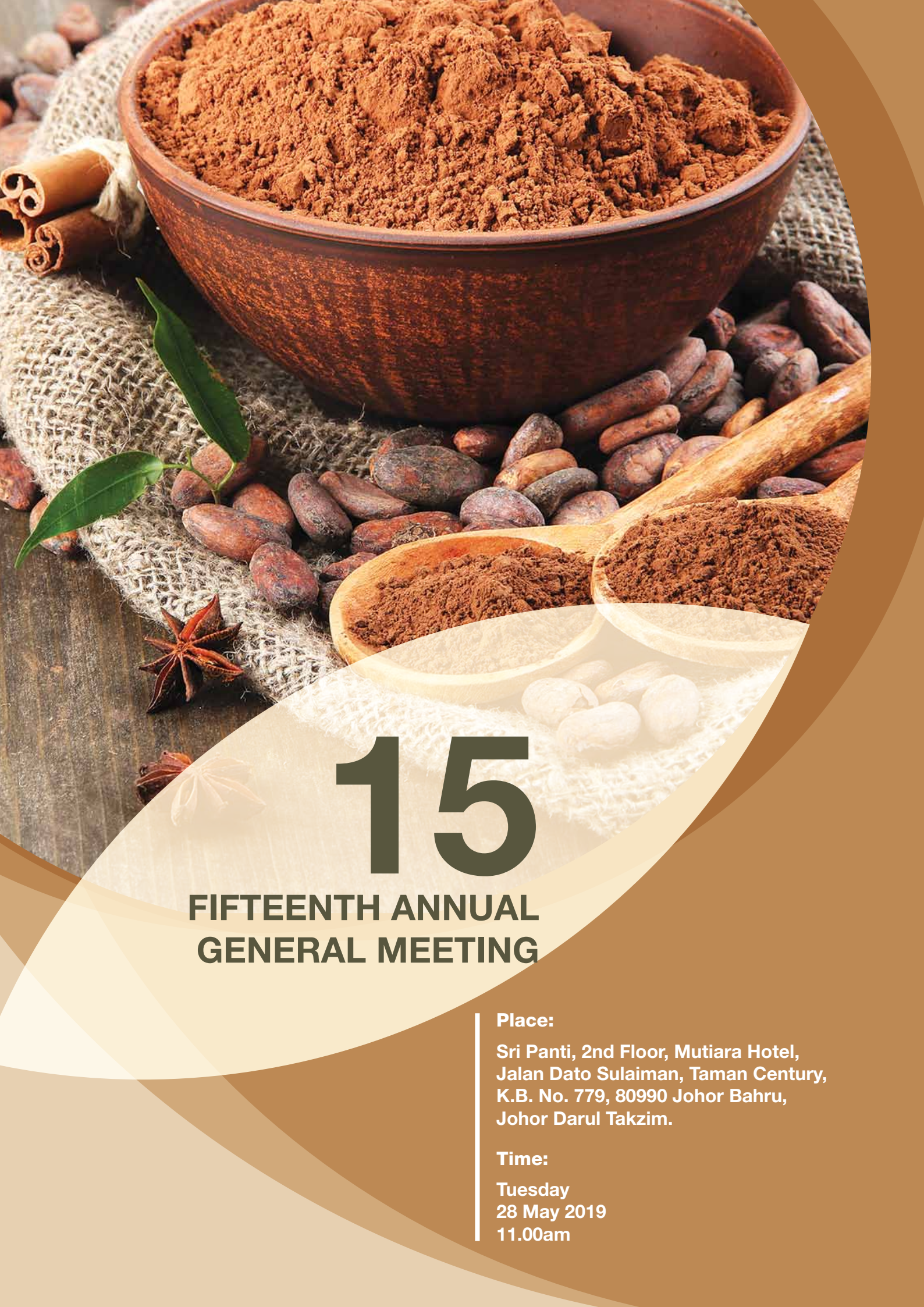


BERHAD **GUANCHONG**

(646226-K)

ANNUAL REPORT 2018





15

FIFTEENTH ANNUAL GENERAL MEETING

Place:

Sri Panti, 2nd Floor, Mutiara Hotel,
Jalan Dato Sulaiman, Taman Century,
K.B. No. 779, 80990 Johor Bahru,
Johor Darul Takzim.

Time:

Tuesday
28 May 2019
11.00am



TABLE OF CONTENTS

CORPORATE SECTION

Corporate Information
02

Corporate Structure
03

Financial Highlights
04

Directors' Profile
08

Profile Of Key Senior
Management
11

Management Discussion
And Analysis
13

Statement of Corporate
Social Responsibility
16

Sustainability Statement
18

Corporate Governance
Overview Statement
26

Audit Committee Report
33

Statement on Risk
Management
and Internal Control
35

Statement of Directors'
Responsibilities
40

FINANCIAL SECTION

Directors' Report
41

Statement by Directors
46

Statutory Declaration
46

Independent Auditors' Report
47

Statements of Financial
Position
51

Statements of Profit or Loss
and Other Comprehensive
Income
53

Statement of Changes in Equity
54

Statements of Cash Flows
57

Notes to the Financial
Statements
60

List of Properties
129

Other Compliance Information
133

Analysis of Shareholdings
134

The Notice of
Annual General Meeting
137

Proxy Form

CORPORATE INFORMATION

BOARD OF DIRECTORS

YBhg Dato Dr. Mohamad Musa bin Md Jamil*(Non-Independent Non-Executive Chairman)***Tay Hoe Lian***(Managing Director/ Chief Executive Officer)***Tay How Sik @ Tay How Sick***(Executive Director/ Chief Operating Officer)***Hia Cheng***(Executive Director/ Chief Financial Officer)***Tan Ah Lai***(Independent Non-Executive Director)***YBhg Datuk Tay Puay Chuan***(Independent Non-Executive Director)*

AUDIT COMMITTEE

Tan Ah Lai*(Chairman, Independent Non-Executive Director)***YBhg Dato Dr. Mohamad Musa bin Md Jamil***(Member, Non-Independent Non-Executive Director)***YBhg Datuk Tay Puay Chuan***(Member, Independent Non-Executive Director)*

NOMINATION COMMITTEE

YBhg Datuk Tay Puay Chuan*(Chairman, Independent Non-Executive Director)***YBhg Dato Dr. Mohamad Musa bin Md Jamil***(Member, Non-Independent Non-Executive Director)***Tan Ah Lai***(Member, Independent Non-Executive Director)*

REMUNERATION COMMITTEE

YBhg Dato Dr. Mohamad Musa bin Md Jamil*(Chairman, Non-Independent Non-Executive Director)***Tan Ah Lai***(Member, Independent Non-Executive Director)***YBhg Datuk Tay Puay Chuan***(Member, Independent Non-Executive Director)*

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

YBhg Datuk Tay Puay Chuan

SECRETARY

Tan Hui Khim (LS 0009936)
Ng Mei Wan (MIA 28862)

REGISTERED OFFICE

No. 7 (1st Floor) Jalan Pesta 1/1
Taman Tun Dr. Ismail 1
Jalan Bakri
84000 Muar Johor

Tel : 06-9541-705
Fax : 06-9541-707

PRINCIPAL PLACE OF BUSINESS

PLO 273 Jalan Timah 2
Kawasan Perindustrian
Pasir Gudang
81700 Pasir Gudang Johor

Tel : 07-254-8888
Fax : 07-251-1711
Website : www.guanchong.com

SHARE REGISTRARS

Boardroom Share Registrars
Sdn Bhd (378993-D)
(Formerly known as Symphony
Share Registrars Sdn Bhd)

Level 6 Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan

Tel : 03-7841-8039
Fax : 03-7841-8151

AUDITORS

BDO PLT (LLP0018825-LCA &
AF 0206)
Chartered Accountants
Suite 18-04 Level 18 Menara
Zurich
15 Jalan Dato' Abdullah Tahir
80300 Johor Bahru Johor

PRINCIPAL BANKERS

AmBank Berhad
Bangkok Bank Berhad
CIMB Bank Berhad
DBS Bank Limited
HL Bank Singapore
Hong Leong Bank Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
Oversea-Chinese Banking
Corporation Limited
RHB Bank Berhad
Standard Chartered Bank Malaysia
Berhad
United Overseas Bank (Malaysia)
Berhad

SOLICITORS

Chee Siah Le Kee & Partners

STOCK EXCHANGE LISTING

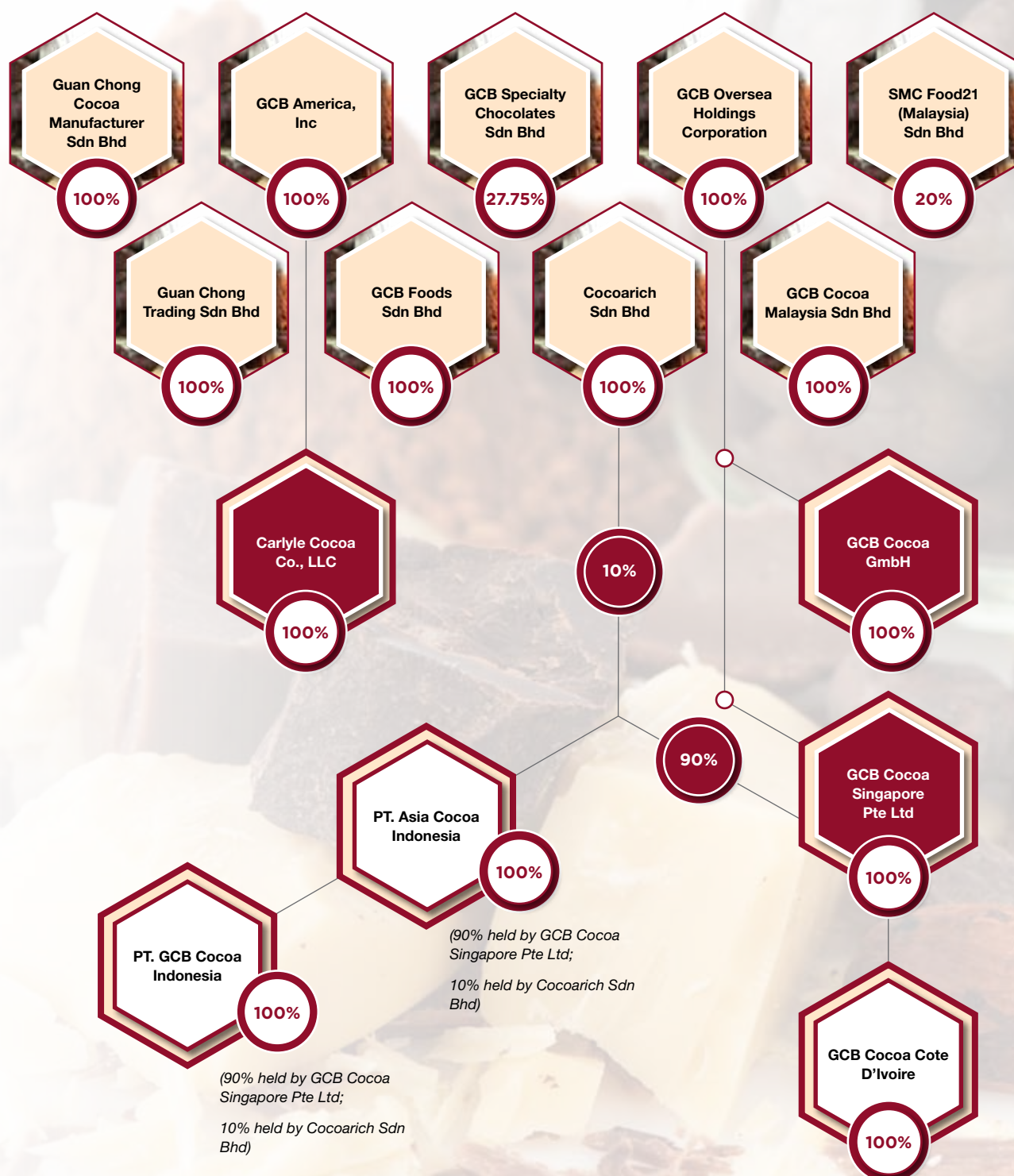
Main Market of Bursa Malaysia
Securities Berhad
Stock Name : GCB
Stock Code : 5102

DATE OF LISTING

8 April 2005

CORPORATE STRUCTURE

GUAN CHONG BERHAD



FINANCIAL HIGHLIGHTS

Summarised Group Income Statement For The Financial Year Ended 31 December (RM'000)	2014	2015	2016	2017	2018
Revenue	1,818,871	2,380,669	2,315,866	2,147,914	2,273,424
EBITDA	20,854	79,902	96,523	162,774	263,341
Profit/(Loss) Before Taxation	(18,481)	36,373	52,208	113,440	208,722
Net Profit/(Loss) Attributable to Equity Holders	(17,558)	22,757	42,575	91,045	190,115

Summarised Group Statement of Financial Position As At 31 December (RM'000)	2014	2015	2016	2017	2018
Total Non-Current Assets	440,249	495,756	431,592	427,513	500,067
Total Current Assets	1,017,694	1,122,683	1,061,694	1,152,655	1,284,084
Total Assets	1,457,943	1,618,439	1,493,286	1,580,168	1,784,151
Share Capital	119,629	119,629	120,040	121,832	121,832
Share Premium	–	–	1,792	–	–
Reserves	205,979	261,996	307,597	362,956	550,656
Treasury Shares	(5,195)	(5,195)	(5,195)	(5,195)	(5,347)
Shareholders' Equity	320,413	376,430	424,234	479,593	667,141
Minority Interests	3,958	431	–	–	–
	324,371	376,861	424,234	479,593	667,141
Total Non-Current Liabilities	172,904	147,671	76,359	51,217	80,940
Total Current Liabilities	960,669	1,093,907	992,693	1,049,358	1,036,070
	1,457,944	1,618,439	1,493,286	1,580,168	1,784,151

FINANCIAL HIGHLIGHTS

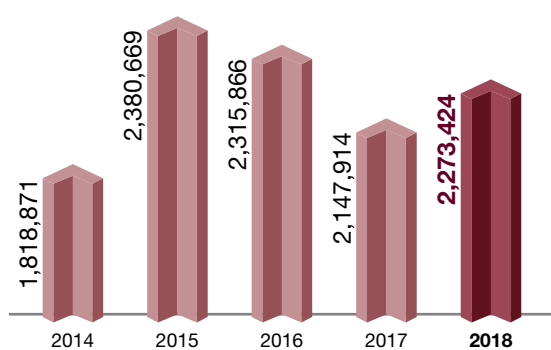
(CONT'D)

Summarised Group Cash Flows For the Financial Year Ended 31 Dec (RM'000)	2014	2015	2016	2017	2018
Operating Profit Before Working Capital Changes	55,692	90,937	133,782	154,009	255,790
Net Cash Flows (Used in)/ From Operating Activities	136,613	93,374	128,173	(69,409)	302,542
Net Cash Flows (Used in)/ From Investing Activities	(22,775)	(26,304)	15,711	(66,224)	(99,174)
Net Cash Flows From/ (Used in) Financing Activities	(93,780)	(62,295)	(124,369)	116,332	(199,713)
Net (Decrease)/ Increase in Cash and Cash Equivalents	13,981	(12,505)	21,703	(21,496)	4,420
Cash and Cash Equivalents at Beginning of Year	25,255	39,236	26,731	48,434	26,938
Cash and Cash Equivalents at End of Year*	39,236	26,731	48,434	26,938	31,358
* including effect on exchange rate difference					

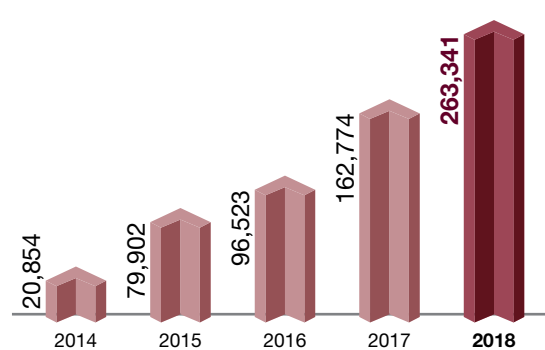
Financial Analysis	2014	2015	2016	2017	2018
EBITDA Margin	1.15%	3.36%	4.17%	7.58%	11.58%
Profit Before Tax Margin	-1.02%	1.53%	2.25%	5.28%	9.18%
Net Profit Margin	-0.97%	0.96%	1.84%	4.24%	8.36%
Free Cash Flow (RM'000)	113,962	67,194	133,423	(128,392)	207,792
ROE (Average Equity)	-5.4%	5.9%	10.1%	19.0%	28.5%
ROA (Average Total Assets)	-1.2%	1.4%	2.9%	5.8%	10.7%
Earnings Per Share (sen)	-3.69	4.78	8.91	19.05	39.78
Net Dividends Per Share (sen)	0.00	0.00	1.50	2.50	2.00
Payout Ratio	0.0%	0.0%	16.8%	13.1%	5.0%
Cash and Bank Balances (RM'000)	41,317	28,610	62,646	39,924	44,799
Total Borrowings (RM'000)	865,814	829,625	710,281	787,306	602,367
Gearing (net of cash)	2.57	2.13	1.53	1.56	0.84

FINANCIAL HIGHLIGHTS (CONT'D)

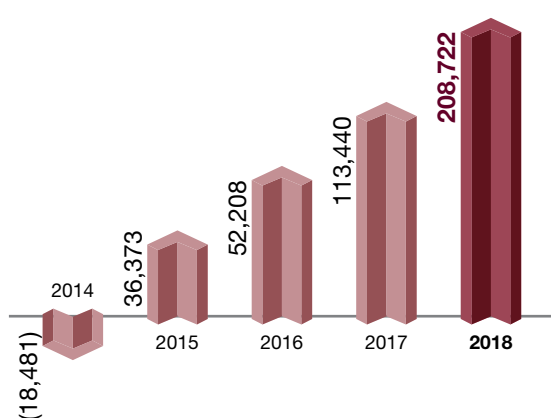
Revenue (RM'000)



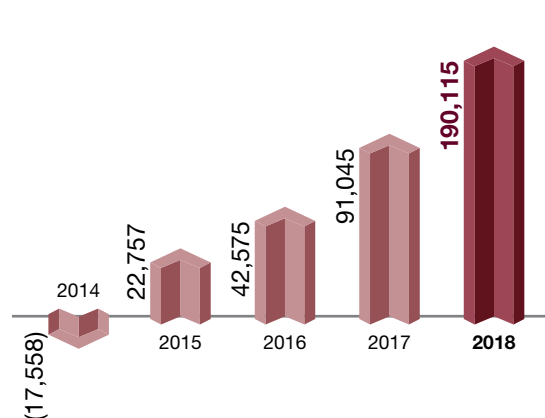
EBITDA (RM'000)



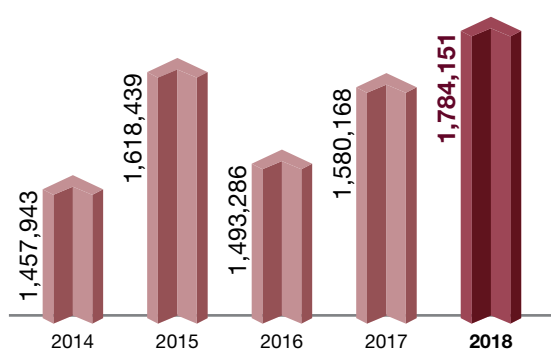
PBT (RM '000)



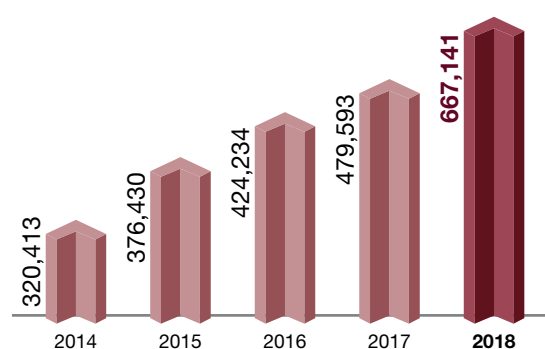
Net Profit (RM '000)



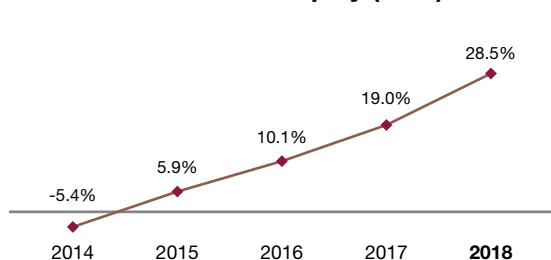
Total Assets (RM '000)



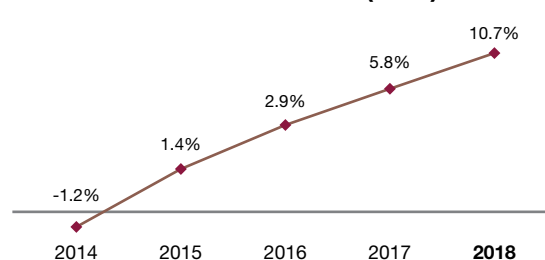
Shareholders' Equity (RM '000)



Returns on Equity (ROE)



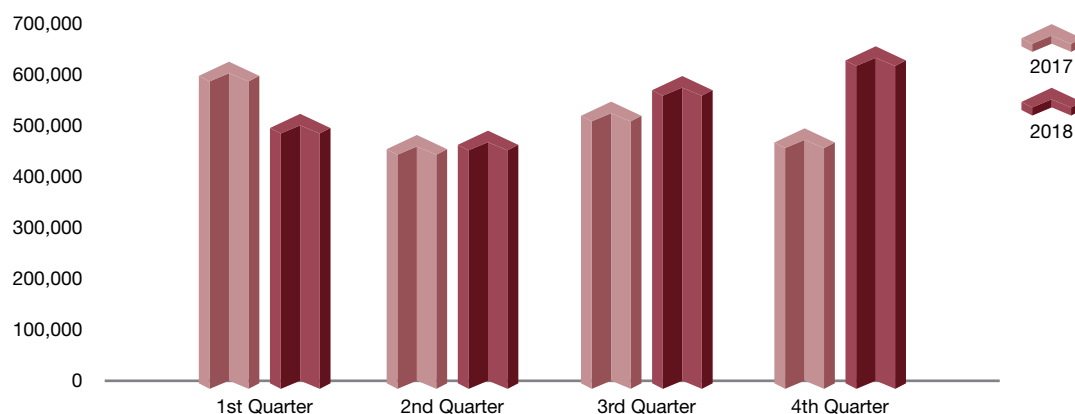
Returns on Assets (ROA)



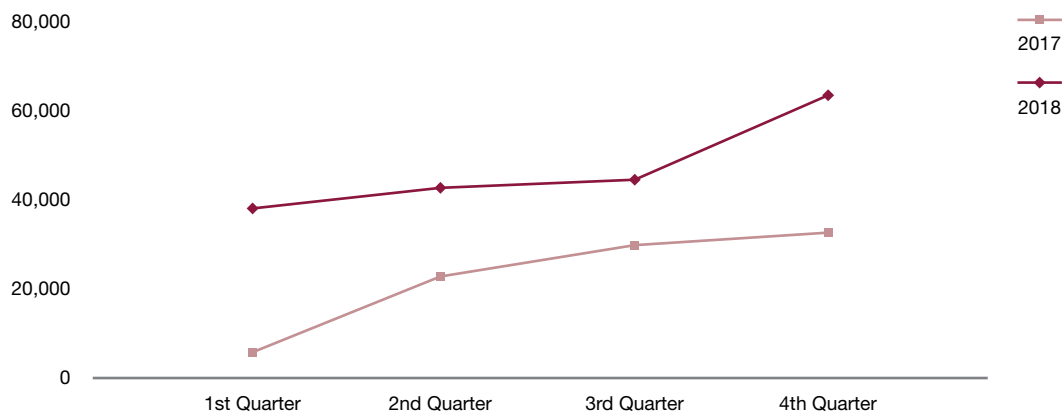
FINANCIAL HIGHLIGHTS (CONT'D)

Quarterly Analysis Year Ended 31 Dec (RM'000)	2017	2018	% Chg
Turnover			
1st Quarter	631,314	519,689	-17.7%
2nd Quarter	482,302	491,584	1.9%
3rd Quarter	542,860	598,781	10.3%
4th Quarter	491,438	663,370	35.0%
	2,147,914	2,273,424	5.8%
Net Profit			
1st Quarter	5,753	39,332	583.7%
2nd Quarter	22,883	43,030	88.0%
3rd Quarter	29,696	43,871	47.7%
4th Quarter	32,713	63,882	95.3%
	91,045	190,115	108.8%

Quarterly Revenue (RM'000)



Quarterly Net Profit (RM'000)



DIRECTORS' PROFILE

YBHG DATO DR. MOHAMAD MUSA BIN MD JAMIL

Malaysian / Aged 73 / Male

YBhg Dato Dr. Mohamad Musa Bin Md Jamil was appointed as the Executive Chairman of Guan Chong Berhad on 8 January 2005. He was re-designated as Non-Independent Non-Executive Chairman on 1 April 2013. He is responsible for the overall strategic business planning and advises on the product development activities of the Group. He graduated with a Bachelor of Science Degree in Biology from University of Malaya in 1972. Upon his graduation, he joined Malaysian Agricultural Research & Development Institute (MARDI) (Crop Protection Division), as a research assistant and later promoted to the research officer. In 1979, he obtained a PhD in Mycology and Plant Pathology from Queen's University, Belfast, Northern Ireland. In 1980, he held the position of research officer of MARDI (Cocoa and Coconut Research Division) and promoted to the position of Deputy Director in 1984. Later in 1985, he became the Director of the Cocoa and Coconut Research Division. As a Director, he was responsible for planning, managing and overseeing all research programmes under this division. In addition, he was also involved in the implementation and development programmes for cocoa smallholders. In 1990, he joined MCB as the Deputy Director General (Market Development and Regulatory). He was in charge of marketing, promoting, licensing and grading of cocoa beans and cocoa products. He also represented Malaysia in various meetings and trade negotiations held by International Cocoa Organisation (ICCO). In 1996, he was promoted to the post of Director General of MCB. As the Director General, he was responsible for planning, developing and managing all research programmes which involved improvement of cocoa yield and quality as well as development of cocoa products and related downstream activities. In addition, he oversaw the implementation and enforcement of regulations on quality of cocoa beans and cocoa products. He held this position until he retired in 2001. Through the years, he has published more than 30 papers, mostly on cocoa. Currently, he is a member of Malaysian Plant Protection Society and Incorporated Society of Planters (ISP).

He is the Chairman of the Remuneration Committee and Member of the Audit Committee and Nomination Committee of the Company. He is not a director of any other public company. He has no family relationship with any director and/or major shareholder of the

Company nor does he have any conflict of interest with the Company. He has not been convicted for any offences within the past 5 years.

He has attended all the five board meetings held in the financial year ended 31 December 2018.

TAY HOE LIAN

Malaysian / Aged 54 / Male

Tay Hoe Lian was appointed as the Managing Director and Chief Executive Officer of Guan Chong Berhad on 8 January 2005. He graduated with a degree in Bachelor of Business Administration from the University of Toledo, College of Business Administration, USA in 1993. Upon his graduation, he was appointed as the Manager of JB Cocoa Group Sdn Bhd's Transport Division and overseeing the operation of the division. In 1997, he joined Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC") as the Marketing Manager and has successfully marketed cocoa powder to the European, Middle East and South American markets. In 1999, he was appointed as a Director of GCC and promoted to the position of General Manager in 2002 and Managing Director in 2003. With his contribution, GCC has successfully expanded its production capacity to become one of the leading players in the regional cocoa bean processing industry in terms of processing capacity and market share.

He was elected as a member of Malaysian Cocoa Board by Ministry of Plantation Industries and Commodities from 1 February 2013 to 31 January 2015.

He is not a director of any other public company. He is the cousin of Tay How Sik @ Tay How Sick, an Executive Director and shareholder of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 5 years.

He has attended all the five board meetings held in the financial year ended 31 December 2018.

DIRECTORS' PROFILE

(CONT'D)

TAY HOW SIK @ TAY HOW SICK

Malaysian / Aged 59 / Male

Tay How Sik @ Tay How Sick was appointed as the Executive Director and Chief Operating Officer of Guan Chong Berhad on 8 January 2005. He has been a Director and Factory Manager of Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC") since 1989 and is currently in charge of the factory operations of GCC. As a Director of JB Cocoa Group Sdn Bhd from 1987 to 2003, he was involved in the initial setting up of the cocoa beans processing plant including the building of factory, setting up the production line and machinery installation. Over the years, he has gained extensive knowledge and experience in the production of cocoa-derived food ingredients as well as maintenance and modification of machines to enhance production efficiency and improve the quality of cocoa-derived food ingredients.

He is not a director of any other public company. He is the cousin of Tay Hoe Lian, the Managing Director and major shareholder of the Company. He does not have any conflict of interest with the Company and has not been convicted for any offences within the past 5 years.

He has attended all the five board meetings held in the financial year ended 31 December 2018.

HIA CHENG

Malaysian / Aged 54 / Male

Hia Cheng was appointed as the Executive Director and Chief Financial Officer of Guan Chong Berhad ("GCB") on 8 January 2005. He obtained professional accounting qualification from The Chartered Association of Certified Accountants ("ACCA") in 1991 and became a fellow member of ACCA in 2001. He was with TH Liew & Gan, a local audit firm from 1986 to 1990. He joined Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC") in 1991 as the Accounts Supervisor. In 1996, he was promoted as Finance and Trading Manager of GCC.

He has been actively involved in the corporate strategy planning as well as in charge of the financial management and foreign currency management of GCB. In addition, he also carries out feasibility studies and investment appraisal for all of GCB's expansion projects. He has been heading the finance

and trading department as well as sourcing cocoa beans and marketing of cocoa butter, cocoa liquor and cocoa cake. He has successfully strengthened GCB's relationships with its customers including international trading companies.

He is not a director of any other public company. He has no family relationship with any director and/or major shareholder of the Company nor does he have any conflict of interest with the Company. He has not been convicted for any offences within the past 5 years.

He has attended all the five board meetings held in the financial year ended 31 December 2018.

TAN AH LAI

Malaysian / Aged 50 / Male

Tan Ah Lai was appointed as an Independent Non-Executive Director of Guan Chong Berhad on 26 October 2007. He is a fellow member of the Association of Chartered Certified Accountants, UK and a Chartered Accountant of the Malaysian Institute of Accountants. He started his career as an Audit Assistant in a public accounting firm in year 1994. In 2011, he incorporated his own consulting and accounting firm which provides accounting, tax and consultation services. He has extensive experience in financial and tax related work. Currently, he is an independent non-executive director of Crescendo Corporation Berhad.

He is the Chairman of the Audit Committee and a Member of the Remuneration Committee and Nomination Committee of the Company. He has no family relationship with any director and/or major shareholder of the Company nor does he have any conflict of interest with the Company. He has not been convicted for any offences within the past 5 years.

He has attended all the five board meetings held in the financial year ended 31 December 2018.



DIRECTORS' PROFILE (CONT'D)

YBHG DATUK TAY PUAY CHUAN

Malaysian / Aged 55 / Male

YBhg Datuk Tay Puay Chuan was appointed as an Independent Non-Executive Director of Guan Chong Berhad on 8 January 2005. He started his career with the Polis DiRaja Malaysia, Bukit Aman in 1987 and later left the police force as a Police Inspector in 1992. He joined Fajar Sawmill Sdn Bhd as a Factory Manager from 1992 to 1997. In 1997, he obtained a Bachelor of Law (Honours) degree from University of London, UK. He was called to the Bar and admitted as an advocate and solicitor in 1998. He was the partner in Fazilah, Ong Chee Seong & Associates from 1998 to 2003 until he set up his own legal practice, Tay Puay Chuan & Co in Muar, Johor Darul Takzim in 2003. Currently, he is the Independent Non-Executive Director of Sern Kou Resources Berhad and Homeritz Corporation Berhad.

He is a Member of the Audit Committee and Remuneration Committee and the Chairman of Nomination Committee of the Company. He has no family relationship with any director and/or major shareholder of the Company nor does he have any conflict of interest with the Company. He has not been convicted for any offences within the past 5 years.

He has attended all the five board meetings held in the financial year ended 31 December 2018.

PROFILE OF KEY SENIOR MANAGEMENT

TAY HOW YEH

Malaysian / Aged 53 / Male

Tay How Yeh was appointed as the Director of Supply Chain of GCB Specialty Chocolates Sdn Bhd on 1st August 2016. He graduated with a degree in Bachelor of Business Administration from University of Toledo USA in 1989. From 1990 to 1995, he was the manager of Guan Chong Trading where he was assigned with the task of sourcing cocoa bean in Tawau, Sabah. Over the years, he has gained considerable experience in logistic and cocoa beans quality assessment. Since joining Guan Chong Cocoa Manufacturer Sdn Bhd in 1995 as Production manager, he has been in charge of the production department and assisted in expanding production capacity, production planning and quality control. In 2008, he was appointed the Production and Operation Manager of GCB Foods Sdn Bhd, responsible for managing production planning, raw material procurement, inventory control and quality control. In 2010, he was appointed the Managing Director of GCB Specialty Chocolates Sdn Bhd, in charge for monitoring overall of company performance. Subsequently on August 2016 upon joint venture with Fuji Oil Asia Pte Ltd, he is appointed as the Director of Supply Chain of GCB Specialty Chocolates Sdn Bhd.

He is not a director of any other public company. He is the cousin of Tay Hoe Lian, the Managing Director and major shareholder of the company and brother of Tay How Sik @ Tay How Sick, an Executive Director and shareholder of company. He does not have any conflict of interest with the company and has not been convicted for any offences within the past 5 years.

TAY SEE MIN

Malaysian / Aged 47 / Female

Tay See Min was appointed as the Commercial Director of GCB Cocoa Singapore Pte Ltd on 10 December 2010. She graduated with a degree in Bachelor of Information System from Monash University, Australia in 1993. She has been working as an IT profession upon graduation, and was last an IT Manager in American International Assurance (AIA) before joining Guan Chong. Since joined, she is actively involved in cocoa bean trading, sales and marketing of cocoa product. In 2012, she was

appointed to be in charge of Indonesia Market and had successfully set up a trading company in Jakarta. She has been managing the Jakarta company and successfully expand the market shares by increasing the customer base in Indonesia.

In 2014, she was appointed to be in charge of Japanese Market for expanding market shares in Japan. She has been actively working and has built up stronger relationship with Japanese Trading companies and MNC customers. She is also constantly involved in corporate strategic planning and managing strategic projects. Besides that, she has also been working with potential investors or partners for any expansion and Investment opportunity.

She is not a director of any other public company. She is the sister of Tay Hoe Lian, the Managing Director and major shareholder of the Company. She does not have any conflict of interest with the Company and has not been convicted for any offences within the past 5 years.

YAU TEE WAN

Malaysian / Aged 46 / Male

Yau Tee Wan was appointed as the Senior Operation Manager of Guan Chong Cocoa Manufacturer Sdn Bhd on 01 January 2012. He graduated with a degree in Bachelor of Physics from University of Malaya, Malaysia in 1997. Upon graduation, he joined Dunham Bush Sdn Bhd as a Research & Development Engineer, responsible for R&D of air conditioning equipment. Subsequently, he worked with Mewaholeo Industries Sdn Bhd as a senior production executive, specializing in overall production of specialty fats including frying oil, margarine and shortening before he left the job for the position of Maintenance Manager in Guan Chong Cocoa Manufacturer Sdn Bhd in 18 March 2002. He has been managing the overall plant maintenance, technical parts and machineries procurement, inventory control and project management. He was promoted to the position of Operation Manager in 2005 and Group Operating Manager in 2010, overseeing the production of Guan Chong Cocoa Manufacturer Sdn Bhd, GCB Foods Sdn Bhd and PT Asia Cocoa Indonesia. Besides that, he is also the General Manager of PT Asia Cocoa Indonesia and successfully achieved maximum efficiency in overall production by maintaining high production yield and low processing cost.



PROFILE OF KEY SENIOR MANAGEMENT (CONT'D)

He is not a director of any other public company. He has no family relationship with any director and/or major shareholder of the Company nor does he have any conflict of interest with the Company. He has not been convicted for any offences within the past 5 years.

POW CHUN CHUNG

Malaysian / Aged 46 / Male

Pow Chun Chung was appointed as the Senior Quality Manager of Guan Chong Cocoa Manufacturer Sdn Bhd on 01 January 2012. He obtained a Bachelor of Engineering (Chemical) from University of Malaya in 1998. He started his career with Mewaholeo Industries Sdn Bhd as Production Engineer, responsible for palm oil fractionation plant production. Subsequently, he joined Universal Cable Sdn Bhd and Medical Latex II Sdn Bhd in 1998 and 2000 respectively as Quality Engineer. Over the years, he has gained extensive knowledge and experience in quality assurance, quality control as well as ISO9001, British standard product certification and FDA process validation, enabling him to design a stringent and efficient quality assurance process. He joined Guan Chong Cocoa Manufacturer on 01 April 2002 as Quality Manager and has been working on maintaining high quality assurance, quality control and manage food safety and regulatory affair of the company. He was promoted to the position of Senior Quality Manager on 01 January 2012, overseeing the quality control of raw material as well as finished products of GCB Foods Sdn Bhd and PT Asia Cocoa Indonesia.

He is not a director of any other public company. He has no family relationship with any director and/or major shareholder of the Company nor does he have any conflict of interest with the Company. He has not been convicted for any offences within the past 5 years.

MANAGEMENT DISCUSSION AND ANALYSIS

Dear shareholders,

Guan Chong Berhad (GCB or the Group) emerged from humble beginnings, starting as a family run cocoa trader in 1980 in the southern state of Johor in Malaysia.

Today, we have grown by leaps and bounds to become one of the world's top producers of cocoa ingredients in terms of grinding capacity. Our cocoa ingredients, marketed under the Favorich brand, are widely used in the chocolate, confectionery, food and beverage, and many related industries worldwide.

Our clients, many of which are world-renowned consumer and chocolate brands, depend on the quality and reliability of GCB, Asia's largest cocoa-grinder and one of the largest in the world, supported by our facilities in Malaysia, Indonesia, and the United States.

As we forge ahead to grow GCB's market share in the global chocolate industry, it is my pleasure to present to you GCB's 2018 Annual Report, a review of our operations in the past year, and an outline of growth strategies that would guide us going forward.

BUSINESS OVERVIEW

GCB has a combined cocoa grinding capacity of 250,000 metric tonnes (MT) per year supported by our facilities in Pasir Gudang, Malaysia, as well as in Batam, Indonesia.

List of Cocoa Grinding Facilities	Location	Annual Grinding Capacity
Guan Chong Cocoa Manufacturer Sdn Bhd	Pasir Gudang, Malaysia	80,000 MT
GCB Cocoa Malaysia Sdn Bhd	Pasir Gudang, Malaysia	50,000 MT
PT Asia Cocoa Indonesia	Batam, Indonesia	120,000 MT
Total		250,000 MT

In addition to the entrenched presence in Southeast Asia, we have two facilities located in Delaware and New Jersey, United States, that undertake cocoa cake grinding, cocoa liquor and butter melting, as well as cocoa butter deodorizing.

Our operations are supported by trading subsidiaries in Singapore and Indonesia.

We also comply with stringent quality and ethical standards internationally, holding comprehensive certifications such as HACCP and FSSC 2000, in addition to having passed the Sedex Members Ethical Trade Audit.

OPERATIONAL HIGHLIGHTS

Production Highlights

In the year under review, the Group continued to grow from strength to strength in its core business activities.

We have channelled significant efforts to expand our clientele in the past few years, in addition to increasing our sales to existing multinational customers. These efforts have led to promising growth, as sales volume of cocoa ingredients continued its uptrend to rise 23.9% in the financial year ended 31 December 2018 (FY2018).

Meanwhile, our operating profitability improved significantly, with EBITDA rising to RM263.3 million in FY2018, compared to RM162.8 million in FY2017. This was supported by higher sales volume and enhanced economies of scale on increased production.

Expansion of Grinding Facility

In FY2018, the Group embarked on the expansion of its grinding facility in Pasir Gudang, under GCB Cocoa Malaysia Sdn Bhd (formerly known as Koko Budi Sdn Bhd), to its present capacity of 50,000 MT from 9,000 MT previously. The expanded facility was fully commissioned in the first quarter ended 31 March 2019, bringing the Group's combined annual grinding capacity to 250,000 MT currently.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL PERFORMANCE

Group revenue in FY2018 grew 5.8% to RM2.3 billion compared to RM2.1 billion in the previous year due to increased sales of cocoa ingredients. The strong growth in sales volume helped offset lower average selling prices of cocoa ingredients during the year due to a decline in commodity prices of cocoa beans during the year.

GCB recorded a gross profit of RM280.9 million in FY2018, rising 82.0% from RM154.3 million in the previous year. The decrease in cocoa bean prices and higher capacity utilisation of our plants, coupled with larger sales tonnage mitigated the lower average selling price, and enhanced our gross profit margin levels.

In line with the higher gross profit, the Group's pre-tax profit rose 84.0% to RM208.7 million compared to RM113.4 million in the prior year. Net profit attributable to shareholders more than doubled to RM190.1 million in the year under review versus RM91.0 million in FY2017.

As at 31 December 2018, the Group's total assets stood at RM1.8 billion, increasing 12.9% from RM1.6 billion, due to higher property, plant and equipment value from the expansion of GCB Cocoa Malaysia during the year, as well as higher trade receivables.

Trade and other receivables as at 31 December 2018 increased to RM328.5 million, versus RM238.2 million in the prior year as Group sales rose in the year under review. Trade and other payables also jumped to RM431.4 million, from RM253.3 million due to accrued expenditures towards the financial year end from new orders.

At the same time, GCB's cash and bank balances rose 12.2% to RM44.8 million, compared to RM39.9 million a year ago. The Group also reduced total borrowings to RM602.4 million from RM787.3 million previously. Of total borrowings, Islamic loans made up RM108.8 million from none prior, as the Group began converting conventional loans to Islamic loans as we work towards achieving Shariah-compliant status.

With the lower borrowings, net gearing declined by half to 0.8 times, from 1.6 times in FY2017.

DIVIDEND

We have achieved a record performance for FY2018, and declared an interim dividend and a special dividend for the year as appreciation to the unwavering support from our shareholders.

The first single tier dividend of 2.0 sen per ordinary share amounted to RM9.6 million was declared on 13 August 2018 and subsequently paid on 28 September 2018. The special single-tier dividend of 2.0 sen per ordinary share amounted to RM9.6 million in respect of FY2018 was declared on 18 February 2019 and subsequently paid on 29 March 2019.

The total dividend payout of RM19.2 million represented 10.1% of FY2018 net profit attributable to shareholders.

RISKS

Competition

The Group is operating in a globally competitive industry, where major players hold significant advantages such as greater financial resources. Furthermore, the operations of several large players are also more integrated across the value chain, from manufacturing and trading of cocoa ingredients to the branding and retailing of chocolate and cocoa-based consumer products, which may provide significant economies of scale and competitive access to raw materials.

To ensure competitiveness in this industry, we always aim to be more cost effective and efficient, as well as continuously provide quality products to our quality-centric customers.

Supply Risk

Cocoa beans are limited in quantity around the world, with approximately 4.7 million MT of beans produced per year. Furthermore, bean supply in Indonesia, one of our key supply markets, has been shrinking considerably over the past few years. Thus, to meet the demand of our customers, we have continued to source beans from alternative origins, and have been exploring the potential of expansion of our business in other bean producing countries.

Cocoa Bean Price Volatility Risk

Cocoa beans are a key raw material for the Group, and make up a substantial portion of our costs. Thus, the price fluctuations of this commodity due to the supply and demand, as well as market speculation will have an impact on our performance.

To minimise the impact, we hedge our cost of cocoa beans to forward sales contracts of cocoa ingredients to reduce our exposure to price fluctuations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Foreign Currency Fluctuation Risk

Majority of our transactions were denominated in foreign currencies, mainly USD and GBP. However, the Group's reporting currency is MYR. Thus, we face the potential risk of currency fluctuations.

In an effort to reduce our exposure to currency fluctuations, we attempt to match the currency used for the purchase of our raw materials with the currency of export sales.

While the steps taken have reduced the exposure to currency fluctuations, we may still be slightly impacted from time lag between payment made for import of beans and payment from export sales.

My gratitude also goes to our management team and employees for their tireless efforts and continued dedication to make this a great year for the Group. I would also like to express my appreciation to our Board of Directors for the continuous guidance, and I look forward towards growing GCB further, together.

Thank you.

Brandon Tay Hoe Lian
Chief Executive Officer

OUTLOOK AND GROWTH STRATEGIES

Global demand of chocolate is expected to remain on the rise for the foreseeable future, while supporting data indicate that cocoa grinders in Asia may chart higher grinding activity in 2019 to cater to increasing demand.

In this regard, we continue to aim to increase our market share in the global cocoa ingredients market, and are guided by the following growth strategies:

Increasing Production Capacity

To capture market share, we intend to increase our grinding capacity in order to meet the expanding requirements of major customers worldwide.

The recent full commissioning of our expansion of GCB Cocoa Malaysia plant in the first quarter ending 31 March 2019 allow us to capture such rising demand, and we are looking towards filling up the extra capacity expediently.

Expanding Geographical Presence

We will also explore opportunities to expand our production facilities to major cocoa producing countries in order to enhance our competitive edge. This would provide significant cost savings in freight and transportation, as well as enhance our manufacturing supply chain.

ACKNOWLEDGEMENTS

I would like to thank all of our customers, business partners, customers, suppliers and all other stakeholders for their unending support provided to GCB during the past year.



STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY

Guan Chong Berhad (“GCB” or “the Group”) is committed to upholding good corporate stewardship in our everyday business and aims to bring a positive impact to our stakeholders.

In adherence to corporate social responsibility (“CSR”), the Group regularly engages in various activities that promote the development of our employees, safeguard the environment, and enhance the lives of the communities around us.

THE WORKPLACE

Our employees are the backbone of the company and our greatest asset. We place utmost importance on the safety of all employees, and continuously review and upgrade our safety standards and training processes. We also provide training on Good Manufacturing Practices to enhance safety and hygiene practices in the manufacturing environment.

Additionally, we are committed to providing a conducive platform for professional growth of our employees, and regularly organise training and technical skills programmes which help with improving performance and creating a stronger base for career advancement.

Furthermore, we organised a badminton tournament during the year to promote camaraderie and healthy lifestyles among our employees.

THE MARKETPLACE

We understand that our stakeholders appreciate effective and transparent communication with the Group and its management, in addition to the provision of timely and accurate information.

To this end, we rely on several channels to engage with various stakeholders. We regularly disclose material updates such as our financial performance and latest corporate developments to Bursa Malaysia. We also engage with shareholders at our Annual General Meetings and other platforms, disseminate press releases to the media, as well as hold regular investor briefings and presentations.

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY (CONT'D)

THE ENVIRONMENT

We are proponents of environmental conservation. In this regard, we endeavour to implement environmentally friendly practices in the workplace.

We strongly encourage our employees to recycle everyday waste, and have installed recycling bins in our offices and factories, in addition to providing education on proper disposal methods.

We also strive to reduce energy consumption and waste production, such as through the use of energy efficient lighting system in our factories and offices. Additionally, our factories are equipped with wastewater treatment and recycling system to minimize resource wastage. Our wastewater treatment plant also ensures that our wastewater meet regulatory standards before being discharged from our factories.

THE COMMUNITY

GCB aims to give back to the society around us, and has supported various noble causes through monetary and other contributions to various community projects and charitable institutions.

We organised a blood donation campaign in 2018 to help alleviate inadequate blood supply in Hospital Sultanah Aminah in Johor Bahru. A total of 53 GCB employees participated in the campaign.

Besides this, we organised a charity event for an orphanage, and cleaned facilities, provided daily necessities, and engaged with the children in games and conversation. We received encouraging response from our employees, and will look forward to organising similar activities in the future.

Furthermore, our team in Indonesia also participated in several projects dedicated to environmental conservation, such as the cleaning of Pantai Melayu Nongsa, and planting of trees in Kampung Tering, Nongsa, as their way to give back to their local community in Batam. A total of 17 employees from our Indonesia subsidiary, PT Asia Cocoa Indonesia took part in these activities.



SUSTAINABILITY STATEMENT

1.0 OUR APPROACH AND SCOPE

Sustainability has always been an integral part of our way of doing business as we strive to achieve continual financial performance. This sustainability statement aims to illustrate our approach to address sustainability challenges and opportunities in contributing towards the benefit of business, environment and society.

We are committed to driving responsible and sustainable business practises throughout our organisation. We instil the principles of sustainability into our policies and procedures, and integrate Economic, Environmental and Social considerations into our decision making.

To elaborate our sustainability efforts and commitment, this sustainability statement is structured into four sections, as follows:

- **Our Approach:** *Overview and Scope* of this statement
- **Sustainability Governance Structure:** The Group's *governance structure* in managing the *material sustainability matters*.
- **Materiality Process:** The processes to *identify and priorities* the *material sustainability matters*.
- **Managing Sustainability Matters:** The Group's *practises and performance* in managing the *material sustainability matters*. The Sustainability Statement will be reported in a balanced, comparable and meaningful way by referring to the Sustainability Reporting Guide 2nd Edition.

The scope of this sustainability statement for Year 2018 covers two main subsidiary companies, namely Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC") and PT Asia Cocoa Indonesia ("ACI"), which through its cocoa bean processing activities.

2.0 SUSTAINABILITY GOVERNANCE STRUCTURE

The responsibility to promote and embed sustainability in Guan Chong Berhad (GCB)'s business strategy lies with the Board of Directors. A Sustainability Steering Committee (SSC) was set up to oversee the incorporation of sustainability in the Group's businesses, as well as to prepare the Group for its sustainability disclosure. The objective of the SSC is to facilitate the preparation of the Sustainability Statement in the annual report, as required by the Bursa Malaysia's Listing Requirements. The SSC is chaired by Executive Director, and comprises of General Manager and Senior Manager of the respective functional units and also support groups from GCC and ACI.

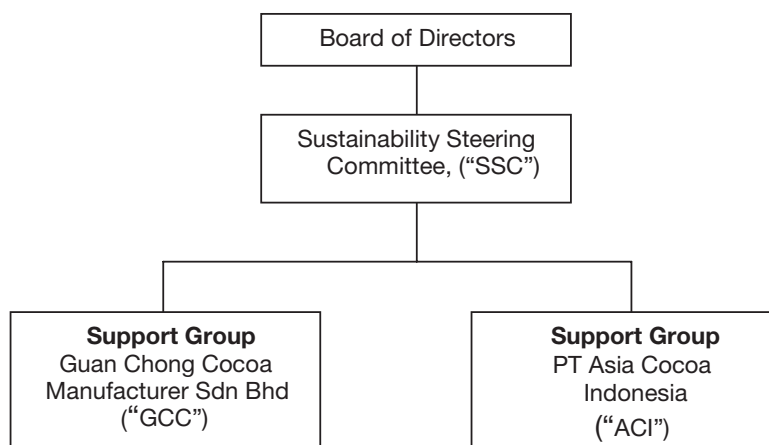
Among others, the responsibility of the SSC includes overseeing the following:

- Stakeholder engagement process (e.g. identification and engagement of key stakeholders).
- Materiality assessment (e.g. identification of sustainability issues relevant to the Group's business, risks and opportunities assessment on sustainability issues, and identification of material sustainability matters).
- Oversee the management of material sustainability matters identified.
- Preparation of sustainability disclosures.

SUSTAINABILITY STATEMENT (CONT'D)

2.0 SUSTAINABILITY GOVERNANCE STRUCTURE (CONT'D)

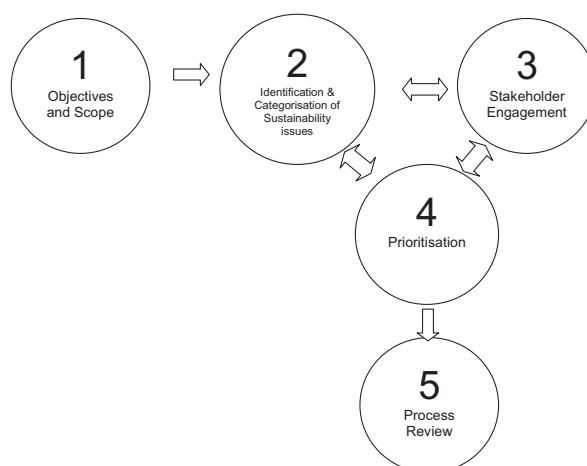
GCB's Sustainability governance structure:



GCB will also looking into establishing a longer term governance structure that may enable incorporation of other smaller business units. We also consider the existing risk/crisis management processes adopted, to harness synergies and efficiencies from the existing governance processes that are already in place.

3.0 MATERIALITY PROCESS

To identify what is deemed material, GCB has adopted a materiality assessment process, suggested by **Bursa Malaysia's Sustainability Reporting Guide (2nd Edition)**. Our Materiality assessment processes are as follows:



This process employs a prioritization approach, taking into consideration of important sustainability issues from both perspectives of GCB and that of Stakeholders. GCB has therefore engaged with stakeholders to determine the significant sustainability matters and to solicit their views and inputs. This is in line with material sustainability matters as defined in Bursa Malaysia's Listing requirements:

- Reflect the business' significant economic, environmental and social impacts; or
- Substantively influence the assessments and decisions of stakeholders

SUSTAINABILITY STATEMENT (CONT'D)

STAKEHOLDER ENGAGEMENT

GCB acknowledges the importance of our stakeholders to our continued success and business sustainability, strongly believing that sustainability can only be achieved with the involvement of our stakeholders. Meaningful engagements with stakeholders are critical to understand their interests and needs. Stakeholders' feedbacks enable us to obtain a fully-integrated perspective about the issues that are most important to our business.

A summary of engagement activities with our stakeholders is shown as follows:

Stakeholder	Engagement activities	Stakeholders' key concerns
Employee	- Worker recreation club – discussion and dialogue - Recreation events	- Financial Sustainability - Community Services - Equal opportunities and human rights
Customers	- Sustainability forum and seminar - Customer visit/meeting - Marketing materials and events - Corporate announcement and publication	- Energy Consumption - Equal opportunities and human rights – participation of Women work force - Minimizing Water Use - Ethical business and transparency - Financial Sustainability - Combating forced labour and Child labour
Suppliers	Meeting and discussions	- Financial Sustainability - Combating forced labor and Child labor - Ethical business and transparency
Regulatory authorities and government	- Regular consultation and meeting - Reporting - Government agency - industrial dialogue	- Human capital development and labour practices - Waste management
Local Communities	Meeting and discussions	- Community Services - Waste management

MATERIALITY ASSESSMENT

Materiality assessment is a process of identifying, refining, and assessing numerous potential economic, environmental, and social (EES) issues that could affect our business and stakeholders, and condensing them into a shortlist of topics.

To determine our key material sustainability issues, SSC conducted a materiality assessment exercise:

1. Identification of potential topics. SSC identified the typical material issues faced by other cocoa companies by comparing peer companies
2. Shortlist of issues that are relevant to GCB. We then identified a preliminary list of material issues faced by conducting interviews with key internal stakeholders comprising the senior management team.
3. Prioritisation. We further prioritised the material issues based on our assessment of the impact of the issues to the business and the level of concern to our stakeholders.

SUSTAINABILITY STATEMENT (CONT'D)

Four most material issues were identified arising from this exercise.

They are financial sustainability, energy consumption, minimizing water use, and equal opportunities and human rights.

4. Validation. We finalized the prioritized material issues by presenting Chief Executive Officer for validation. Notwithstanding, we will periodically review our materiality assessment to cater for changes in our operations and stakeholders' inputs.

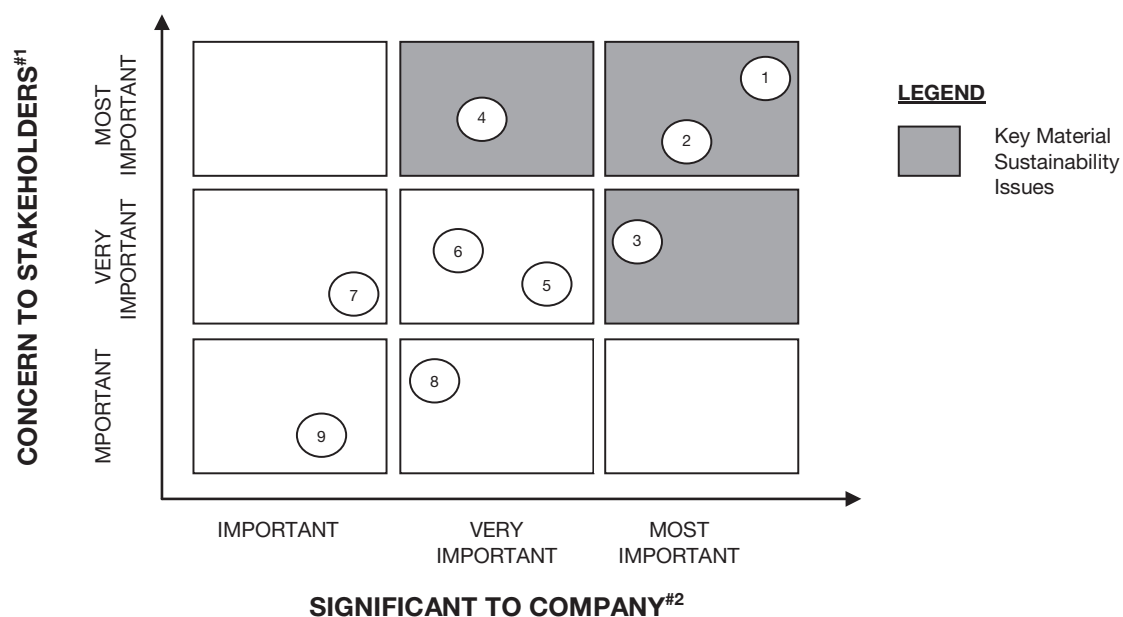
LINKAGE

This sustainability statement is also mentioned in our Corporate Governance Overview Statement, which is part of the Listing requirement.

The outcome of the materiality assessment exercise is presented in table below which lists material issues in order of priority.

PRIORITY	MATERIAL SUSTAINABILITY ISSUES
1	Financial Sustainability
2	Energy Consumption
3	Minimizing Water Use
4	Equal opportunities and human rights
5	Ethical business and transparency
6	Human capital development and labour practices
7	Combating forced labor and Child labor
8	Community Services
9	Waste management

Comparing the material issues against our stakeholders' concerns (deduced from our stakeholder engagement efforts) we derived a Materiality Matrix as follows:



Remarks:

#1 "Concern to stakeholders" is defined as the importance of a sustainability issues to the stakeholders

#2 "Significant to company" is defined as the importance of a sustainability issue to GCB

SUSTAINABILITY STATEMENT (CONT'D)

The most material sustainability matters will be categorised and discussed in the following manner.

KEY EES* CATEGORY	SUSTAINABILITY ISSUES
<u>Economic</u> Sustainable Growth	<i>Financial Sustainability</i>
<u>Environmental</u> Minimizing environmental impact	<i>Energy Consumption</i> <i>Minimizing Water Use</i>
<u>Social</u> Social Responsibility	<i>Equal opportunities and human rights</i>

*Economic, Environmental and Social

4.0 MANAGING SUSTAINABILITY MATTERS

FINANCIAL SUSTAINABILITY

Our key objective is to create economic value from our cocoa business. We emphasize efficiency, cost savings, and good business ethics. Despite the challenging market environment over the years, we maintain our agility to respond to risks and opportunities. Over the years, Guan Chong Berhad has showed our stakeholders that we are one of the most resilient cocoa company in Asia. 2018 has been a good year for cocoa processors; we achieve good financial results in term of Revenue and Profit before Tax as compare to that of in 2017 as shown in table below

FINANCIAL SUSTAINABILITY	2017	2018	Change %
Revenue (RM Million)	2,148	2,273	5.8%
Profit before Tax (RM Million)	113	209	85.0%

Financial sustainability is a key focus of our business. The main contributor to GCB performance is our core business: cocoa bean processing. Regardless of market condition, our key considerations to ensure sustainability in this respect are to:

1. Ensure high utilization of cocoa grinding capacity,
2. Persistent drives on cost efficiency,
3. Agile response towards changes in cocoa market and forward planning.

We endeavor to enhance our financial performance to deliver value to all our stakeholders on a continuous basis.

ENERGY CONSUMPTION

We consume a considerable amount of energy in processing cocoa bean, mainly in the form of electricity. In 2018, both Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC") and PT Asia Cocoa Indonesia ("ACI") have setup energy management and data collection system, helping us manage our energy usage by improving efficiency, reducing emissions and conserving resources. kWh/MT consumed per cocoa bean processed has been identified as the meaningful key indicator to measure Energy Consumption, various initiatives to improve reduction of electricity has been put in place to drive towards lower energy consumption.

Average kWh/MT cocoa bean processed	2017	2018	Change %
Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC")	379	377	-0.5%
PT Asia Cocoa Indonesia ("ACI")	301	271	-10.0%

We manage to achieve good figures of reduction in kWh/MT per cocoa bean process in both Malaysia and Indonesia Plants, by various improvement from Production and Engineering Team; nonetheless, it is proven that it is much more challenging to reduce at Malaysia Plant where our cocoa powder production are more intense. ** Also, Indonesia Plant has reached its lowest kWh/MT recorded; further reduction is not easily attainable.

In coming year, we have set a target of further reduction of 2% kWh/MT for both plants. This post a great challenge to our team, but we are willing to take on for our environment.

**GCC consume higher electricity than that of ACI because it has more cocoa powder grinding activities that consume high electricity

SUSTAINABILITY STATEMENT (CONT'D)

MINIMIZING WATER USE

Water scarcity is one of the hot sustainability topics in chocolate or cocoa industry. As part of the supply chain actor in providing cocoa ingredients to the world market, GCB has prioritized this concern after stakeholder engagement from customer sustainability seminar.

Both Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC") and PT Asia Cocoa Indonesia ("ACI") have set up water management and data collection system, helping us manage our water usage more effectively. m3/MT water consumed per cocoa bean processed has been identified as the meaningful key indicator to measure Water Consumption, various initiatives to improve reduction of water used has been put in place to drive towards lower water consumption.

Water Usage : Average m3/MT cocoa bean processed	2017	2018	Change %
Guan Chong Cocoa Manufacturer Sdn Bhd ("GCC")	1.09	1.15	5.5%
PT Asia Cocoa Indonesia ("ACI")	0.88	0.66	-25.0%

In the year 2018, although Indonesia Plant has achieved good reduction in water consumption, Malaysia plant with more cocoa powder/alkalized product recipe has used more water in term of m3/MT than what we did in 2017.

Various areas of improvement have been identified in Malaysia Plant, and initiatives that have been successfully implemented in Indonesia Plant will also be duplicated to Malaysia Plant, to assist Malaysia Plant achieves reduction of water use in coming year.

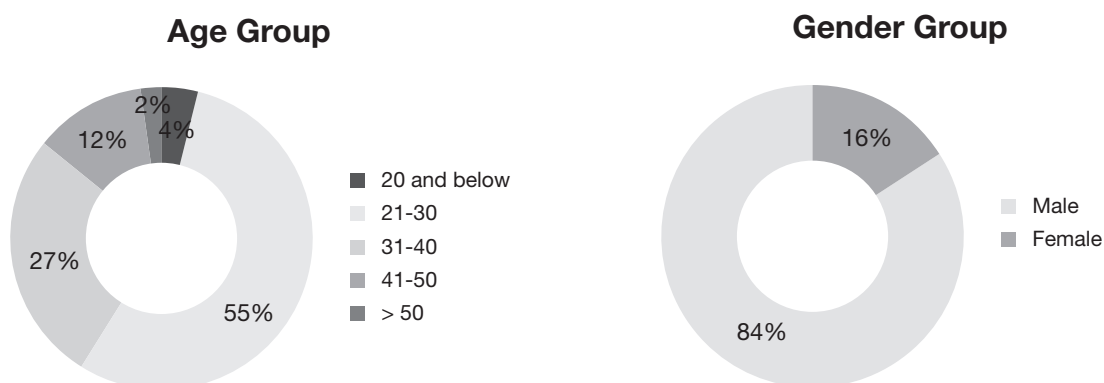
In coming year, we have set a target of further reduction of 2% m³ water /MT cocoa bean processed for both plants.

EQUAL OPPORTUNITIES AND HUMAN RIGHTS

GCB strongly believes in equal opportunity at work embraces diversity and is against any and all forms of discrimination. In order to achieve this goal, GCB promotes the right to work and advancement on the basis of merit, ability, potential and experience that is free from prejudice.

GCB is strongly against discrimination on the basis of race, colour, sex, language, religion, political or other opinion, caste, national or social origin, property, birth, union affiliation, sexual orientation, health status, family responsibilities, age and disability or other distinguishing characteristics. Hiring, remuneration, benefits, training, advancement, promotion, discipline, termination, retirement or any other employment-related decisions shall be based on relevant and objective criteria.

Mindful that a diverse and dynamic workforce is vital for business growth and sustainability, we nurture an environment and culture of equal opportunity with a rich mix of gender and age.



SUSTAINABILITY STATEMENT (CONT'D)

COMMUNITY SERVICES

In addition to MATERIAL SUSTAINABILITY ISSUES, our team has also engaged with various community services in 2018. The following are some of the program conducted in 2018:

Malaysia

Blood Donation



Orphanage Visit



SUSTAINABILITY STATEMENT (CONT'D)



Indonesia Beach Cleaning Up



Tree Planting (rehabilitation)



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors of the Company (“the Board”) recognizes the importance of good corporate governance in ensuring that the interest of the Company, shareholders and other stakeholders are protected. The Board is committed to the establishment and implementation of a proper framework for governance and controls that are consistent with the principles recommended in the Malaysian Code on Corporate Governance 2017 (“MCCG 2017”) and other applicable laws, regulations, directives and guidelines.

This corporate governance overview statement (“Statement”) sets out the adoption and practices of the principles as set out in the MCCG 2017 and the relevant chapters of the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) on corporate governance.

The manner in and the extent in which the corporate governance framework is applied throughout the financial year ended 31 December 2018 is summarised as follows:

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

Principal Responsibilities of the Board of Directors

The Board directs the risk assessment, strategic planning, succession planning and financial and operational management of the Company and each of its subsidiaries (collectively referred to as “the Group” or “GCB Group”) to ensure that obligations to shareholders and other stakeholders are understood and met. The Board provides the leadership necessary to enable the Group’s business objectives to be met within the framework of internal controls described in this Statement.

To assist in the discharge of its stewardship role, the Board has established Board Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee, to which it has delegated certain responsibilities. The Board Committees have their roles and functions, written terms of reference, operating procedures and authority to examine specific issues within their respective terms of reference as approved by the Board and report to the Board with their recommendations. All deliberations and decisions taken by the Board Committees are documented and approved by the respective Chairman of the Board Committees prior to submission as agenda items for deliberation at the meeting of the Board. The ultimate responsibility for decision making, however, still lies with the Board. The Board reviews the Board Committees’ authority and terms of reference from time to time to ensure their relevance.

Clear roles and responsibilities

The Board has a collective responsibility for the management of the Group. The Non-Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board and providing objective challenges to Management.

The Non-Executive Directors do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with the Group to ensure that they are capable of exercising judgment objectively and act in the best interest of the Group, its stakeholders and shareholders, including minority shareholders. To enhance accountability, the Board has specific functions reserved for the Board and those delegated to the Management. There is a schedule of key matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Group are in its hands.

Key matters reserved to the Board for decision comprise the following:

- acquisition and disposal or closure of a business;
- declaration of dividends and approval of financial statements, including accounting policies of the Group;
- establishment of new businesses;
- annual strategic plan;
- capital investment and disposal of tangible assets from existing business to third party;
- increase or reduction by a subsidiary of its authorized or issued capital;
- financing on the Group’s activities;
- any corporate restructuring not covered by the above-mentioned paragraphs; and
- the change of name of any company in the Group and establishment of any new company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

I. Board Responsibilities (Cont'd)

Access to Information and Advice

The Board and the Board Committees receive timely and up-to-date information and the Company Secretary, under the direction of the Chairman, to ensure a balanced flow of information is disseminated for decisions to be made on an informed basis and for the effective discharge of the Board's responsibilities. The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by Management.

Board Meetings

The Board ordinarily schedules four (4) meetings in a year. Additional meetings are convened when urgent and important decisions need to be made between scheduled meetings.

A total of five (5) Board Meetings were held for the financial year ended 31 December 2018. The details of attendance of each Board Member are as follows:

Name of Directors	Attendance
YBhg Dato Dr. Mohamad Musa bin Md. Jamil	5/5
Tay Hoe Lian	5/5
Tay How Sik @ Tay How Sick	5/5
Hia Cheng	5/5
Tan Ah Lai	5/5
YBhg Datuk Tay Puay Chuan	5/5

Time Commitment

Where any direction or decisions are required expeditiously or urgently for the Board between the regular meetings, special meetings of the Board are convened by the Company Secretary, after consultation with the Chairman. The agenda for the meeting of the Board are set by the Company Secretary in consultation with the Chairman and the Managing Director/Chief Executive Officer.

Decisions of the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolutions between scheduled and special meetings.

The agenda, the relevant reports and Board papers are furnished to Directors in advance to allow the Directors sufficient time to peruse for effective discussion and decision making during meetings. The Board has a regular schedule of matters which are typically on the agenda and reviewed during the course of the year, namely, presentation on quarterly reports; the quarterly unaudited consolidated results; recommendations of the various Board Committees; announcements to Bursa Securities; the Company's audited financial statements; the Company's annual report which includes Sustainability Statement, this Statement, Statement of Risk Management and Internal Control, Audit Committee Report and Statement of Directors' responsibilities. Members of the Management Team or external advisors are invited, as and when required, to attend the Board and/or Board Committees meetings to advise and furnish the members of the Board and/or Board Committees with information and clarification relating to the items on the agenda for effective discussion and decision making.

It is the policy of the Company for Directors to devote sufficient time and efforts to carry out their responsibilities. The Board obtains this commitment from Directors at the time of appointment.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II. Board Composition

The Composition of the Board

The Board consists of six (6) members, comprising one (1) Non-Independent Non-Executive Chairman, three (3) Executive Directors including the Managing Director/Chief Executive Officer and two (2) Independent Non-Executive Directors. The Board members provide an effective Board with a mix of industry-specific knowledge and broad business, financial, regulatory and technical experience. Furthermore, there is effective check and balance on the Board, with one third (1/3) of the Board members being Independent Non-Executive Directors.

The Board has identified YBhg Datuk Tay Puay Chuan as the Senior Independent Non-Executive Director of the Company to whom concerns may be conveyed. A brief description of the background of each Director is presented in the Directors' Profile on pages 8 to 10 of this Annual Report.

Independence of the Board

The Independent Directors provide the necessary independent perspective and rigour in the formulation of strategies, deliberation of issues and implementation of major undertakings to ensure that the interest of not only the Group, but also stakeholders and the public in general are represented. The Board, through the Nomination Committee reviewed and was satisfied that all such Directors had satisfied the criteria for an Independent Director as prescribed in the Listing Requirements and Practice Note 13. This mixture of experience and expertise is deemed necessary in light of the increasing challenging economic and operating environment in which the Group operates.

The MCGG 2017 provides a limit of a cumulative term of nine (9) years on the tenure of an Independent Director. However, an Independent Director may continue to serve the Board upon reaching the nine (9) years limit subject to the Independent Director's re-designation as a Non-Independent Non-Executive Director. In the event the Board intends to retain the Director as Independent Director after the latter has served a cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval at general meeting. If the Board continues to retain the Independent Director after the twelfth (12) years, the Board should seek annual shareholders' approval through a two-tier voting process. In justifying the decision, the Nomination Committee is entrusted to assess the candidate's suitability to continue as an Independent Non-Executive Director based on the criteria and definition of an Independent Director as set out under Paragraph 1.01 of Listing Requirements on independence and recommend to the Board for its consideration.

Nomination Committee

The Nomination Committee was established on 26 April 2005 and is primarily responsible for the identification of the desired mix of expertise, competencies and experiences for an effective Board and the assessment of the performance of the members of the Board. As and when the need arises, the Nomination Committee shall also identify and recommend candidates with the necessary qualities to strengthen the Board.

On appointment of new Directors, the Management would facilitate the Directors' induction by providing the Directors with relevant information about the Group and encouraging them to visit the sites of the Group's operating units and meet with key senior executives. The Nomination Committee will also ensure that orientation programme is provided for new members of the Board and is also tasked to review the Directors' continuing education programmes.

In accordance with the Company's Constitution (formerly known as Memorandum and Articles of Association), all Directors who are appointed by the Board are subject to election by shareholders at the first opportunity after their appointment. The Constitution also provides that at least one third (1/3) of the remaining Directors be subject to re-election by rotation at each Annual General Meeting ("AGM") provided always that all Directors shall retire from office at least once every three (3) years but shall be eligible for re-election.

The Nomination Committee has access to any form of independent professional advice, information and the advice and services of the Company Secretary, if and when required, in carrying out its functions. Directors seeking re-election and re-appointment abstain from all deliberations regarding his/her re-election and re-appointment to the Board and/or Board Committees. The Nomination Committee shall meet at least once in a financial year or more frequent if needed.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

II. Board Composition (Cont'd)

Nomination Committee (Cont'd)

The activities carried out by the Nomination Committee during the financial year under review were as follows:

- Assessed and reviewed the boardroom diversity in respect of the desired mix of skills, competencies and experience of the Board, including the core competencies which non-executive directors should bring to the Board as well as the gender diversity policy as encouraged by Bursa Securities;
- Assessed the effectiveness and performance of the Board and the Board Committees;
- Reviewed the succession plan; and
- Review the Directors' continuing education programmes.

Directors' Training

Under the Listing Requirements, the Nomination Committee has assumed the onus of determining or overseeing the training needs of the Directors. All the Directors have attended the Mandatory Accreditation Programme.

During the financial year ended 31 December 2018, all Directors have attended relevant courses and training programmes to enhance their knowledge to effectively discharge their duties and obligations.

The courses and training programmes attended by the Directors are as follows:

<u>Name of Director</u>	<u>Courses/Training Programmes Attended</u>
YBhg Dato Dr. Mohamad Musa bin Md. Jamil	Common Offences & Pitfalls to Avoid under The Companies Act 2016
Tay Hoe Lian	Sustainability Report – Setting the Agenda for Value Creation The Leader's Voice – Motivating and Influencing Audience Managing Generation Y & Z in Your Organisation
Tay How Sik @ Tay How Sick	Common Offences & Pitfalls to Avoid under The Companies Act 2016
Hia Cheng	Malaysia Financial Reporting Standard 9 & 15 Workshop
Tan Ah Lai	Common Offences & Pitfalls to Avoid under The Companies Act 2016 National Tax Conference 2018 2019 Budget Seminar IIAM Conference
YBhg Datuk Tay Puay Chuan	Auto Time Human Resources Management System

The Directors are mindful that they shall continue to undergo the relevant training programmes in order to stay abreast with the latest developments in the industry and to better enable them to fulfill their responsibilities.

The Company Secretary and external auditors have also regularly updated the Directors on the latest relevant regulatory requirements and accounting standards to enable them to keep abreast with such developments and amendments.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

III. Remuneration

Directors' Remuneration

The details of Directors' remuneration payable to the Directors of the Company for the financial year ended 31 December 2018 are as follows:

	Group (RM'000)						Company (RM'000)				
	Fees	Salaries & Allowances	Bonuses	Performance Incentive	EPF, EIS & SOCSO	Benefits-in-kind	Fees	Salaries & Allowances	Bonuses	EPF, EIS & SOCSO	Benefits-in-kind
Executive Directors											
Tay Hoe Lian	150.0	1,313.5	2,376.2	1,944.2	219.5	28.0	-	-	-	-	-
Tay How Sik @ Tay How Sick	150.0	897.8	1,180.1	-	81.0	14.7	-	-	-	-	-
Hia Cheng	150.0	1,610.0	2,763.3	2,260.9	181.1	14.7	-	-	-	-	-
Non-Executive Directors											
YBhg Dato Dr. Mohamd Musa bin Md Jamil	-	-	-	-	-	-	66.3	1.5	-	-	-
YBhg Datuk Tay Puay Chuan	-	-	-	-	-	-	44.2	3.5	-	-	-
Tan Ah Lai	-	-	-	-	-	-	55.3	4.0	-	-	-

Key Senior Management's Remuneration

The details of Key Senior Management's remuneration in successive band of RM50,000 for the financial year ended 31 December 2018 are as follows:

Band	Number of Key Senior Management
RM650,001 – RM700,000	1
RM700,001 – RM750,000	1
RM1,250,001 – RM1,300,000	1
RM2,150,001 – RM2,200,000	1

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

Uphold Integrity in Financial Reporting by Company

The Board aims to provide and present a clear, balanced and comprehensive assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements and quarterly announcement of results to shareholders, as well as the interview with the Managing Director/Chief Executive Officer and review of the Group's operations in this Annual Report.

The Board, with the assistance of Audit Committee, is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Group and the Company as at the end of the reporting period and of their results and cash flows for the period then ended. In preparing the financial statements, the Directors ensure that accounting standards approved by the Malaysian Accounting Standards Board in Malaysia and the provisions of the Companies Act 2016 are complied with and reasonable and prudent judgments and estimates have been made. The Directors' overall responsibilities also include taking such steps as are reasonably open to them to safeguard the assets of the Group and for the implementation and continued operation of adequate accounting and internal control systems for the prevention of fraud and other irregularities.

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Group's position and prospects in the Directors' Report and the Financial Statements set out in this Annual Report.

II. Risk Management and Internal Control Framework

Recognise and Manage Risk of the Group

The Board recognises its responsibility over the principal risks of various aspects in the Group's business.

The Board and Management are mindful of measures required to identify risks residing in any major proposed transactions, changes in nature of activities and/or operating environment, or venturing into new operating environment.

The responsibilities of identifying and managing risks are delegated to the respective Head of each business units. The Board and the Audit Committee are responsible to review the effectiveness of the processes. Any material risk identified will be discussed and appropriate actions or controls will be implemented. This is to ensure the risk is properly monitored and managed to an acceptable level.

The key features of the risk management and internal controls are set out in the Statement on Risk Management and Internal Control as stated on pages 35 to 39 of this Annual Report.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Communication with Stakeholders

Ensure Timely and High Quality Disclosure

An essential aspect of an active and constructive communication policy is the promptness in disseminating information to shareholders and investors. The Board is aware of the need to establish corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures pertaining to the Group to the regulators, shareholders and stakeholders of the Company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT (CONT'D)

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (CONT'D)

I. Communication with Stakeholders (Cont'd)

Ensure Timely and High Quality Disclosure (Cont'd)

The Company acknowledges the need for investors to be informed of all material business and corporate developments affecting the Group.

The timely release of quarterly results of the Group and the issue of the Company's Annual Reports provide regular information on the state of affairs of the Group. These, together with the announcements to Bursa Securities, circulars to shareholders and, where appropriate, ad-hoc press statements and interviews are the principal channels for dissemination of information by the Company to its investors, stakeholders and the public generally. This information is also accessible by the public through the Bursa Securities' website at www.bursamalaysia.com.

In addition, the Company's website at www.guanchong.com provides information on the Group's business, corporate development and announcements to Bursa Securities. Other information relevant to shareholders and investors such as Annual Reports, circulars to shareholders and quarterly reports are available for download at the Company's website.

Promoting Sustainability

The Company manages its business responsibly by managing the economic, social and environmental aspects of its operations. The Company produces the annual report, which highlights the financial aspects of the business and provides a clear, comprehensive and transparent representation of the Company's performance annually.

II. Conduct of General Meetings

Annual Report and General Meetings

The Company recognizes the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all investors, including minority shareholders, are protected. The Board provides its shareholders and investors with information on its business, financials and other key activities in this Annual Report and the contents of which are continuously enhanced to take into account the developments, amongst others, in corporate governance.

In terms of conduct of meeting, the Board is cognisant of the advantages of poll voting at general meetings to ensure accurate, transparency and efficiency of the voting process and outcomes at general meetings. All the resolutions tabled at the Annual General Meeting are voted by poll.

COMPLIANCE STATEMENT

The Board is pleased to report that this Statement together with the Corporate Governance Report ("CG Report") which is available on the Company's website at www.guanchong.com provides the corporate governance practices of the Company with reference to the MCCG 2017. The Board considers and is satisfied that the Company has fulfilled its obligations under the broad Principles as set out in the MCCG 2017. However, the Board has reserved several of the Practices and has rationalized and provided justifications for the deviations in the CG Report. Nevertheless, the Company will continue to strengthen its governance practices to safeguard the best interests of its shareholders and other stakeholders.

This Statement was presented and approved at the meeting of the Board on 20 March 2019.

AUDIT COMMITTEE REPORT

MEMBERSHIP

Chairman:	Tan Ah Lai (Independent Non-Executive Director)
Members:	YBhg Dato Dr. Mohamad Musa bin Md Jamil (Non-Independent Non-Executive Director) YBhg Datuk Tay Puay Chuan (Independent Non-Executive Director)

TERMS OF REFERENCE

The terms of reference of the Audit Committee is available for download on the Company's website at www.guanchong.com.

SUMMARY OF WORK

A total of five (5) Audit Committee meetings were held for the financial year ended 31 December 2018. The details of attendance of each Audit Committee member are as follows:

Name of members	Attendance
Tan Ah Lai	5/5
YBhg Dato Dr. Mohamad Musa bin Md Jamil	5/5
YBhg Datuk Tay Puay Chuan	5/5

During the financial year under review, the Audit Committee discharged its functions and duties in accordance with its existing Terms of Reference.

The main work undertaken by the Audit Committee during the financial year included the following:

- reviewed the external auditors' scope of work and audit plans and strategy for the year prior to the audit;
- reviewed with the external auditors the results of the audit, the audit report and the management letter, including management's response;
- reviewed and evaluated factors relating to the independence of the external auditors. The Audit Committee worked closely with the external auditors in establishing procedures in assessing the suitability and independence of the external auditors, in confirming that they are, and have been, independent throughout the conduct of the audit engagement with the Group in accordance with the independence criteria set out by the International Ethics Standards Board for Accountants and Malaysian Institute of Accountants;
- considered the audit fees payable to the external auditors for recommendation to the Board for approval;
- considered the nomination of external auditors for recommendation to the Board for re-appointment;
- reviewed the internal auditors' programmes and plans for the financial year under review and the assessment of the effectiveness of internal audit activities;
- reviewed the internal audit plans, reports, recommendations and management's response;
- reviewed quarterly unaudited financial statements of the Company prior to submission to the Board for their consideration and approval;
- reviewed the audited financial statements for the financial year ended 31 December 2018;
- ensured that the Group is in compliance with the regulations of Companies Act 2016, the applicable approved accounting standards as per Malaysian Accounting Standards Board, Main Market Listing Requirements of Bursa Malaysia Securities Berhad and other legislative and reporting requirements;
- reviewed the recurrent related party transactions of a revenue or trading nature and control procedures for those transactions in the shareholders' mandate;
- reviewed the whistle-blowing policy and recommended the amendment and/or modification, if any to the Board;

AUDIT COMMITTEE REPORT (CONT'D)

SUMMARY OF WORK (CONT'D)

- reviewed the Corporate Governance Overview Statement, Corporate Governance Report, Audit Committee Report and the Statement on Risk Management and Internal Control and recommended their adoption to the Board, deliberated the disclosure requirements for sustainability statement and noted the management action plan; and
- reviewed the application of corporate governance principles and the extent of the Group's compliance with the best practices set out under the Malaysian Code on Corporate Governance 2017.

INTERNAL AUDIT FUNCTION

The Board acknowledges that it is responsible for maintaining a sound system of internal controls which provide reasonable assessment of effective operations, internal financial controls and compliance with laws and regulations as well as with internal procedures and guidelines.

The Company has engaged an external independent consultant to carry out the internal audit function to assist the Audit Committee in maintaining a sound system of internal control. The internal audits were undertaken to provide independent assessments on the accuracy, efficiency and effectiveness of the Group's internal control systems.

An overview of the Group's approach in maintaining a sound system of internal control is set out in the Statement on Risk Management and Internal Control on pages 35 to 39 of this Annual Report.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

Paragraph 15.26(b) of the Listing Requirements requires the Board of Directors (the “Board”) of any given Listed Issuer to include in its annual report a Statement on Risk Management and Internal Control. The Board is pleased to provide the following statement that is prepared in accordance with the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers (the “Guidelines”) endorsed by Bursa Malaysia which outlines the nature and scope of the risk management and internal controls of the Group during the financial year under review until the date of approval.

BOARD’S RESPONSIBILITY

The Board is committed to the continuous improvement of internal controls and risk management practices within the Group to meet its business objectives. The Board affirms its overall responsibility to maintain a sound system of internal controls and effective risk management, and for reviewing the adequacy, integrity and effectiveness of these systems to safeguard shareholders’ investment and the Group’s assets. It covers not only financial controls but operational and compliance controls, and risk management.

However, such systems, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement, losses or fraud. These systems were designed to manage, rather than eliminate, the risk of failure to achieve business objectives of the Group.

RISK MANAGEMENT FRAMEWORK

In dealing with its stewardship responsibilities, the Board recognises that an effective risk management is part of good business management practice. The Board acknowledges that all areas of the Group’s activities involve some degree of risk and is committed to ensuring that the Group has an effective risk management framework which will allow the Group to be able to identify, evaluate, monitor and manage risks continuously that affect the achievement of the Group’s business objectives.

This process is regularly reviewed by the Board. It is intended that any key risk or significant control failings or weaknesses shall be identified and discussed in these reports including the impact they have had or may have on the Group and the actions to rectify them.

The key elements of the Group’s Risk Management Framework are described below:

- **Structure**

The Group adopts a decentralised approach to risk management which comprises strategic and operational risks (including financial and compliance risks).

Type of Risks	Accountability
➤ Strategic risk	The Board, Group Chief Executive Officer (“CEO”), Group Chief Financial Officer (“CFO”) and Group Chief Operating Officer (“COO”)
➤ Operational risk (including financial and compliance risks)	Senior Management and Head of Department

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

RISK MANAGEMENT FRAMEWORK (CONT'D)

- **Structure (Cont'd)**

- **Strategic risks** are risks primarily caused by events that are external to the Group, but have a significant impact on its strategic decisions or activities. Accountability for managing strategic risks therefore rests with the Board, Group CEO and Group CFO. The benefit of effectively managing strategic risks is that the Group can better forecast and quickly adapt to the changing demands that are placed upon the Group. It also means that the Group is less likely to be affected by some external event that calls for significant change.
- **Operational risks, including financial and compliance risks**, are inherent in the ongoing activities within the different subsidiaries of the Group. Typically, some of the risks cover foreign exchange, credit, competency, technology, etc. Senior management needs ongoing assurance that these operational risks are identified and managed. Accountability for managing operational risks rests specifically with the respective Heads of Department.

- **Risk Awareness Culture**

Risk awareness culture is reflected by the emphasis on strong corporate governance, organisational structure with clearly defined roles and responsibilities, effective communication and training, commitment to compliance with laws, regulations and internal controls, integrity in fiduciary responsibilities and clear policies, procedures and guidelines.

- **Risk Assessment**

Senior Management identifies and assesses risks from time-to-time based on business nature and objective. Senior Management reports regularly to the Board for any significant risk identified or control failure.

- **Risk Appetite**

The Group's risk appetite defines the amount and types of risk that the Group is able and willing to accept in pursuit of its business objectives. It also reflects the level of risk tolerance and limits set to govern, manage and control the Group's risk taking activities.

A clear Limit of Authority has been formalised to approve transactions to ensure that they are within the risk appetite of the Group.

INTERNAL CONTROL SYSTEM

The key elements of the Group's internal control system are described below:

- **Control Environment**

The importance of a proper control environment is emphasised throughout the organisation. Focus is directed towards the quality and abilities of the Group's employees with continuing education and training to enhance the skills of employees and reinforce qualities of professionalism and integrity. Such training also includes internal briefings and external seminars for selected employees to enhance the level of awareness and knowledge on matters relating to risk management and internal controls.

- **Code of Conduct**

Code of Conduct is the cornerstone of setting the proper tone at the top for the business's culture. The Board and management have formalised it as the standard of expected ethical behaviour for the all employees. It spells out about workplace safety and health, bribery, equal opportunities, workplace environment, etc.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

INTERNAL CONTROL SYSTEM (CONT'D)

• Organisational Structure

The Group operates on a hierarchical organisation structure that defines the authority limits, lines of responsibility and reporting mechanism. All Subsidiaries have clear accountabilities to ensure appropriate control procedures are in place.

The key elements of the Group's organisational structure are as follows:

➤ Management

- **Policy and Procedures:** Management has implemented series of documented Policy and Procedures to govern the Group's key business processes. These policies and procedures deal with, amongst others, control issues for procurement, credit control, warehousing, information technology, health and safety, etc. These procedures are reviewed annually by senior management to ensure its relevancy.
- **Human Capital:** There are guidelines within the Group for hiring and termination of staff, formal training programmes for staff and annual performance appraisals to enhance the level of staff competency in carrying out their duties and responsibilities.
- **Safeguarding of Assets:** Adequate insurance and physical safeguarding of major assets are in place to ensure that they are sufficiently covered against any mishap that may result in material losses to the Group.
- **Related Party Transactions:** Internal control procedures are established to ensure that related party transactions are undertaken in compliance with the Group's practices, the Listing Requirements, and to ensure that these transactions are carried out on an arm's length basis and on normal commercial terms, which are in the best interest of the Group's stakeholders.
- **Communication:** Information is communicated through circulars, emails, meetings and internal memos.
- **Site Visit:** Regular visits by the head office personnel to business units in remote location to ascertain compliance with the established Policy and Procedures of the Group by local management.
- **Management Meetings:** Regular meetings with the Heads of Departments provide a sound platform for the information communicate with, and provide feedback to and from, Management.

➤ Internal Audit

The Group has outsourced its internal audit function to an independent professional service provider (the "Internal Auditors") which carries out its functions independently with risk-based approach and provides the Audit Committee and the Board with the assurance on the adequacy and effectiveness of the system of internal controls. The cost of internal audit function for the financial year ended 31 December 2018 was about RM50,000.

For any significant control lapses and/or deficiencies noted from the reviews will be documented and communicated to management for review and corrective actions. The Internal Auditors report to the Audit Committee all significant non-compliance, internal control weaknesses and actions taken by management to resolve the audit issues identified.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

INTERNAL CONTROL SYSTEM (CONT'D)

- **Organisational Structure (Cont'd)**

- **Internal Audit (Cont'd)**

The Internal Auditors are solely responsible for planning, implementing and reporting the audits for the Group. The Internal Auditors:

- o Prepare a detailed Internal Audit Plan in consultation with the senior management for submission to the Audit Committee for approval;
- o Carry out all activities to conduct the audits in an effective, professional and timely manner;
- o Discuss with the audit committee upon completion of each audit for any significant control lapses and/or deficiencies noted from the reviews for their review and corrective actions; and
- o Submit quarterly report to the Audit Committee for all significant non-compliance, internal control weaknesses and actions taken by management to resolve the audit issues identified.

- **Audit Committee**

The Audit Committee reviews, monitors and evaluates the effectiveness and adequacy of the Group's internal controls and financial and risk management issues raised by the External and Internal Auditors, regulatory authorities and management. The review includes reviewing written reports from the Internal and External Auditors, to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by management.

The Audit Committee also convenes meeting with External Auditors without the presence of management. In addition, the Audit Committee reviews the adequacy of the scope, functions and competency of the Internal and External Auditors. The Audit Committee also reviews and evaluates the procedures established to ensure compliance with applicable legislation, the Listing Requirements and the Group practices.

The Audit Committee Report set out on pages 33 to 34 of this Annual Report contains further details on the activities undertaken by the Audit Committee in 2018.

- **Board**

The Board holds regular discussions with the Audit Committee and management and considers their reports on matters relating to internal controls and deliberates on their recommendations for implementation.

- o **Business Direction:** The Group's vision, mission, corporate philosophy and strategic direction have been formalised and communicated to employees at all levels. The Board retains control over the Group with appropriate management reporting mechanisms which enable the Board to review the Group's progress.
- o **Reporting and Information:** Senior management reports to the Board for the strategic plans and business units' performances on a quarterly basis. The monitoring of individual business units' performances are conducted monthly, with major variances followed up and management action taken, where necessary.

Regular and comprehensive information are provided to management, covering financial performance and key business indicators, key business risks, legal, environmental and regulatory matters. Regular meetings attended by management, led by the Group CEO, are held to discuss the various aspects of the business, financial and operational performance of the Group. Key matters affecting the Group are brought to the attention of the Audit Committee and are reported to the Board on a regular basis. Management also ensures that it has the knowledge of key market information in respect of the Group's products/performance and takes pro-active measures, as appropriate, in the best interests of the Group.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONT'D)

INTERNAL CONTROL SYSTEM (CONT'D)

- **Organisational Structure (Cont'd)**

- **Board (Cont'd)**

- **Monitoring and Review:** There are processes for monitoring the system of internal controls and reporting any significant weaknesses together with details of corrective action. The system is reviewed on an ongoing basis by the Board (through the Audit Committee), management and Internal Auditors. Heads of Department are also actively involved in continually improving the control processes within their respective departments.

WEAKNESSES IN INTERNAL CONTROLS WHICH RESULTED IN MATERIAL LOSSES

There were no major weaknesses in internal controls which resulted in material losses during the financial year under review until the date of approval of this Statement.

ASSURANCE PROVIDED BY THE GROUP CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

In line with the Guidelines, the Group CEO and Group CFO have provided assurance to the Board that the Group's risk management and internal control systems have been operated adequately and effectively, in all material aspects, to meet the Group's business objectives during the financial year under review.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by paragraph 15.23 of the Main Market Listing Requirements of Bursa Securities, the External Auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in the annual report of the Group for the year ended 31 December 2018. Their review was performed in accordance with the Audit and Assurance Practice Guide 3 ("AAPG 3") issued by the Malaysian Institute of Accountants. The External Auditors' procedures have been conducted to assess whether the Statement on Risk Management and Internal Control is supported by the documentation prepared by or for the Directors and that it is an appropriate reflection of the process adopted by the Directors in reviewing the adequacy and integrity of the system of internal control for the Group.

AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control system of the Group. Based on the procedures performed, nothing had come to their attention that caused them to believe that the Statement on Risk Management and Internal Control set out above was not prepared, in all material respects, in accordance with the disclosure required by paragraph 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, nor was factually inaccurate.

CONCLUSION

The Board has taken the necessary steps to ensure that appropriate systems are in place for the assets of the Group to be adequately safeguarded through the prevention and detection of fraud and other irregularities and material misstatements.

The Board is of the view that the risk management and internal control systems are satisfactory and have not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report save for those mentioned above. The Board continues to take pertinent measures to sustain and, where required, to improve the Group's risk management and internal control systems in meeting the Group's strategic objectives.

This Statement was approved by the Board on 20 March 2019.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of financial statements for each financial year. They are responsible for ensuring that these financial statements are properly drawn up in accordance with Malaysia Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the state of affairs of the Group and of the Company and the results and cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have adopted suitable accounting policies and applied them consistently, and made estimates and judgements which are reasonable and prudent. The financial statements have been prepared on a going-concern basis. It is the duty of the Directors to review the appropriateness of the basis before adopting the financial statements and present them before the Annual General Meeting together with their Report and the Auditors' Report thereon.

The Directors are responsible for ensuring that proper accounting and other records are kept to sufficiently explain the transactions recorded. In preparing the financial statements, the Directors are required to exercise judgement to make certain estimates that are reasonable, prudent and relevant to be incorporated in the financial statements. The Directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is principally engaged in business of investment holding and provision of management services to subsidiaries. The principal activities and details of the subsidiaries are set out in Note 11 to the financial statements. There have been no significant changes in the nature of these activities of the Group and of the Company during the financial year.

RESULTS

	Group RM	Company RM
Profit for the financial year	190,114,673	846,508
Profit attributable to owners of the parent	190,114,673	846,508

DIVIDENDS

Dividends paid, declared or proposed since the end of the previous financial year were as follows:

	RM
In respect of financial year ended 31 December 2018:	
First interim single tier dividend of 2.0 sen per ordinary share, paid on 28 September 2018	9,556,095

On 18 February 2019, the Board of Directors declared a special single-tier dividend of 2.0 sen per ordinary share, amounting to RM9,556,095 in respect of the financial year ended 31 December 2018. The dividend was paid on 29 March 2019 to shareholders at the close of business on 6 March 2019. The dividend will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2019.

The Directors do not recommend the payment of any final dividend in respect of the financial year ended 31 December 2018.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

ISSUE OF SHARES AND DEBENTURES

There were no new issues of shares or debentures during the financial year.

TREASURY SHARES

As at 31 December 2018, the Company held 2,353,700 (2017: 2,240,700) of its issued ordinary shares as treasury shares out of its total 480,158,452 (2017: 480,158,452) ordinary shares. Such treasury shares are held at a carrying amount of RM5,347,049 (2017: RM5,194,748) and further details are disclosed in Note 18 to the financial statements.

DIRECTORS' REPORT (CONT'D)

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

DIRECTORS

The Directors who have held for office during the financial year and up to the date of this report are as follows:

Guan Chong Berhad

Tay Hoe Lian*
Tay How Sik @ Tay How Sick*
Hia Cheng*
Dato Dr. Mohamad Musa Bin Md. Jamil
Datuk Tay Puay Chuan
Tan Ah Lai

*These Directors of the Company are also the Directors of subsidiaries of the Company.

Subsidiaries of Guan Chong Berhad

Tay How Yeh
Tay See Min (f)

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in ordinary shares of the Company and of its related corporations during the financial year ended 31 December 2018 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 in Malaysia were as follows:

	Balance as at 1.1.2018	Number of ordinary shares		Balance as at 31.12.2018
		Bought	Sold	
Shares in the Company				
<u>Direct interests:</u>				
Dato Dr. Mohamad Musa Bin Md. Jamil	105,999	—	—	105,999
Tay Hoe Lian	12,865,791	—	—	12,865,791
Tay How Sik @ Tay How Sick	6,239,548	—	—	6,239,548
Hia Cheng	8,748,179	—	—	8,748,179
Datuk Tay Puay Chuan	60,000	—	—	60,000
<u>Indirect interests:</u>				
Dato Dr. Mohamad Musa Bin Md. Jamil ^a	29,079,999	—	—	29,079,999
Tay Hoe Lian ^b	251,480,469	—	—	251,480,469
Tay How Sik @ Tay How Sick ^c	60,000	—	—	60,000
Hia Cheng ^d	9,631,799	—	—	9,631,799
Shares in the ultimate holding company				
Guan Chong Resources Sdn. Bhd. ("GCR")				
<u>Direct interests:</u>				
Tay Hoe Lian	28,373	—	—	28,373
Tay How Sik @ Tay How Sick	13,934	—	—	13,934
Hia Cheng	5,000	—	—	5,000
<u>Indirect interests:</u>				
Tay Hoe Lian ^e	2,375	—	—	2,375

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

- ^a Deemed interest by virtue of his shareholding in Misi Galakan Sdn. Bhd..
- ^b Deemed interest by virtue of his shareholding in Guan Chong Resources Sdn. Bhd. and his wife, Yap Kim Hong's shareholding in the Company.
- ^c Deemed interest by virtue of his daughter, Tay Jing Ye's shareholding in the Company.
- ^d Deemed interest by virtue of his wife, Wong Saow Lai's shareholding in the Company.
- ^e Deemed interest by virtue of his wife, Yap Kim Hong's shareholding in Guan Chong Cocoa Resources Sdn. Bhd..

By virtue of his interests in the ordinary shares of the Company and GCR, Tay Hoe Lian is also deemed to be interested in the ordinary shares of all the subsidiaries of the Company and GCR to the extent that the Company and GCR have an interest.

None of the other Director holding office at the end of the financial year held any interest in the ordinary shares and options over ordinary shares in the Company or ordinary shares, options over ordinary shares and debentures of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company have received or become entitled to receive any benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than the following:

- (a) remuneration received by certain Directors as Directors of the Company and its subsidiaries as disclosed in Note 35 to the financial statements; and
- (b) by virtue of transactions entered into in the ordinary course of business as disclosed in Note 35 to the financial statements.

There were no arrangements during and at the end of the financial years to which the Company is a party, which had the object of enabling the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

The details of Directors' remuneration are disclosed in Note 35 to the financial statements.

INDEMNITY AND INSURANCE FOR OFFICERS AND AUDITORS

The Group and the Company effected Directors' liability insurance amounted to RM16,280 during the financial year to protect the Directors of the Group and of the Company against potential costs and liabilities arising from claims brought against the Directors.

There were no indemnity given to or insurance effected for the auditors of the Group and of the Company during the financial year.

DIRECTORS' REPORT (CONT'D)

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

- (c) The Directors are not aware of any circumstances:
 - (i) which would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
 - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of Company misleading or inappropriate.
- (d) In the opinion of the Directors:
 - (i) there has not arisen any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and
 - (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

- (e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.
- (f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.
- (g) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT

(CONT'D)

ULTIMATE HOLDING COMPANY

The Directors regard Guan Chong Resources Sdn. Bhd., a company incorporated in Malaysia, as the ultimate holding company.

AUDITORS

The auditors, BDO PLT (LLP0018825-LCA & AF 0206), have expressed their willingness to continue in office.

The details of auditors' remuneration of the Company and its subsidiaries for the financial year ended 31 December 2018 are disclosed in Note 28 to the financial statements.

BDO PLT (LLP0018825-LCA & AF 0206) was registered on 2 January 2019 and with effect from that date, BDO (AF 0206), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board in accordance with a resolution of the Directors.

.....
Tay Hoe Lian
Director

Johor Bahru
20 March 2019

.....
Tay How Sik @ Tay How Sick
Director



In the opinion of the Directors, the financial statements set out on pages 51 to 128 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

Tay Hoe Lian
Director

Tay How Sik @ Tay How Sick
Director

STATUTORY DECLARATION

I, Hia Cheng, being the Director primarily responsible for the financial management of Guan Chong Berhad, do solemnly and sincerely declare that the financial statements set out on pages 51 to 128 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
declared by the abovenamed at)
Johor Bahru, Johor this)
20 March 2019)

Before me:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GUAN CHONG BERHAD

REPORT ON AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Guan Chong Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 51 to 128.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters of the Group

1) Carrying amount of inventories at lower of cost and net realisable value

As at 31 December 2018, inventories of the Group of RM868,949,042 comprised mainly cocoa beans and related cocoa products. Details of the inventories have been disclosed in Note 13 to the financial statements.

We have focused on the audit risk that the carrying amount of inventories may not be stated at the lower of cost and net realisable values.

Written down of inventories to their net realisable values is mainly based on management estimates, which have been derived from estimates of selling prices that are subject to price volatility of cocoa, and if not accounted for properly, may lead to the valuation of inventories being misstated.

Audit response

Our audit procedures included the following:

- (i) Obtained an understanding of the process implemented by management over the determination of lower of cost and net realisable value used in the valuation of inventories;
- (ii) Analysed the inventories turnover period by comparing that to the assessment of management on the identification of slow moving and obsolete inventories; and
- (iii) Assessed the appropriateness of inventories written down by verifying selling prices subsequent to the end of the reporting period.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GUAN CHONG BERHAD (CONT'D)

Key Audit Matters (Cont'd)

Key Audit Matters of the Group (Cont'd)

2) Recoverability of trade receivables

As at 31 December 2018, the net carrying amount of trade receivables of the Group was RM295,936,453, as disclosed in Note 14 to the financial statements.

The group has impaired trade receivables of RM14,436,458 during the financial year.

We determined this to be a key audit matter because it requires management to exercise significant judgements in determining the probability of default by trade receivables and appropriate forward looking information.

Audit response

Our procedures included the following:

- (i) Recomputed the probability of default using historical data and forward looking information adjustment applied by the Group; and
- (ii) Verified the level of cash received subsequent to the end of the reporting period for its effect in reducing the amounts outstanding as at the end of the reporting period.
- (iii) Inquiries of management to assess the rationale underlying the relationship between the forward-looking information and expected credit losses.

Key Audit Matters of the Company

We have determined that there are no key audit matters to communicate in our report in respect of audit which arose from the audit of the financial statements of the Company.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and of the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GUAN CHONG BERHAD (CONT'D)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GUAN CHONG BERHAD (CONT'D)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 11 to the financial statements.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO PLT

LLP0018825-LCA & AF 0206

Chartered Accountants

Kuala Lumpur

20 March 2019

Lee Wee Hoong

03316/07/2019 (J)

Chartered Accountant

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

			Group		Company
	Note	2018 RM	2017 RM	2018 RM	2017 RM
ASSETS					
Non-current assets					
Property, plant and equipment	7	447,849,722	373,033,322	–	–
Investment properties	8	23,295,751	24,169,607	–	–
Prepaid lease payments	9	10,186,582	10,669,193	–	–
Intangible assets	10	11,956,212	11,956,838	–	–
Investments in subsidiaries	11	–	–	120,992,530	68,718,113
Investments in associates	12	6,778,412	7,684,116	7,283,670	7,283,670
Trade and other receivables	14	–	–	–	51,553,865
		500,066,679	427,513,076	128,276,200	127,555,648
Current assets					
Inventories	13	868,949,042	862,189,735	–	–
Trade and other receivables	14	328,456,482	238,221,280	868,164	3,238,069
Derivative financial assets	15	41,269,733	6,603,285	–	–
Current tax assets		609,571	5,717,358	6,529	10,249
Cash and bank balances	16	44,798,713	39,923,894	65,067	26,997
		1,284,083,541	1,152,655,552	939,760	3,275,315
TOTAL ASSETS		1,784,150,220	1,580,168,628	129,215,960	130,830,963
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	17	121,831,751	121,831,751	121,831,751	121,831,751
Treasury shares	18	(5,347,049)	(5,194,748)	(5,347,049)	(5,194,748)
Reserves	19	550,655,723	362,956,278	1,854,743	10,564,330
TOTAL EQUITY		667,140,425	479,593,281	118,339,445	127,201,333

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(CONT'D)

			Group		Company
	Note	2018 RM	2017 RM	2018 RM	2017 RM
LIABILITIES					
Non-current liabilities					
Borrowings	20	43,372,408	17,463,368	–	–
Deferred tax liabilities	22	35,784,542	32,100,625	–	–
Retirement benefits obligations	23	1,782,938	1,652,975	–	–
		80,939,888	51,216,968	–	–
Current liabilities					
Trade and other payables	24	431,391,120	253,320,676	10,876,515	3,629,630
Derivative financial liabilities	15	33,028,988	20,042,966	–	–
Borrowings	20	558,994,818	769,842,314	–	–
Current tax liabilities		12,654,981	6,152,423	–	–
		1,036,069,907	1,049,358,379	10,876,515	3,629,630
TOTAL LIABILITIES		1,117,009,795	1,100,575,347	10,876,515	3,629,630
TOTAL EQUITY AND LIABILITIES		1,784,150,220	1,580,168,628	129,215,960	130,830,963

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Note	2018 RM	2017 RM	2018 RM	2017 RM
Revenue	27	2,273,424,277	2,147,914,289	42,000	–
Cost of sales		(1,992,500,851)	(1,993,609,055)	–	–
Gross profit		280,923,426	154,305,234	42,000	–
Other income		66,357,453	71,492,579	1,750,452	–
Selling and distribution costs		(17,186,799)	(15,302,582)	–	–
Administrative expenses		(39,397,772)	(43,702,668)	(938,677)	(785,244)
Other expenses		(55,767,526)	(29,461,133)	(7,267)	(10,650,236)
Finance costs		(27,261,527)	(23,151,839)	–	–
Share of profit/(loss) of associates		1,054,438	(739,161)	–	–
Profit/(Loss) before tax	28	208,721,693	113,440,430	846,508	(11,435,480)
Tax expense	29	(18,607,020)	(22,395,229)	–	–
Profit/(Loss) for the financial year		190,114,673	91,045,201	846,508	(11,435,480)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
- foreign currency translation	29(c)	9,037,457	(25,140,087)	–	–
- share of other comprehensive income of associates	29(c)	(1,960,142)	1,461,077	–	–
Items that will not be reclassified subsequently to profit or loss					
- remeasurement of employee benefits liability, net of tax	29(c)	63,552	(58,697)	–	–
Total other comprehensive income/(loss), net of tax		7,140,867	(23,737,707)	–	–
Total comprehensive income/(loss)		197,255,540	67,307,494	846,508	(11,435,480)
Profit/(Loss) attributable to owners of the parents		190,114,673	91,045,201	846,508	(11,435,480)
Total comprehensive income/(loss) attributable to owners of the parent		197,255,540	67,307,494	846,508	(11,435,480)
Earnings per ordinary share attributable to owners of the parent (sen):					
- Basic	30	39.78	19.05		
- Diluted	30	39.78	19.05		

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Group	Note	<-----Non-distributable----->			Distributable	
		Share capital RM	Treasury shares RM	Foreign exchange translation reserve RM	Retained earnings RM	Total equity RM
Balance as at 1 January 2018		121,831,751	(5,194,748)	37,073,460	325,882,818	479,593,281
Profit for the year		-	-	-	190,114,673	190,114,673
Other comprehensive income/(loss) for the year:						
- foreign currency translation differences		-	-	9,037,457	-	9,037,457
- remeasurement of post-employment benefit obligation, net of tax		-	-	-	63,552	63,552
- share of other comprehensive loss from associates				(1,960,142)	-	(1,960,142)
Total comprehensive income, net of tax		-	-	7,077,315	190,178,225	197,255,540
Transactions with owners						
Dividends paid	31	-	-	-	(9,556,095)	(9,556,095)
Purchase of treasury shares	18	-	(152,301)	-	-	(152,301)
Total transactions with owners		-	(152,301)	-	(9,556,095)	(9,708,396)
Balance as at 31 December 2018		121,831,751	(5,347,049)	44,150,775	506,504,948	667,140,425

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(CONT'D)

Group	Note	Non-distributable				Distributable		Total equity RM
		Share capital RM	Share premium RM	Treasury shares RM	Foreign exchange translation reserve RM	Retained earnings RM		
Balance as at 1 January 2017		120,039,613	1,792,138	(5,194,748)	60,752,470	246,844,260		424,233,733
Profit for the financial year		-	-	-	-	91,045,201		91,045,201
Other comprehensive (loss)/income for the year:								
- foreign currency translation differences		-	-	-	(25,140,087)	-		(25,140,087)
- remeasurement of post-employment benefit obligation, net of tax		-	-	-	-	(58,697)		(58,697)
- share of other comprehensive income of associates		-	-	-	1,461,077	-		1,461,077
Total comprehensive (loss)/income, net of tax		-	-	-	(23,679,010)	90,986,504		67,307,494
Transactions with owners								
Dividends paid	31	-	-	-	-	(11,947,946)		(11,947,946)
Transfer pursuant to Companies Act 2016*	17	1,792,138	(1,792,138)	-	-	-		-
Balance as at 31 December 2017		121,831,751	-	(5,194,748)	37,073,460	325,882,818		479,593,281

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(CONT'D)

Company	Note	<-----Non-distributable----->			Distributable	Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Retained earnings RM	
Balance as at 1 January 2017		120,039,613	1,792,138	(5,194,748)	33,947,756	150,584,759
Loss for the financial year		-	-	-	(11,435,480)	(11,435,480)
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive loss, net of tax		-	-	-	(11,435,480)	(11,435,480)
Transactions with owners						
Dividends paid	31	-	-	-	(11,947,946)	(11,947,946)
Transfer pursuant to Companies Act 2016*	17	1,792,138	(1,792,138)	-	-	-
Balance as at 31 December 2017/ Balance as at 1 January 2018		121,831,751	-	(5,194,748)	10,564,330	127,201,333
Profit for the financial year		-	-	-	846,508	846,508
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive profit, net of tax		-	-	-	846,508	846,508
Transactions with owners						
Dividends paid	31	-	-	-	(9,556,095)	(9,556,095)
Purchase of treasury shares	18	-	-	(152,301)	-	(152,301)
		-	-	(152,301)	(9,556,095)	(9,708,396)
Balance as at 31 December 2018		121,831,751	-	(5,347,049)	1,854,743	118,339,445

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

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Company
Note	2018 RM	2017 RM	2018 RM	2017 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(Loss) before tax	208,721,693	113,440,430	846,508	(11,435,480)
Adjustments for:				
Amortisation of:				
- leasehold land	9	547,330	588,040	-
- warehouse	9	259,191	259,191	-
- intangible asset	10	856	1,230	-
Bad debts written off		8,083	58,169	7,267
Depreciation of:				
- property, plant and equipment	7	25,999,541	24,901,405	-
- investment properties	8	996,061	1,015,411	-
Impairment loss on:				
- trade receivables	14(h)	14,436,458	4,819,888	-
- other receivables	14(h)	-	3,712,173	-
Loss/(Gain) on disposals of property, plant and equipment		96,772	(424,900)	-
Negative goodwill	11	-	(256,827)	-
Net fair value (gain)/loss on derivatives	15(d)	(21,680,426)	(9,426,665)	-
Increase in defined benefit obligation	23(d)	175,515	285,013	-
Property, plant and equipment written off		34	2,166,051	-
Reversal of impairment loss on:				
- trade receivables	14(h)	(82,860)	(281,573)	-
- other receivables	14(h)	(12,143)	-	-
Share of (profit)/loss of associates		(1,054,438)	739,161	-
Unrealised (gain)/loss on foreign exchange translations		(7,369,779)	(13,084,873)	(1,367,016)
Inventories written down	13(b)	7,931,810	2,929,817	-
Interest expense		27,261,527	23,151,839	-
Interest income		(444,922)	(583,842)	-
Operating profit/(loss) before changes in working capital		255,790,303	154,009,138	(513,241)
				(2,600,147)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(CONT'D)

			Group		Company
	Note	2018 RM	2017 RM	2018 RM	2017 RM
Operating profit/(loss) before changes in working capital carried forward		255,790,303	154,009,138	(513,241)	(2,600,147)
Inventories		(7,044,023)	(173,952,684)	–	–
Trade and other receivables		(78,485,312)	(48,436,044)	(5,656,955)	32,972,965
Trade and other payables		163,171,497	29,563,875	20,213,548	4,250,322
Net cash generated from/ (used in) operations		333,432,465	(38,815,715)	14,043,352	34,623,140
Interest paid		(27,261,527)	(23,151,839)	–	–
Interest received		444,922	583,842	–	–
Tax paid		(8,270,734)	(8,047,836)	(3,080)	(3,367)
Tax refunded		4,196,813	28,122	6,800	–
Contributions paid for defined benefit obligations	23(d)	–	(5,598)	–	–
Net cash from/(used in) operating activities		302,541,939	(69,409,024)	14,047,072	34,619,773
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiary	11	–	–	–	(16,666,910)
Net cash out flow from the acquisition of subsidiary	11	–	(13,122,626)	–	–
Proceeds from disposals of property, plant and equipment		2,839,139	3,502,835	–	–
Purchase of:					
- property, plant and equipment	7(b)	(97,588,962)	(49,363,151)	–	–
- intangible asset	10	–	(13,824)	–	–
Payment of sub-leases of warehouses	9	(123,738)	(123,738)	–	–
Advances to ultimate holding company		(4,300,606)	(7,103,823)	(4,300,606)	(7,103,823)
Net cash used in investing activities		(99,174,167)	(66,224,327)	(4,300,606)	(23,770,733)

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

(CONT'D)

		2018	Group	2018	Company
	Note	RM	2017	RM	2017
			RM		RM
CASH FLOWS FROM FINANCING ACTIVITY					
Dividends paid	31	(9,556,095)	(11,947,946)	(9,556,095)	(11,947,946)
Share repurchased	18	(152,301)	–	(152,301)	–
Net placement of fixed deposits pledged		(455,092)	(172,745)	–	–
Net movements in borrowings		(189,549,113)	128,453,029	–	–
Net cash (used in)/from financing activities		(199,712,601)	116,332,338	(9,708,396)	(11,947,946)
Net increase/(decrease) in cash and cash equivalents		3,655,171	(19,301,013)	38,070	(1,098,906)
Effects of exchange rate changes on cash and cash equivalents		764,556	(2,194,371)	–	–
Cash and cash equivalents at beginning of financial year		26,938,380	48,433,764	26,997	1,125,903
Cash and cash equivalents at end of financial year	16(e)	31,358,107	26,938,380	65,067	26,997

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

		Group	Borrowings
	Note	RM	Group
			RM
At beginning of year		787,305,682	710,281,443
Cash flows		(189,549,113)	128,453,029
Non-cash flows:			
- Acquisition of property, plant and equipment		923,000	–
- Acquisition of subsidiary		–	6,995,000
- Effect of foreign exchange		3,687,657	(58,423,790)
At end of year	20	602,367,226	787,305,682

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad.

The registered office of the Company is located at No.7 (1st Floor), Jalan Pesta 1/1, Taman Tun Dr. Ismail 1, Jalan Bakri, 84000 Muar, Johor Darul Takzim.

The principal place of business is located at PLO 273, Jalan Timah 2, Kawasan Perindustrian Pasir Gudang, 81700 Pasir Gudang, Johor Darul Takzim.

The ultimate holding company of the Company is Guan Chong Resources Sdn. Bhd., which is incorporated in Malaysia.

The consolidated financial statements for the financial year ended 31 December 2018 comprise the Company and its subsidiaries and interests of the Group in associates. These financial statements are presented in Ringgit Malaysia ('RM'), which is also the Company's functional currency.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 20 March 2019.

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and provision of management services to subsidiaries. The principal activities and details of the subsidiaries are set out in Note 11 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group and of the Company set out on pages 51 to 128 have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRSs'), International Financial Reporting Standards ('IFRSs') and the provisions of the Companies Act 2016 in Malaysia.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of accounting

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and Amendments to MFRSs adopted during the financial year are disclosed in Note 5 to the financial statements.

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

The preparation of financial statements in conformity with MFRSs and IFRSs requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Note 6 to the financial statements. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (a) Power over the investee;
- (b) Exposure, or rights, to variable returns from its involvement with the investee; and
- (c) The ability to use its power over the investee to affect its returns.

If the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement with the other vote holders of the investee;
- (b) Rights arising from other contractual agreements; and
- (c) The voting rights of the Group and potential voting rights.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the interest of the Group in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the other entities in the Group.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

If the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- (i) The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- (ii) The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 *Financial Instruments* or, where applicable, the cost on initial recognition of an investment in associate or jointly venture.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 Business combinations

Business combinations are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

- (a) Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- (b) Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- (c) Assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the serviced are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. Measurement period adjustments to contingent consideration are dealt with as follows:

- (a) If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity.
- (b) Subsequent changes to contingent consideration classified as an asset or liability that is a financial instrument within the scope of MFRS 9 are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 9. All other subsequent changes are recognised in profit or loss.

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profits or loss.

Components of non-controlling interests in the acquire that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at fair value, or at the present ownership instruments' proportionate share in the recognised amounts of the acquire identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement basis is made on a combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. The accounting policy for goodwill is set out in Note 4.8 to the financial statements. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset would flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the item and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal depreciation periods and rates are as follows:

Leasehold land	43 years to 60 years
Factory buildings and renovation	5 years to 50 years
Plant, machineries, tools and equipment	5% - 12.5%
Motor Vehicles	16% - 20%
Furniture, fittings and office equipment	5% - 14%

Freehold land has unlimited useful life and is not depreciated. Capital work-in-progress represents machineries and software systems under installation and is stated at cost. Capital work-in-progress is not depreciated until such time when the asset is available for use.

At the end of each reporting period, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 4.9 to the financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.5 Leases and hire purchase

(a) Finance leases and hire purchase

Assets acquired under finance leases and hire purchase which transfer substantially all the risks and rewards of ownership to the Group are recognised initially at amounts equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the leases, if this is practicable to determine; if not, the Group's incremental borrowing rate is used. Any initial direct costs incurred by the Group are added to the amount recognised as an asset. The assets are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are recognised in profit and loss over the period of the lease term so as to produce a constant periodic rate of interest on the remaining lease and hire purchase liabilities.

(b) Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

(c) Leases of land and buildings

For leases of land and buildings, the land and buildings elements are considered separately for the purpose of lease classification and these leases are classified as operating or finance leases in the same way as leases of other assets.

The minimum lease payments including any lump-sum upfront payments made to acquire the interest in the land and buildings are allocated between the land and the buildings elements in proportion to the relative fair value of the leasehold interests in the land element and the buildings element of the lease at the inception of the lease.

For a lease of land and buildings in which the amount that would initially be recognised for the land element is immaterial, the land and buildings are treated as a single unit for the purpose of lease classification and is accordingly classified as a finance or operating lease. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

4.6 Investment properties

Investment properties are properties which are held to earn rental yields or for capital appreciation or for both and are not occupied by the Group. Investment properties also include properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including transaction costs, less any accumulated depreciation and any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Investment properties (Cont'd)

Subsequent costs are included in the carrying amount of the investment properties or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset would flow to the Group and the cost of the asset could be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of investment properties are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the investment properties are acquired, if applicable.

After initial recognition, investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost or valuation of the investment properties to their residual values on a straight line basis over their estimated useful lives. The principal depreciation periods for the investments properties ranges between thirteen (13) and forty-three (43) years.

Freehold land has unlimited useful life and is not depreciated.

At the end of each reporting period, the carrying amount of an item of the investment properties is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see Note 4.9 to the financial statements on impairment of non-financial assets).

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the investment properties. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

4.7 Investments

(a) Subsidiaries

A subsidiary is an entity in which the Group and the Company are exposed, or have rights, to variable returns from its involvement with the subsidiary and have the ability to affect those returns through its power over the subsidiary.

An investment in subsidiary, which is eliminated on consolidation, is stated in the separate financial statements of the Company at cost less impairment loss if any. Investments accounted for at cost shall be accounted for in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with MFRS 5.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Group would derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.7 Investments (Cont'd)

(b) Associates

An associate is an entity over which the Group and the Company have significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is neither control nor joint control over those policies.

In the separate financial statements of the Company, an investment in associate is stated at cost less any impairment losses.

An investment in associate is accounted for in the consolidated financial statements using the equity method of accounting. The investment in associate in the consolidated statement of financial position is initially recognised at cost and adjusted thereafter for the post acquisition change in the share of net assets of the investments of the Group.

The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long term interest that, in substance, form part of the net investment in the associate of the Group.

The share of the profit or loss of the associate by the Group during the financial year is included in the consolidated financial statements, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount could also be necessary for changes in the proportionate interest of the Group in the associate arising from changes in the associate's equity that have not been recognised in the associate's profit or loss. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The share of those changes by the Group is recognised directly in equity of the Group.

Unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the interest of the Group in the associate to the extent that there is no impairment.

When the share of losses of the Group in the associate equals to or exceeds its interest in the associate, the carrying amount of that interest is reduced to nil and the Group does not recognise further losses unless it has incurred legal or constructive obligations or made payments on its behalf.

The most recent available financial statements of the associate are used by the Group in applying the equity method. When the end of the reporting periods of the financial statements are not coterminous, the share of results is arrived at using the latest audited financial statements for which the difference in end of the reporting periods is no more than three (3) months. Adjustments are made for the effects of any significant transactions or events that occur between the intervening periods.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

When the interest of the Group in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.8 Intangible assets

(a) Goodwill

Goodwill recognised in a business combination is an asset at the acquisition date and is initially measured at cost being the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the interest of the Group in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortised but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount could be impaired. Objective events that would trigger a more frequent impairment review include adverse industry or economic trends, significant restructuring actions, significantly lowered projections of profitability, or a sustained decline in the acquiree's market capitalisation. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arising on acquisition of an associate is the excess of cost of investment over the share of the net fair value of net assets of the associates' identifiable assets and liabilities by the Group at the date of acquisition.

Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The excess of the share of the net fair value of the associate's identifiable assets and liabilities by the Group over the cost of investment is included as income in the determination of the share of the associate's profit or loss by the Group in the period in which the investment is acquired.

(b) Other intangible assets

Other intangible assets are recognised only when the identifiability, control and future economic benefit probability criteria are met.

The Group recognises at the acquisition date separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. In-process research and development projects acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development is not met.

Intangible assets are initially measured at cost. The cost of intangible assets recognised in a business combination is their fair values as at the date of acquisition.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the estimated economic useful lives and are assessed for any indication that the asset could be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in profit or loss and is included within the other operating expenses line item.

Expenditure on an intangible item that is initially recognised as an expense is not recognised as part of the cost of an intangible asset at a later date.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.8 Intangible assets

(b) Other intangible assets (Cont'd)

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset is recognised in profit or loss when the asset is derecognised.

Trademark

Acquired trademark have finite useful lives and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of trademark over its estimated useful lives of fifteen (15) years.

4.9 Impairment of non-financial assets

The carrying amount of assets, except for financial assets (excluding investments in subsidiaries and associates) and inventories are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill that has an indefinite useful life is tested annually for impairment or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

The recoverable amount of an asset is estimated for an individual asset. Where it is not possible to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ('CGU') to which the asset belongs. Goodwill acquired in a business combination is from the acquisition date, allocated to each of the CGU or groups of CGU that are expected to benefit from the synergies of the combination giving rise to the goodwill irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Goodwill acquired in a business combination shall be tested for impairment as part of the impairment testing of CGU to which it relates. The CGU to which goodwill is allocated shall represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and not larger than an operating segment determined in accordance with MFRS 8 *Operating Segments*.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU, including the goodwill or intangible asset, exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately.

An impairment loss on goodwill is not reversed in subsequent periods. An impairment loss for other assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out formula. The cost comprises all cost of purchase plus other costs incurred in bringing the inventories to their present location and condition. Cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

Financial instruments are recognised on the statement of financial position when the Group has become a party to the contractual provisions of the instrument. At initial recognition, a financial instrument is recognised at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument.

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative is not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative meets the definition of a derivative, and the hybrid instrument is not measured at fair value through profit or loss.

(a) Financial assets

When financial assets are initially recognised, they are measured at fair value, plus, in the case of financial assets not at Fair Value Through Profit or Loss (FVTPL), directly attributable transaction costs.

The Group determines the classification of financial assets upon initial recognition. The measurement for each classification of financial assets are as below:

(i) Financial assets measured at amortised cost

Financial assets that are debt instruments are measured at amortised cost if they are held within a business model whose objective is to collect contractual cash flows and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss through the amortisation process. Financial assets are carried net of any impairment losses if any.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.11 Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(ii) Financial assets measured at fair value

Financial assets that are debt instruments are measured at Fair Value Through Other Comprehensive Income (FVTOCI), if they are held within a business model whose objectives are to collect contractual cash flows and selling the financial assets, and have contractual terms which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequently to initial recognition, financial assets that are debt instruments are measured at fair value. Any gains or losses arising from the changes in fair value are recognised in other comprehensive income, except for impairment losses, exchange differences and interest income which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Financial assets that are debt instruments which do not satisfy the requirements to be measured at amortised cost or FVTOCI are measured at FVTPL.

Equity instruments are classified as financial assets measured at FVTPL if they are held for trading or are designated as such upon initial recognition. Equity instruments are classified as held for trading if they are acquired principally for sale in the near term or are derivatives that do not meet the hedge accounting criteria (including separated embedded derivatives). The Group had elected an irrevocable option to designate its equity instruments (i.e. quoted shares outside Malaysia) other than investments in subsidiaries, associates and joint ventures at initial recognition as financial assets measured at FVTPL.

Subsequent to initial recognition, financial assets that are equity instruments are measured at fair value. Any gains or losses arising from the changes in fair value are recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in profit or loss.

Cash and bank balances are measured at amortised cost. Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three (3) months or less and are used by the Group in the management of its short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using settlement date accounting.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.11 Financial instruments (Cont'd)

(b) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(i) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This includes derivatives entered into by the Group that does not meet the hedge accounting criteria. Derivatives liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss except for the Group own credit risk increase or decrease which is recognised in other comprehensive income. Net gain or losses on derivatives include exchange differences.

(ii) Other financial liabilities

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group designates corporate guarantees given to banks for credit facilities granted to subsidiaries as insurance contracts as defined in MFRS 4 *Insurance Contracts*. The Group recognises these insurance contracts as recognised insurance liabilities when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

(CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.11 Financial instruments (Cont'd)

(b) Financial liabilities (Cont'd)

At the end of each reporting period, the Group assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If this assessment shows that the carrying amount of the insurance liabilities is inadequate, the entire deficiency shall be recognised in profit or loss.

Recognised insurance liabilities are only removed from the statements of financial position when, and only when, it is extinguished via a discharge, cancellation or expiration.

(c) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

Ordinary shares are recorded at the proceeds received at issuance and classified as equity. Transaction costs directly related to the issuance of equity instrument are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

When the Group repurchases its own shares, the shares repurchased would be accounted for using the treasury stock method.

Where the treasury stock method is applied, the shares repurchased and held as treasury shares shall be measured and carried at the cost of repurchase on initial recognition and subsequently. It shall not be revalued for subsequent changes in the fair value or market price of the shares.

The carrying amount of the treasury shares shall be offset against equity in the statement of financial position.

No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the own equity instruments of the Company. If such shares are issued by resale, any difference between the sales consideration and the carrying amount is shown as a movement in equity.

4.12 Impairment of financial assets

The Group and the Company recognise loss allowances for expected credit loss ("ECL") on financial assets measured at amortised cost

Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the asset's original effective interest rate of the asset.

The Group considers credit loss experience and observable data such as current changes and futures forecasts in economic conditions of the Group's industry to the financial statements to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.