



BERHAD
GUANCHONG

200401007722 (646226-K)

ANNUAL REPORT 2019



16

SIXTEENTH ANNUAL GENERAL MEETING

Place: Ruby 2, Level 8,
Holiday Villa Johor Bahru City Centre
260, Jalan Dato' Sulaiman
Taman Abad, 80250 Johor Bahru,
Johor Darul Takzim.

Time: Friday
26 June 2020
11.00am

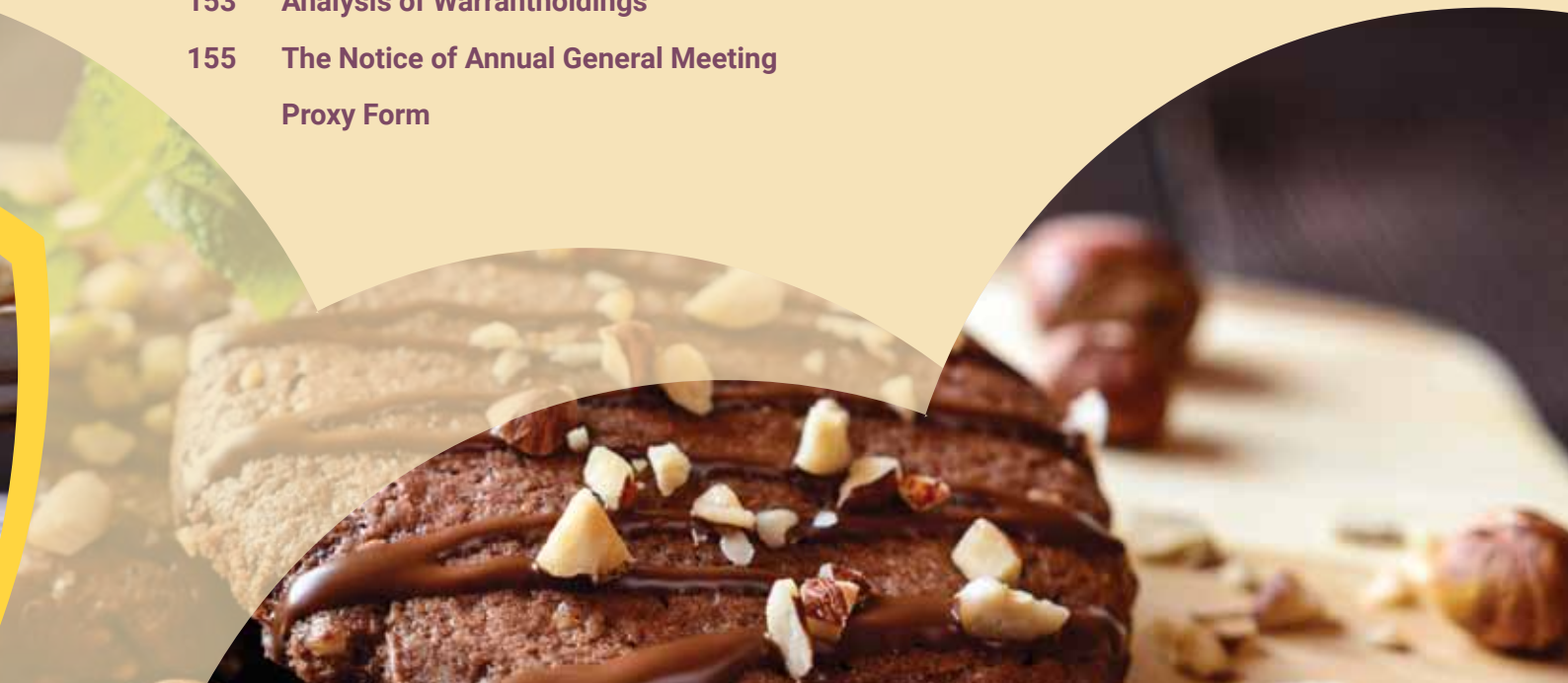
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CORPORATE INFORMATION

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

CORPORATE INFORMATION (CONT'D)

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 : 06-954 1705
Fax : 06-954 1707

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.gbcocoa.com

SHARE REGISTRARS

Boardroom Share Registrars Sdn Bhd
Company No.: 199601006647 (378993-D)
11th Floor Menara Symphony
No. 5 Jalan Semangat
(Jalan Professor Khoo Kay Kim)
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7890 4700
Fax : 03-7890 4670

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

Alliance Bank Malaysia Berhad
AmBank Berhad
Bangkok Bank Berhad
CIMB Bank Berhad
DBS Bank Limited
HL Bank Singapore
Hong Leong Bank Berhad
Malayan Banking 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

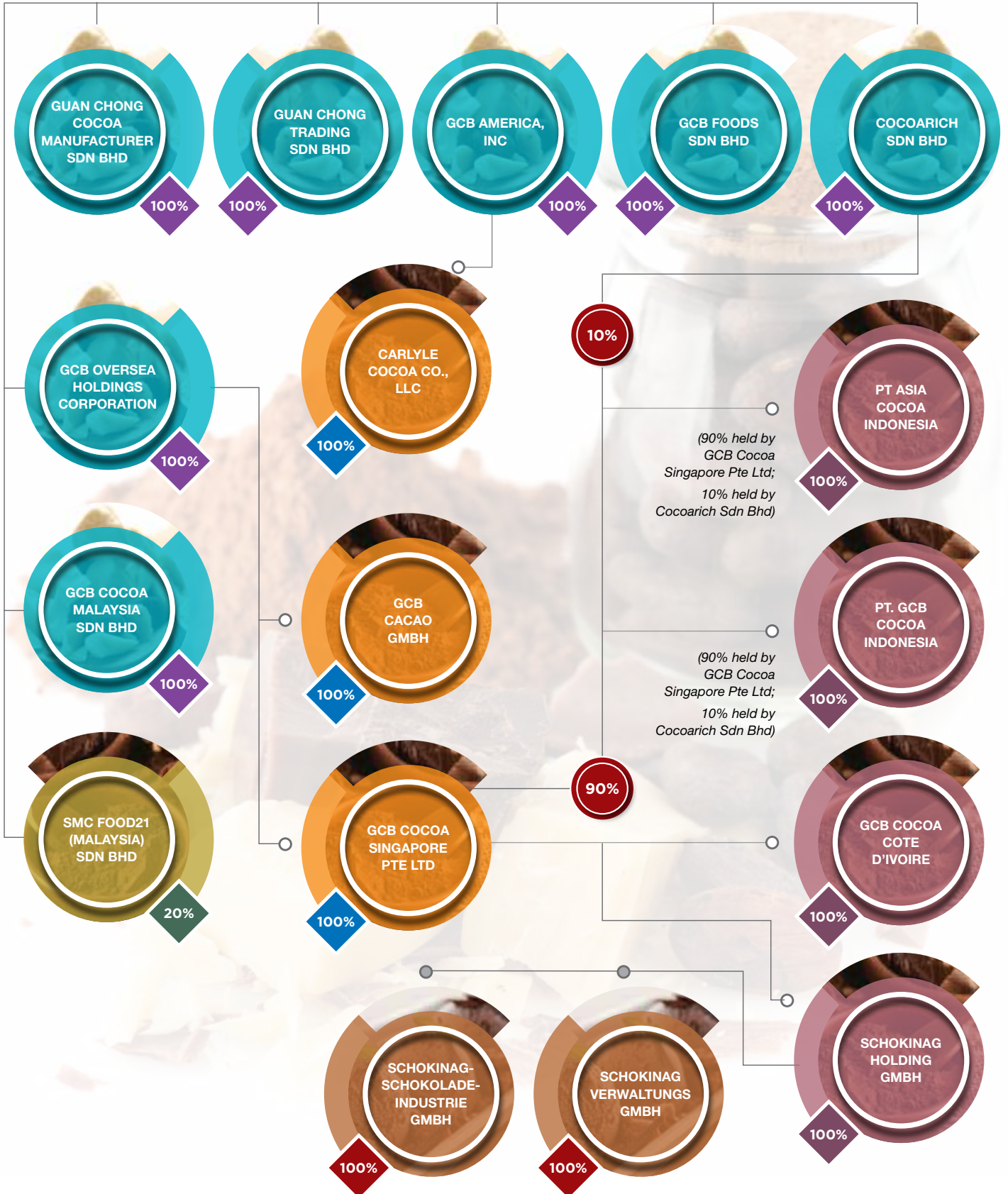
Main Market of Bursa Malaysia Securities Berhad
Stock Name : GCB
Stock Code : 5102

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)	2015	2016	2017	2018	2019
Revenue	2,380,669	2,315,866	2,147,914	2,273,424	2,941,630
EBITDA	79,902	96,523	162,774	263,341	332,820
Profit/(Loss) Before Taxation	36,373	52,208	113,440	208,722	266,861
Net Profit/(Loss) Attributable to Equity Holders	22,757	42,575	91,045	190,115	217,948

Summarised Group Statement of Financial Position As At 31 December (RM'000)	2015	2016	2017	2018	2019
Total Non-Current Assets	495,756	431,592	427,513	500,067	534,718
Total Current Assets	1,122,683	1,061,694	1,152,655	1,284,084	1,507,086
Total Assets	1,618,439	1,493,286	1,580,168	1,784,151	2,041,804
Share Capital	119,629	120,040	121,832	121,832	220,407
Share Premium	–	1,792	–	–	–
Reserves	261,996	307,597	362,956	550,656	729,442
Treasury Shares	(5,195)	(5,195)	(5,195)	(5,347)	(226)
Shareholders' Equity	376,430	424,234	479,593	667,141	949,623
Minority Interests	431	–	–	–	–
	376,861	424,234	479,593	667,141	949,623
Total Non-Current Liabilities	147,671	76,359	51,217	80,940	93,933
Total Current Liabilities	1,093,907	992,693	1,049,358	1,036,070	998,248
	1,618,439	1,493,286	1,580,168	1,784,151	2,041,804

FINANCIAL HIGHLIGHTS (CONT'D)

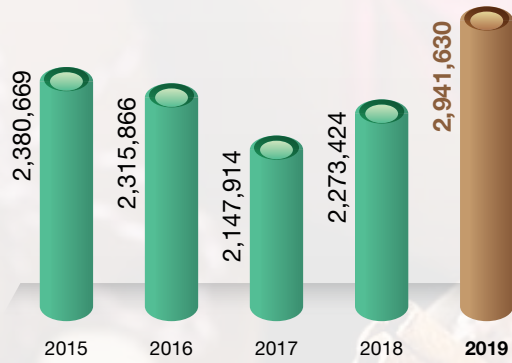
Summarised Group Cash Flows For the Financial Year Ended 31 Dec (RM'000)	2015	2016	2017	2018	2019
Operating Profit Before Working Capital Changes	90,937	133,782	154,009	255,790	330,050
Net Cash Flows (Used in)/ From Operating Activities	93,374	128,173	(69,409)	302,542	(93,699)
Net Cash Flows (Used in)/ From Investing Activities	(26,304)	15,711	(66,224)	(99,174)	(62,068)
Net Cash Flows From/ (Used in) Financing Activities	(62,295)	(124,369)	116,332	(199,713)	157,626
Net (Decrease)/ Increase in Cash and Cash Equivalents	(12,505)	21,703	(21,496)	4,420	1,714
Cash and Cash Equivalents at Beginning of Year	39,236	26,731	48,434	26,938	31,358
Cash and Cash Equivalents at End of Year*	26,731	48,434	26,938	31,358	33,072
* including effect on exchange rate difference					

Financial Analysis	2015	2016	2017	2018	2019
EBITDA Margin	3.36%	4.17%	7.58%	11.58%	11.31%
Profit Before Tax Margin	1.53%	2.25%	5.28%	9.18%	9.07%
Net Profit Margin	0.96%	1.84%	4.24%	8.36%	7.41%
Free Cash Flow (RM'000)	67,194	133,423	(128,392)	207,792	(156,229)
ROE (Average Equity)	5.9%	10.1%	19.0%	28.5%	23.0%
ROA (Average Total Assets)	1.4%	2.9%	5.8%	10.7%	10.7%
Earnings Per Share (sen)	4.78	8.91	19.05	19.89*	22.51
Net Dividends Per Share (sen)	0.00	1.50	2.50	1.00*	3.51
Payout Ratio	0.0%	16.8%	13.1%	5.0%	15.6%
Cash and Bank Balances (RM'000)	28,610	62,646	39,924	44,799	46,790
Total Borrowings (RM'000)	829,625	710,281	787,306	602,367	682,714
Gearing (net of cash)	2.13	1.53	1.56	0.84	0.67

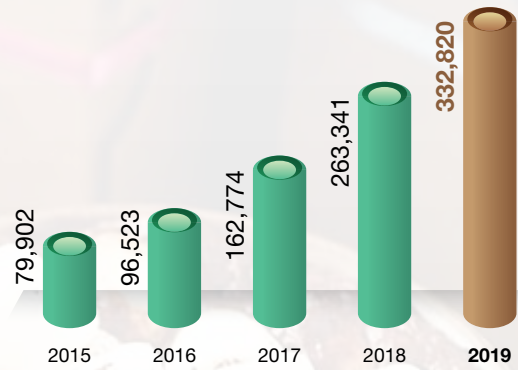
* restated due to adjustment on number of ordinary shares as a result of bonus issue during 2019.

FINANCIAL HIGHLIGHTS (CONT'D)

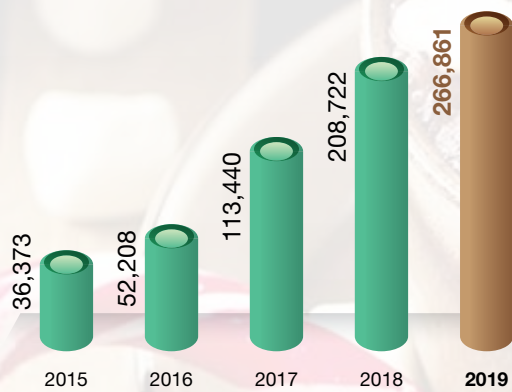
Revenue (RM'000)



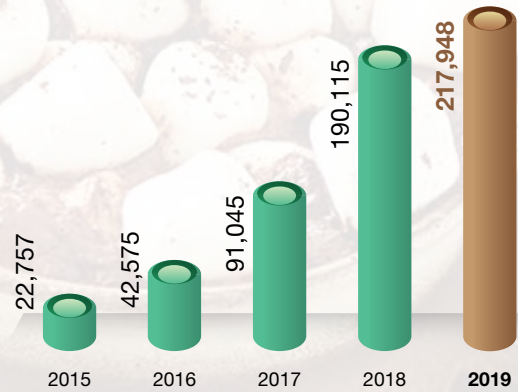
EBITDA (RM'000)



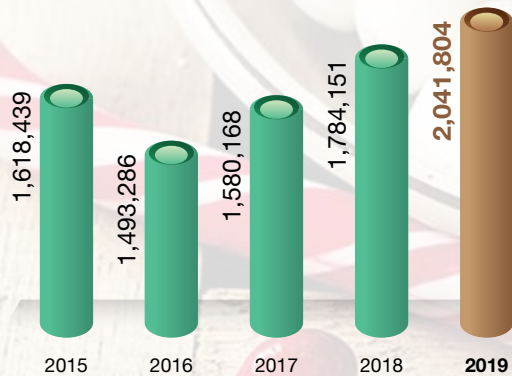
PBT (RM '000)



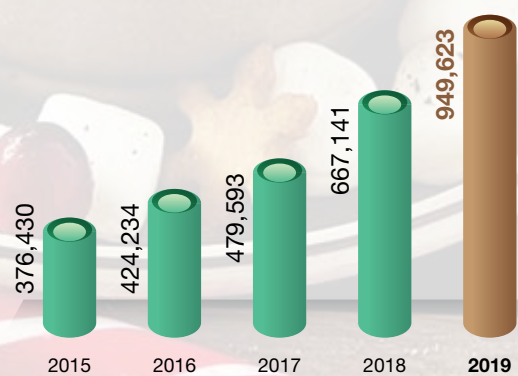
Net Profit (RM '000)



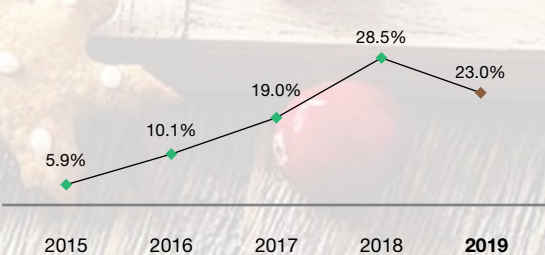
Total Assets (RM '000)



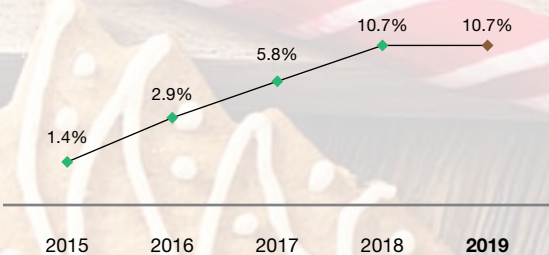
Shareholders' Equity (RM '000)



Returns on Equity (ROE)

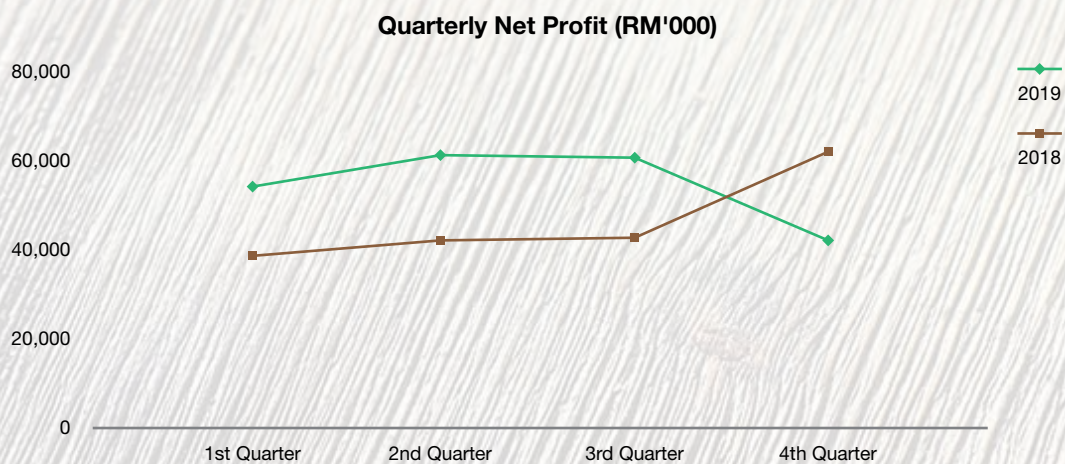
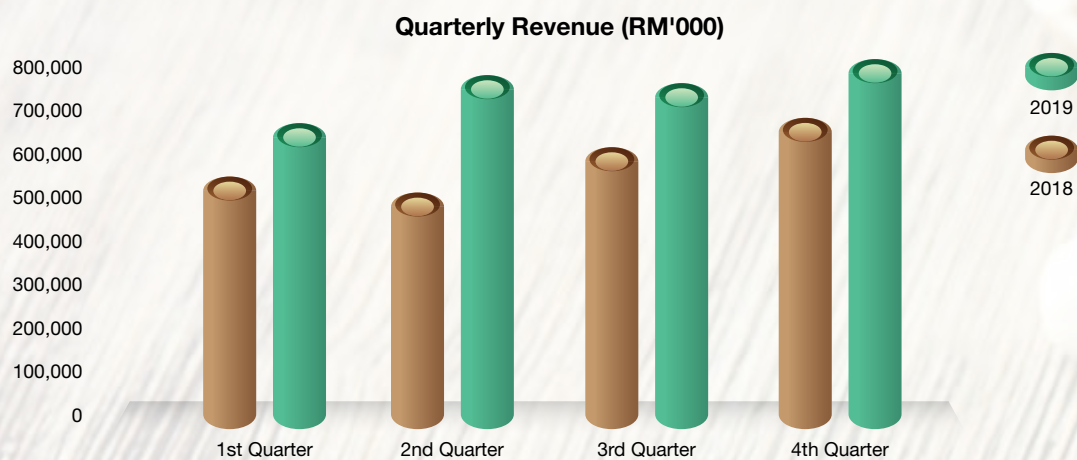


Returns on Assets (ROA)



FINANCIAL HIGHLIGHTS (CONT'D)

Quarterly Analysis Year Ended 31 Dec (RM'000)	2018	2019	% Chg
Turnover			
1st Quarter	519,689	648,074	24.7%
2nd Quarter	491,584	753,061	53.2%
3rd Quarter	598,781	744,608	24.4%
4th Quarter	663,370	795,887	20.0%
	2,273,424	2,941,630	29.4%
Net Profit			
1st Quarter	39,332	53,140	35.1%
2nd Quarter	43,030	60,997	41.8%
3rd Quarter	43,871	60,532	38.0%
4th Quarter	63,882	43,279	-32.3%
	190,115	217,948	14.6%



DIRECTORS' PROFILE

YBHG DATO DR. MOHAMAD MUSA BIN MD JAMIL

Non-Independent and Non-Executive Chairman

Nationality	Aged	Gender
Malaysian	74	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 2019.

TAY HOE LIAN

Managing Director and Chief Executive Officer

Nationality	Aged	Gender
Malaysian	55	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 2019.

DIRECTORS' PROFILE (CONT'D)

TAY HOW SIK @ TAY HOW SICK Executive Director and Chief Operating Officer	Nationality Malaysian	Aged 60	Gender Male
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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 2019.

HIA CHENG Executive Director and Chief Financial Officer	Nationality Malaysian	Aged 55	Gender Male
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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.

In February 2018, he was appointed as the General Manager of the new cocoa processing plant in Ivory Coast. He was actively involved in the due diligence studies and negotiation on acquisition of Germany-based industrial chocolate producer SCHOKINAG Holding GmbH.

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 2019.

DIRECTORS' PROFILE (CONT'D)

TAN AH LAI Independent Non-Executive Director	Nationality Malaysian	Aged 51	Gender Male
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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, tax and accounting firm which provides financial and management consultation, tax and accounting related services. He has extensive experience in financial, management and tax related works. 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 2019.

YBHG DATUK TAY PUAY CHUAN Independent Non-Executive Director	Nationality Malaysian	Aged 56	Gender Male
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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 Syarikat Teong Sheng Sdn Bhd as a HR Manager from 1994 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 2019.

PROFILE OF KEY SENIOR MANAGEMENT

TAY HOW YEH

Nationality
Malaysian

Aged
54

Gender
Male

Tay How Yeh was appointed as the Director of Guan Chong Cocoa Manufacturer Sdn Bhd in January 2003. 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 a 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 the 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 of monitoring the overall company performance. During August 2016 till February 2020, he was appointed as the Director of Supply Chain of Fuji Global Chocolates (M) Sdn Bhd (formerly known as GCB Specialty Chocolates Sdn. Bhd). He is currently also the director for GCB Cocoa Singapore Pte Ltd and GCB Cocoa Malaysia 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

Nationality
Malaysian

Aged
48

Gender
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. Upon graduation, she worked in the IT profession and was last attached to American International Assurance (AIA) as an IT Manager. Since joining Guan Chong, she was actively involved in cocoa bean trading, sales and marketing of cocoa product. In 2012, she was appointed to be in charge of the Indonesian Market and has successfully set up a trading company in Jakarta. She has been managing the Jakarta company and has successfully expanded the customer base in Indonesia.

In 2014, she was appointed to be in charge of the Japanese Market for expanding the market shares

in Japan. She has been actively working and building up stronger relationship with Japanese trading companies and MNC customers. She is currently involved in corporate strategic planning and managing strategic projects focussing primarily on expansion and investment opportunities.

She was appointed as the Deputy General Manager of GCB Cote D'Ivoire, the new cocoa processing plant in Ivory Coast in January 2019.

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.

PROFILE OF KEY SENIOR MANAGEMENT (CONT'D)

YAU TEE WAN

Nationality
Malaysian

Aged
47

Gender
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.

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.

EDGAR ALEXANDER BITTONG

Nationality
German

Aged
36

Gender
Male

Edgar Alexander Bittong was appointed as the Vice President of Carlyle Cocoa Company LLC in March 2018. He obtained a Bachelor of Science in Industrial Engineering from University of Central Florida in 2007. He started his career in 2008 with PLOT Enterprise Ghana Limited as Site Engineer, responsible for oversight of machine installations, civil works and factory building construction. He was subsequently promoted to Production Manager in 2009 and manages factory operation to ensure steady throughput and improvement of plant to enhance efficiency.

He joined Euromar Commodities GmbH as Process Engineer in 2011 and as Project Engineer in the subsequent year. Over the years, he has gained extensive knowledge and experience in designing building layout, project management and

planning, enabling him to ensure continuous production efficient improvement. He was then worked for Cocoa Services LLC as Production Manager in 2013 and promoted to Plant Manager in 2016.

He joined Carlyle Cocoa Company LLC in March 2018 as Vice President following asset acquisition of Cocoa Services LLC by Carlyle Cocoa Company LLC. He has been working on growth management, staff development and sales improvement of both New Jersey and Swedesboro factory 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Dear shareholders,

2019 proved to be another fruitful year for Guan Chong Berhad (GCB or the Group) as we not only achieved another record financial performance, but also took significant steps that will set the Group up to achieve significant growth globally in the future.

We have grown by leaps and bounds from where we started in the 1980s, and are embarking on our next phase of expansions. The acquisition of SCHOKINAG Holdings GmbH (SCHOKINAG) and our entry into Cote D'Ivoire, the world's largest cocoa producing country, will allow us to increase our global presence in key markets for chocolate consumption.

As we forge ahead with the strategies to reach the next stage of our growth, it is my pleasure to now present to you GCB's 2019 Annual Report, highlighting the review of our operations in the past year, and our plans to 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.

All our factories comply with stringent quality and ethical standards internationally, our cocoa processing factories hold comprehensive certifications such as HACCP and FSSC 2000 or IFS, in addition to having passed the Sedex Members Ethical Trade Audit.

In 2019, GCB began construction of a new cocoa processing facility in Cote D'Ivoire. The factory will boast an initial annual grinding capacity of 60,000 MT, and is expected to be completed in the second half of 2021.

OPERATIONAL HIGHLIGHTS

Production Highlights

The Group also acquired Germany-based industrial chocolate producer SCHOKINAG Holdings GmbH (SCHOKINAG) in January 2020. The close-to-century-old SCHOKINAG has an annual industrial chocolate production capacity of 90,000 MT and cocoa liquor production capacity of 7,000 MT.

The Group achieved a second consecutive year of record grindings level, which was supported by 20.1% increase in sales tonnage of cocoa ingredients on the back of increasing global demand and our continuous effort to expand our clientele base.

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

Our operating profitability also improved further, with EBITDA rising 26.4% to RM332.8 million in FY2019, compared to RM263.3 million previously due to higher sales volume and average selling price of cocoa ingredients.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Corporate Exercise

In the year under review, the Group completed a private placement of new ordinary shares, as well as the issuance of 1-for-1 bonus shares and 1-for-3 bonus warrants, which were aimed at enhancing shareholders participation and increasing trading liquidity.

The private placement comprised the issuance of 24.0 million new ordinary shares at RM3.85 per share (before adjusting for the corporate exercises), raising RM92.4 million for working capital and business expansion purposes. The shares were listed on Bursa Malaysia on 3 October 2019.

The bonus issue resulted in the Group issuing 504.2 million bonus shares, which were listed on 6 November 2019, as well as 168.0 million warrants, which were listed on 12 November 2019. The warrants have a conversion ratio of 1-to-1 for a period of 3 years, with exercise price is RM1.65.

Cote D'Ivoire Expansion

In FY2019, the Group initiated the construction of a new cocoa processing facility in the world's largest cocoa bean producing country, Cote D'Ivoire. The expansion will allow the Group ready access to high quality cocoa beans at source, as well as improve cost competitiveness through savings in shipping costs, storage and handling, as well as export taxes. It will also improve GCB's passage into the key European market due to the similar time zones and proximity.

The new plant will have an annual capacity of 60,000 MT, which will bring our total grinding capacity to 310,000 MT per year. The factory is targeted to be commissioned in the second half of 2021.

In order to set up the factory, the Group has set aside EUR50 to EUR60 million (approximately RM229.5 to RM275.4 million), which will be generated from internal funds and bank borrowings.

Acquisition of SCHOKINAG

Not resting on our laurels, GCB continued its global expansion through the acquisition of Germany-based industrial chocolate producer SCHOKINAG, which would not only grant GCB entry into the largest chocolate consumption market, Europe, but also provide its currently-under-construction cocoa processing plant in Cote D'Ivoire with a ready market.

Established in 1923, SCHOKINAG has been involved in chocolate manufacturing for close to 100 years, and is today one of the key manufacturers of industrial chocolate in Europe. Located in Mannheim, Germany,

SCHOKINAG's industrial chocolate plant has an annual capacity of 90,000 metric tonnes (MT), while its cocoa processing plant can grind 7,000 MT of cocoa beans into cocoa liquor per year.

SCHOKINAG supplies its industrial chocolate to the food and beverage industry, including world-renowned chocolate markets. Its products encompass chocolate couvertures, from liquid to solid, in various sizes, shapes and packaging types, as well as liquid compounds.

The acquisition was for EUR29.9 million (approximately RM137.8 million), and was completed on 30 January 2020.

Sale of Associate

On 26 February 2020, Fuji Oil Asia Pte Ltd exercised its call option to acquire GCB's 27.75% stake in industrial chocolate associate, Fuji Oil Global Chocolate (M) Sdn Bhd (formerly known as GCB Specialty Chocolates Sdn Bhd). The sale was for a total cash consideration of RM32.0 million, which gave GCB a gain on disposal of associate of approximately RM27.8 million in the first quarter of 2020. Despite the disposal of the associate, GCB still continue partnering as the primary supply of cocoa ingredient to Fuji Oil Group.

FINANCIAL PERFORMANCE

Group revenue in FY2019 grew 29.4% RM2.9 billion compared to RM2.3 billion in the previous year on the back of higher sales volume and increased average selling price of cocoa ingredients. The higher sales volume was due to the increased grinding capacity from the investment into new factory, GCB Cocoa Malaysia.

GCB's gross profit stood at RM357.4 million, rising 27.2% from RM280.9 million in FY2018, as a result of larger sales tonnage and improved yield per tonne. As a result, the Group also recorded an increase in pre-tax profit to RM266.9 million, versus RM208.7 million the previous year.

The Group also posted a record net profit attributable to shareholders, growing 14.6% to RM217.9 million in FY2019, compared to RM190.1 million in FY2018. The increase was due to higher sales volume of cocoa ingredients and improved yield, but was slightly impacted by higher tax expense.

As at 31 December 2019, the Group's total assets stood at RM2.0 billion, increasing 14.4% from RM1.8 billion, due to higher property, plant and equipment value from the expansion into Cote D'Ivoire, as well as increased inventory level and trade receivables.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Inventories, which largely consist of raw materials, rose 19.1% to RM1.0 billion, compared to RM868.9 million previously, in line with higher sales volume. Trade and other receivables as at 31 December 2019 also increased to RM412.3 million, versus RM328.5 million in the prior year as Group sales rose in the year under review. On the other hand, trade and other payables decreased to RM325.2 million, from RM431.4 million due to the Group purchasing less raw materials during the fourth quarter.

At the same time, GCB's cash and bank balances stood at RM46.8 million, maintaining a similar level compared to RM44.8 million a year ago. Shareholders' equity as at 31 December 2019 increased to RM949.6 million, from RM667.1 million due to the private placement corporate exercise and profit generated during the year.

The Group's total borrowings increased to RM682.7 million from RM602.4 million previously. Of total borrowings, Islamic loans made up RM237.3 million from RM108.8 million in prior year, as the Group looks to maintain its Shariah-compliant status.

With higher shareholder base, net gearing declined to 0.7 times, from 0.8 times in FY2018.

DIVIDEND

The Group continued to reward shareholders during the year by declaring three interim dividends, as well as propose a final dividend, pending approval of shareholders at the Annual General Meeting.

The first, second and third single tier interim dividends amounted to 4.0 cents per ordinary share, which is a total payout of RM24.4 million. The proposed final dividend is for 1.0 cent per ordinary share will have a payout of RM10.1 million.

Combined, the total dividend payout will be RM34.5 million, which represents 15.8% of FY2019 net profit attributable to shareholders.

RISKS

Competition

As we compete in a global setting, we face competition from major international players with better market access and greater financial resources. These larger companies also possess a more integrated value chain, from manufacturing and trading of cocoa ingredients to the branding and retailing of chocolate and cocoa-based consumer products.

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

With approximately 4.7 million MT of cocoa beans produced per year, primarily in tropical countries such as Cote D'Ivoire, Ghana and Indonesia, global supply is limited, and the crop is easily susceptible to weather changes during the year. In addition to that, bean supply from Indonesia has been shrinking considerably over the past few years, thus requiring us to source beans from further away.

To mitigate our supply risk, we have embarked on expanding our presence to Cote D'Ivoire, the largest cocoa bean producing country in the world and are now in the midst of constructing a new plant. This will enable easier access to a larger source and meet the increasing demand from customers.

Cocoa Bean Price Volatility Risk

Cocoa beans are a key raw material for the Group, making up a significant portion of our cost of goods sold. The changes in supply and demand, combined with market speculation may pose an impact on our performance. Additionally, at the time of writing, the planned LID in Cote D'Ivoire and Ghana, to come into effect in the last quarter of 2020, has caused uncertainty in the market, leading cocoa bean prices to increase in the past few months.

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.

Foreign Currency Fluctuation Risk

While transactions were mostly denominated in foreign currencies, namely USD and GBP, we adopt MYR as the reporting currency in line with Bursa Malaysia requirements. In order to minimise the risk of 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 payments made for import of beans and payments received from export sales.

The sensitivity analysis for foreign currency risk can be found on page 139 of the Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

New Market Entry Risk

In the year under review, the Group initiated plans to expand its presence into Cote D'Ivoire and Germany, which represent new markets for the Group. This could pose a potential risk to the Group, as with any new business venture, as well as due to differences in cultural and business practices.

However, the Group will leverage on previous experience of expansion into Indonesia in 2011 to achieve effective integration, by seconding highly experienced personnel from our Malaysia and Indonesia operations to train the local workers and facilitate cultural assimilation.

OUTLOOK AND GROWTH STRATEGIES

The global business environment for the financial year ended 31 December 2020 (FY2020) is expected to be challenging due to the outbreak of COVID-19. We see slight disruptions and interruption in logistic and supply chains as the outbreak has spread globally. During Movement Control Order (MCO) period in Malaysia, our manufacturing and shipment operations were slightly interrupted due to reduced manpower at our plants in order to comply with the MCO and to ensure the health and wellbeing of all GCB employees.

As many countries have implemented social distancing and lockdown, this has resulted in slowing down of global economy and subsequently shrunk down the demand of chocolate consumption. However, with the forward sales and forward purchase nature of the business, we have secured a substantial quantity of sales contracts that needs to be fulfilled within FY2020.

Nevertheless, as a result of economy slowing down, we expect some delay in shipment to our customer. Therefore, we foresee a reduce in utilisation of our grinding capacity and sales volume. The long term impact will depend on the severity of the outbreak on the global economy.

The implementation of a Living Income Differential (LID) by the world's top two cocoa producing countries, Cote D'Ivoire and Ghana will result in higher raw material cost for Ivory and Ghana bean. However, the overall impact of the outcome on the cost of cocoa bean from other origin and our product pricing still remains uncertain.

In overall, our operations are still on good footing with an expanded global presence and strengthened supply chain. As a result, we will maintain our efforts to increase our market share in the global cocoa ingredients market, and are guided by the following growth strategies:

Increasing Production Capacity

In FY2019, we began the construction of our new cocoa grinding facility in Cote D'Ivoire. The initial phase of the factory will have a grinding capacity of 60,000 MT per year, and will be commissioned in the second half of 2021, bringing total Group capacity to 310,000 MT per year.

The expansion into Cote D'Ivoire will bring us closer to the largest raw material source. Additionally, we will also have easier access to key chocolate consumption market in Europe due to the closer proximity and the similar time zone.

Expanding Geographical Presence

With the acquisition of SCHOKINAG in Germany, the Group has now positioned itself favourably in the key chocolate consumption market, Europe. We now have an established customer base comprising leading global chocolate players, and are aiming to increase our market share in the region.

Additionally, SCHOKINAG will also complement our Cote D'Ivoire factory by taking up half of the cocoa ingredients produced once commissioned, as well as expand our range of offerings. This will also provide the Cote D'Ivoire factory with immediate orders upon commissioning, allowing us to scale up our production and sales efficiently.

With these strategies in place, we have placed ourselves in a favourable position to enter the next stage of growth despite the challenges faced.

ACKNOWLEDGEMENTS

My sincere gratitude goes out to all of our customers, business partners, customers, suppliers and all other stakeholders for their unending support provided to GCB during the past year.

My appreciation also goes to our management team and employees for their dedication and efforts in leading the Group to another record performance. I would also like to thank our Board of Directors for the continuous guidance, and look forward towards growing together.

Thank you.

Brandon Tay Hoe Lian
Chief Executive Officer