,170
Investment in associates		9,286	7,684
		465,142	427,513
Current assets			
Derivative financial assets		19,822	6,604
Inventories		676,269	862,190
Trade and other receivables		252,896	238,221
Tax recoverable		4,099	5,717
Deposits, bank and cash balances		51,913	39,924
		1,004,999	1,152,656
Total assets		1,470,141	1,580,169
Equity			
Share capital		121,832	121,832
Treasury shares		(5,347)	(5,195)
Foreign currency translation reserve		39,989	37,073
Retained profits		408,245	325,883
Total equity		564,719	479,593
Non-current liabilities			
Loans and borrowings	A16	14,915	17,463
Provision for employee benefit		1,649	1,653
Deferred tax liabilities		32,064	32,101
		48,628	51,217
Current liabilities			
Derivative financial liabilities		921	20,044
Trade and other payables		200,881	253,321
Loans and borrowings	A16	634,634	769,842
Tax payable		20,358	6,152
		856,794	1,049,359
Total liabilities		905,422	1,100,576
Total equity and liabilities		1,470,141	1,580,169
Net assets per share (sen)			
attributable to owners of the Company		118.18	100.39

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 SECOND QUARTER ENDED 30 JUNE 2018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2018 – unaudited

	Non-distributable			Foreign Currency Translation Reserve	Distributable	
	Share Capital RM'000	Treasury Share RM'000	Share Premium RM'000		Retained Profits RM'000	Total Equity RM'000
Balance as at 1 January 2018	121,832	(5,195)	-	37,073	325,883	479,593
Profit for the period	-	-	-	-	82,362	82,362
Other comprehensive income for the period:						
foreign currency translation differences	-	-	-	1,787	-	1,787
share of other comprehensive income of associates	-	-	-	1,129	-	1,129
Total comprehensive (loss)/income for the period	-	-	-	2,916	82,362	85,278
Transactions with owners						
Purchase of treasury shares	-	(152)	-	-	-	(152)
Balance at 30 June 2018	121,832	(5,347)	-	39,989	408,245	564,719
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 SECOND QUARTER ENDED 30 JUNE 2018

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2018 – unaudited

	Six Months Ended	
	30-Jun-18	30-Jun-17
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	100,310	33,840
Adjustments for:		
Non-cash and non-operating items	(8,572)	7,906
Operating profit before working capital changes	91,738	41,746
Changes in working capital		
Net change in current assets	168,030	215,155
Net change in current liabilities	(55,423)	(178,837)
Cash generated from/(used in) operations	204,345	78,064
Tax paid	(494)	(819)
Tax refund	4,197	-
Interest paid	(12,097)	(9,951)
Interest received	158	602
Net cash from operating activities	196,109	67,896
Cash flows from investing activities		
Purchase of property, plant and equipment	(51,112)	(1,972)
Payment to holding company	(2,071)	(2,422)
Payment for the lease rental	-	(124)
Net cash used in investing activities	(53,183)	(4,518)
Cash flows from financing activities		
Bank and other borrowings	(137,961)	(71,279)
Changes in Fixed deposit pledged	(728)	1,330
Purchase of treasury shares	(152)	-
Net cash used in financing activities	(138,841)	(69,949)
Net increase / (decrease) in cash and cash equivalents	4,085	(6,571)
Effect of exchange rate changes	7,366	(2,192)
Cash and cash equivalents at the beginning of financial period	26,938	48,433
Cash and cash equivalents at the end of financial period	38,389	39,670
Cash and cash equivalents at the end of financial period comprise of :		
Deposits, bank and cash balances	51,913	52,552
Bank overdrafts		
	51,913	52,552
Less : Non-cash and cash equivalents		
Fixed deposit pledged to bank as collateral	(13,524)	(12,882)
	38,389	39,670

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 – SECOND QUARTER ENDED 30 JUNE 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

During the financial period ended 30 June 2018, the Company repurchases its equity securities of 113,000 ordinary shares, at an average price of RM1.35 per share.

As at 30 June 2018, the Company held 2,353,700 shares as treasury shares out of its total issued and paid-up share capital of 480,158,452. Such treasury shares are held at a carrying amount of RM5,347,049.

Save for the above, there were no other issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter under review.

A7. Dividends paid

There was no dividend paid by the Company during the current quarter under review.

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

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	878,948	846,402	279,232	238,895	(777,435)	1,466,042
Deferred tax assets						-
Tax recoverable						4,099
Total assets						1,470,141
Segment liabilities	695,483	552,579	201,305	102,636	(1,348,552)	203,451
Deferred tax liabilities						32,064
Tax payables						20,358
Borrowings						649,549
						905,422

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2018

A8. Segmental information – (cont'd)

Six Months Ended 30 June 2017	Malaysia RM'000	Singapore RM'000	Indonesia RM'000	Others RM'000	Elimination RM'000	Consolidated RM'000
Geographical Segments:						
Total external revenue	537,719	494,472	47,797	33,628	-	1,113,616
Internal segment revenue	408,784	761,700	37,782	-	(1,208,266)	-
Total revenue	946,503	1,256,172	85,579	33,628	(1,208,266)	1,113,616
Segment result	26,712	20,371	11,403	(2,984)	476	55,978
Interest income						602
Finance cost						(9,951)
Depreciation & amortisation						(12,789)
Profit before tax						33,840
Tax expenses						(5,204)
Profit for the period						28,636
Segment assets	600,387	720,446	310,169	231,587	(637,611)	1,224,978
Deferred tax assets						-
Tax recoverable						1,642
Total assets						1,226,620
Segment liabilities	494,224	505,651	230,598	83,606	(1,184,429)	129,650
Deferred tax liabilities						19,726
Tax payables						-
Borrowings						634,305
						783,681

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 2018

A10. Profit before tax

Included in the profit before tax are the following items:

	Current Quarter Ended 30-Jun-18 RM'000	Current Year To-Date 30-Jun-18 RM'000
Amortisation of prepaid lease payments	135	265
Depreciation	6,722	12,884
Realised (gain) / loss on foreign exchange	(3,670)	1,068
Unrealised loss on foreign exchange	24,990	12,264
Unrealised gain on forward currency contracts	(23,763)	(19,742)
Realised gain on commodity future contracts	(16,866)	(18,077)
Unrealised gain on commodity future contracts	(1,564)	(1,741)
Unrealised gain on commodity option contracts	(14,016)	(10,291)
Unrealised (gain) / loss on currency option contracts	(641)	-
Impairment loss on trade receivables	2,088	5,056
Interest expense	4,747	12,097
Interest income	(82)	(158)
Unrealised loss on interest rate swap	18	23

A11. Tax expense

	Current Quarter Ended		Current Year To-Date Ended	
	30-Jun-18 RM'000	30-Jun-17 RM'000	30-Jun-18 RM'000	30-Jun-17 RM'000
Income tax expense:				
- Current period estimate	10,602	4,190	17,853	5,204
- Underprovision in prior year	2	-	95	-
	10,604	4,190	17,948	5,204

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 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-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
Profit for the financial period attributable to owners of the Company (RM'000)	43,030	22,883	82,362	28,636
Weighted average number of ordinary shares in issue ('000)	477,833	477,736	477,833	477,736
Basic earnings per share (sen)	9.01	4.79	17.24	5.99

A13. Prepaid lease payments

	30-Jun-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	(265)	(847)
Sub-lease rental	68	123
Foreign exchange difference	(2,003)	(1,108)
Disposal of subsidiaries	-	-
At 31 December	10,301	10,669
Analysed as:		
Sub-leases of warehouse	609	677
Leasehold land	9,692	9,992
	10,301	10,669

NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 2018

A14. Intangible assets

	Goodwill	Trademark	Total
	RM'000	RM'000	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 June 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 June 2018	-	(2)	(2)
Net carrying amount:			
At 31 December 2017	11,945	12	11,957
At 30 June 2018	11,945	11	11,956

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

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
30 June 2018				
Financial assets				
Derivative assets :				
- forward foreign currency contracts	-	13,057	-	13,057
- commodity futures contract	1,324	-	-	1,324
- option foreign currency contracts	-	195	-	195
- commodity option contracts	5,246	-	-	5,246
	6,570	13,252	-	19,822
Financial liabilities				
Derivative liabilities :				
- commodity futures contract	417	-	-	417
- commodity option contracts	504	-	-	504
	921	-	-	921
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 – SECOND QUARTER ENDED 30 JUNE 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 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
30 June 2018				
Other financial liabilities :				
- Hire purchases	-	45	-	45
	-	45	-	45
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-Jun-18 RM'000	31-Dec-17 RM'000
Current			
- Term loans	USD	35,040	31,647
- Trade loans	USD	565,653	683,662
- Revolving credit	RM	33,896	54,402
- Obligation under finance leases	RM	45	131
		634,634	769,842
Non-Current			
- Term loans	USD	14,915	17,463
		649,549	787,305

A17. Contingent liabilities

	Group and company	
	30-Jun-18 RM'000	31-Dec-17 RM'000
Corporate guarantees - unsecured		
Issued to banks for banking facilities granted to subsidiaries		
- limit of guarantee	1,633,737	1,325,786
- amount utilised	(688,005)	(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 – SECOND QUARTER ENDED 30 JUNE 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	2,854
	<u>2,854</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	20,929
	<u>20,929</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 2018 that have not been reflected in this quarterly report.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS – SECOND QUARTER ENDED 30 JUNE 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 RM491.6 million for the current quarter ended 30 June 2018 is higher than the revenue in the previous corresponding quarter ended 30 June 2017 of RM482.3 million. The increase of 1.9% 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 2018 of RM53.6 million as compared with the profit before tax of RM27.1 million in the preceding year corresponding quarter ended 30 June 2017. This is mainly due to improved margin for current quarter ended 30 June 2018 as compared to preceding year corresponding quarter ended 30 June 2017.

B2. Comment on material change in profit before tax

The Group recorded a higher profit before tax of RM53.6 million for the current quarter as compared to a profit before tax of RM46.7 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 – SECOND QUARTER ENDED 30 JUNE 2018

B6. Derivative financial instruments

Details of the outstanding derivative financial instruments as at 30 June 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 Purchase Contracts - Less than 1 year	384,570 -	10,469 -	For hedging currency risk
2	Commodity Futures Sale Contracts - Less than 1 year Purchase Contracts - Less than 1 year	66,012 193,379	(1,961) 13,418	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 13 August 2018, the board declared the first interim single-tier dividend of 2 sen per ordinary share in respect of financial year ending 31 December 2018 to shareholders registered in the Record of Depositors at close of business on 29 August 2018 and subsequently will be paid on 28 September 2018.

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: 13.08.2018