

BERHAD  
**GUANCHONG**  
(646226-K)

Annual Report 2016



The background of the entire page is a close-up photograph of cocoa beans and powder. In the foreground, a wooden bowl is filled with cocoa beans, some of which are partially broken. Two large, vibrant green leaves are placed over the bowl. In the background, another wooden bowl contains cocoa powder, and more cocoa beans are scattered around. The lighting is warm, highlighting the textures of the beans and powder.

# 13 THIRTEENTH ANNUAL GENERAL MEETING

**Place** : Sri Ledang, 1st Hall, 2nd Floor,  
Mutiara Hotel, Jalan Dato Sulaiman,  
Taman Century, KB No. 779,  
80990 Johor Bahru,  
Johor Darul Takzim.

**Time** : Tuesday  
30 May 2017  
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

## SECRETARY

Pang Kah Man (MIA 18831)

## 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.favorich.com](http://www.favorich.com)

## SHARE REGISTRARS

Symphony Share Registrars Sdn Bhd  
(378993-D)  
Level 6 Symphony House  
Pusat Dagangan Dana 1  
Jalan PJU 1A/46  
47301 Petaling Jaya  
Selangor Darul Ehsan

Tel : 03-7841-8000  
Fax : 03-7841-8008

## AUDITORS

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

## PRINCIPAL BANKERS

AmBank Berhad  
Hong Leong Bank Berhad  
HSBC Bank Malaysia Berhad  
Malayan Banking Berhad  
CIMB Bank Berhad  
Bangkok Bank Berhad  
HL Bank Singapore  
Oversea-Chinese Banking Corporation Limited  
OCBC Bank (Malaysia) Berhad  
RHB Bank Berhad  
Standard Chartered 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 (646226-K)



# FINANCIAL HIGHLIGHTS

## Summarized Group Income Statement For The Financial Year Ended 31 December (RM'000)

	2012	2013	2014	2015	2016
Revenue	1,453,259	1,362,713	1,818,871	2,380,669	2,315,866
EBITDA	175,163	39,191	20,854	79,902	96,523
Profit Before Taxation	150,279	7,871	(18,481)	36,373	52,208
Net Profit Attributable to Equity Holders	118,982	3,414	(17,558)	22,757	42,575

## Summarized Group Statement of Financial Position As At 31 December (RM'000)

	2012	2013	2014	2015	2016
Total Non-Current Assets	339,292	430,845	440,249	495,756	431,592
Total Current Assets	805,009	1,092,583	1,017,694	1,122,683	1,061,694
Total Assets	1,144,301	1,523,428	1,457,943	1,618,439	1,493,286
Share Capital	119,629	119,629	119,629	119,629	120,040
Share Premium	-	-	-	-	1,792
Reserves	225,985	214,332	205,979	261,996	307,597
Treasury Shares	(5,195)	(5,195)	(5,195)	(5,195)	(5,195)
Shareholders' Equity	340,419	328,766	320,413	376,430	424,234
Minority Interests	3,905	4,908	3,958	431	-
Total Equity	344,324	333,674	324,371	376,861	424,234
Total Non-Current Liabilities	128,583	137,381	172,904	147,671	76,359
Total Current Liabilities	671,393	1,052,374	960,669	1,093,907	992,693
Total Liabilities	800,000	1,189,755	1,133,573	1,241,578	1,069,052
Total Liabilities and Equity	1,144,301	1,523,429	1,457,944	1,618,439	1,493,286

# FINANCIAL HIGHLIGHTS

## Summarized Group Cash Flows For the Financial Year Ended 31 Dec (RM'000)

	2012	2013	2014	2015	2016
Operating Profit Before Working Capital Changes	187,018	87,443	55,692	90,937	133,782
Net Cash Flows (Used in)/From Operating Activities	14,272	(200,308)	136,613	93,374	128,173
Net Cash Flows (Used in)/From Investing Activities	(112,462)	(101,092)	(22,775)	(26,304)	5,126
Net Cash Flows From/(Used in) Financing Activities	136,788	281,081	(93,780)	(62,295)	(113,784)
Net Increase/(Decrease) in Cash and Cash Equivalents	38,685	(25,912)	13,981	(12,505)	21,703
Cash and Cash Equivalents at Beginning of Year	12,482	51,167	25,255	39,236	26,731
Cash and Cash Equivalents at End of Year*	51,167	25,255	39,236	26,731	48,434

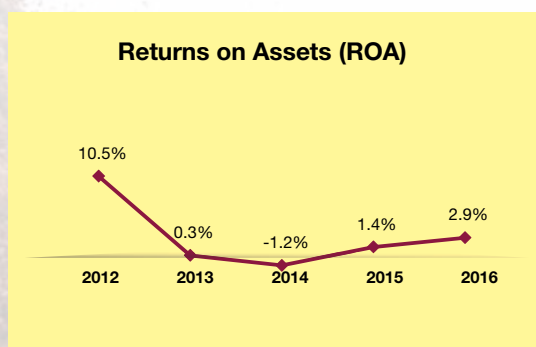
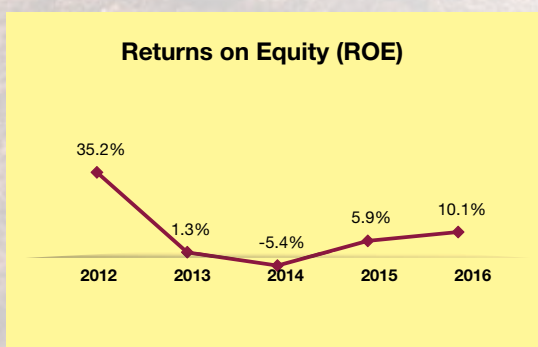
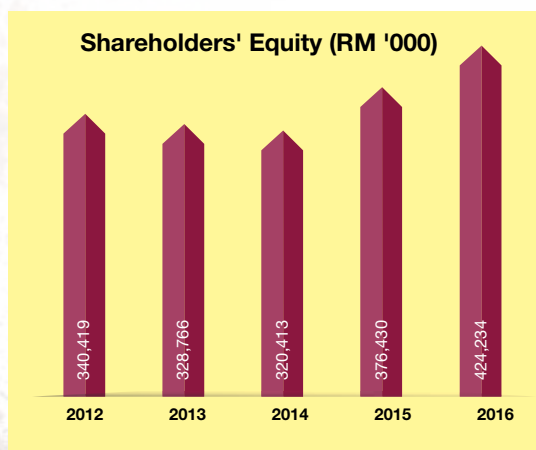
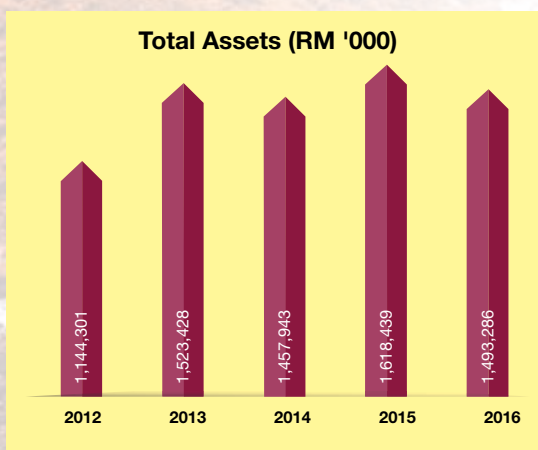
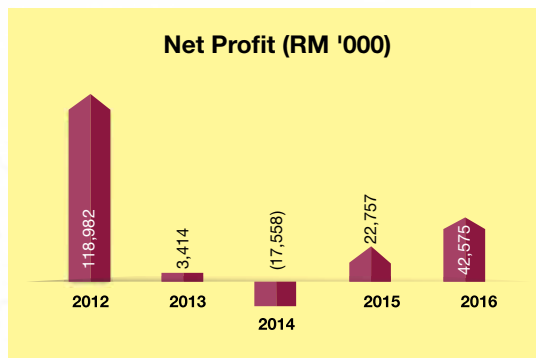
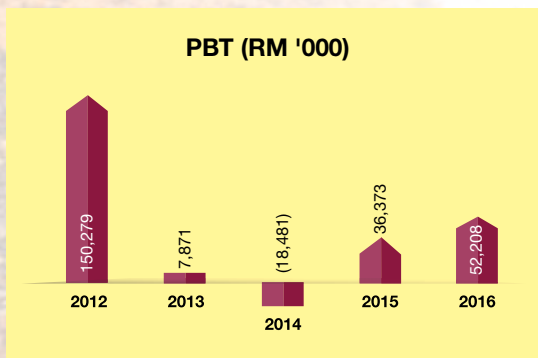
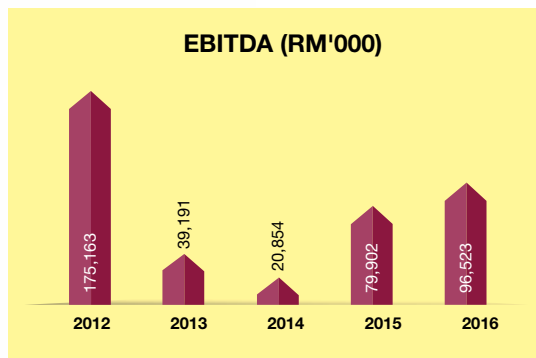
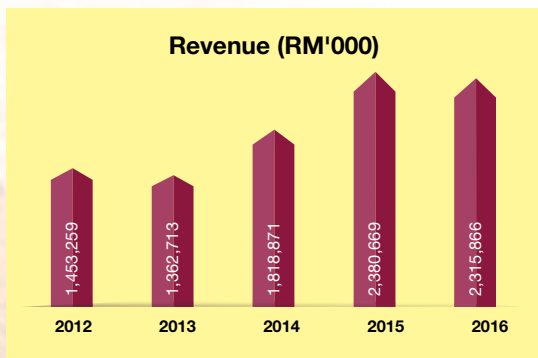
\* including effect on exchange rate difference

## Financial Analysis

	2012	2013	2014	2015	2016
EBITDA Margin	12.05%	2.88%	1.15%	3.36%	4.17%
Profit/(Loss) Before Tax Margin	10.34%	0.58%	-1.02%	1.53%	2.25%
Net Profit/(Loss) Margin	8.19%	0.25%	-0.97%	0.96%	1.84%
Free Cash Flow (RM'000)	(91,150)	(301,251)	113,962	67,194	133,423
Returns on Equity (ROE)	35.2%	1.3%	-5.4%	5.9%	10.1%
Returns on Assets (ROA)	10.5%	0.3%	-1.2%	1.4%	2.9%
Net Dividends Per Share (sen)*	8.70	3.00	0.00	0.00	1.50
Payout Ratio	34.7%	418.5%	0.0%	0.0%	16.8%
Cash and Bank Balances (RM'000)	52,231	27,442	41,317	28,610	62,646
Total Borrowings (RM'000)	625,326	942,101	865,814	829,625	710,281
Gearing (net of cash)	1.68	2.78	2.57	2.13	1.53

\* Net DPS adjusted for 1-for-3 Bonus Issue in February 2011 and 1-for-2 Bonus Issue in September 2012

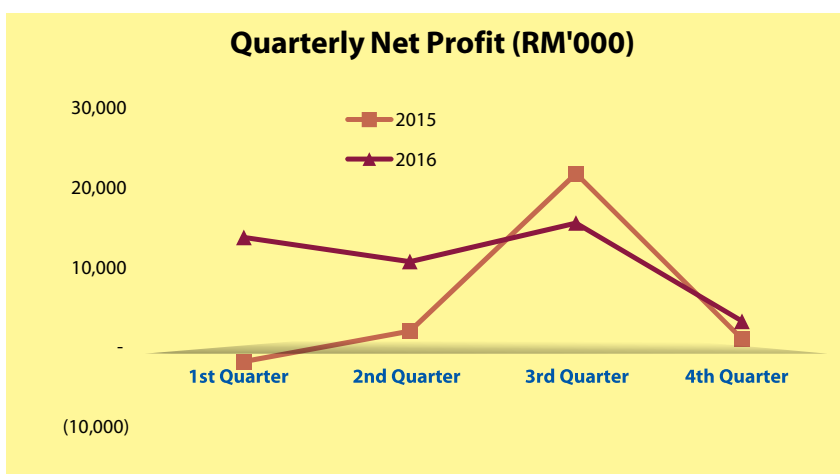
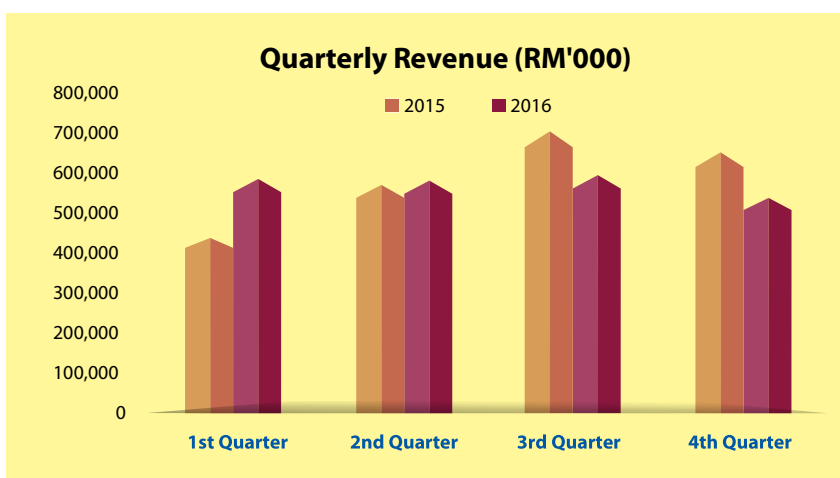
# FINANCIAL HIGHLIGHTS





# FINANCIAL HIGHLIGHTS

Quarterly Analysis			
Year Ended 31 Dec (RM'000)	2015	2016	% Chg
<b>Turnover</b>			
1st Quarter	441,500	591,391	34.0%
2nd Quarter	576,564	583,386	1.2%
3rd Quarter	708,831	597,512	-15.7%
4th Quarter	653,774	543,577	-16.9%
	2,380,669	2,315,866	-2.7%
<b>Net Profit</b>			
1st Quarter	(1,855)	13,693	838.2%
2nd Quarter	1,963	10,662	443.1%
3rd Quarter	21,686	15,484	-28.6%
4th Quarter	963	2,736	184.1%
	22,757	42,575	87.1%



# DIRECTORS' PROFILE

## YBHG DATO DR MOHAMAD MUSA BIN MD JAMIL

Malaysian | Aged 71

YBhg Dato Dr Mohamad Musa Bin Md Jamil was appointed 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 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 Queens'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 of 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 of the Company. He is also the 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 10 years.

He has attended all the five board meetings which were held in the financial year ended 31 December 2016.

# DIRECTORS' PROFILE

## TAY HOE LIAN

Malaysian | Aged 52

Tay Hoe Lian was appointed 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 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 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 10 years.

He has attended all the five board meetings which were held in the financial year ended 31 December 2016.

## TAY HOW SIK @ TAY HOW SICK

Malaysian | Aged 57

Tay How Sik @ Tay How Sick was appointed 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 10 years.

He has attended all the five board meetings which were held in the financial year ended 31 December 2016.

# DIRECTORS' PROFILE

## HIA CHENG

Malaysian | Aged 52

**Hia Cheng** was appointed the Executive Director and Chief Financial Officer of Guan Chong Berhad 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 and has been actively involved in the administration, financial management and foreign currency management of GCC. In addition, he also carries out feasibility studies and investment appraisal for all of GCC's expansion projects. In 1996, he was promoted to his current position as Finance and Trading Manager of GCC. Since then, 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 GCC's relationships with its customers which include 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 10 years.

He has attended all the five board meetings which were held in the financial year ended 31 December 2016.

## TAN AH LAI

Malaysian | Aged 48

**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 of the Company. He is also 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 10 years.

He has attended all the five board meetings which were held in the financial year ended 31 December 2016.

# DIRECTORS' PROFILE

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## YBHG DATUK TAY PUAY CHUAN

Malaysian | Aged 53

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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 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 10 years.

He has attended all the five board meetings which were held in the financial year ended 31 December 2016.

# PROFILE OF KEY SENIOR MANAGEMENT

## TAY HOW YEH

Malaysian | Aged 51

**Tay How Yeh** was appointed 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 45

**Tay See Min** was appointed 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. She also managed to get our Singapore subsidiary to become a member of Global Trading Programme under IE Singapore. 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 was appointed as Director of GCB Specialty Chocolates since August 2016.

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

### YAU TEE WAN

Malaysian | Aged 44

**Yau Tee Wan** was appointed 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, GCB Specialty Chocolates 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.

### POW CHUN CHUNG

Malaysian | Aged 44

**Pow Chun Chung** was appointed 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 monitoring 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, GCB Specialty Chocolates 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.

# CHAIRMAN'S STATEMENT

## Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure and privilege to present the Annual Report and Audited Financial Statements of Guan Chong Berhad (GCB or the Group) for the financial year ended 31 December 2016 (FY2016).

During 2016, slow economic growth worldwide and high price for cocoa product has caused reduced demand for chocolate especially from Latin America and Eastern Europe. This resulted in fall of worldwide demand of almost 2% during the year. World grinding has also dropped by 1% following the reduced market demand.

El Nino has caused undersupply of raw material in the market. El Nino effect since end of 2015 till third quarter in 2016 has brought dry weather to Indonesia and West Africa, which are the leading cocoa producers in the world. Crops struggled to cope with the drought, reduced harvest has caused the price for Indonesia cocoa beans to rise during the period. Our Batam plant is heavily rely on local Indonesia beans, as a result of short supply of Indonesia bean, it causes downtime to our Batam plant and we were forced to import South Africa and South America bean to fulfill contracted sales order. As a result, higher cost was incurred which affected our margin for second half of the year.

We have better weather condition with good rainfall during last quarter for the year and this is expected to continue for coming year. Hence we expect the supply of cocoa beans will be more stable, allowing better production.

During the year, the Group has disposed controlling interest in GCB Specialty Chocolates Sdn Bhd to Fuji Oil Asia Pte Ltd but retained its interest as an associate company, which enabled us to focus on our core business.

Better inventory management during the year helped in improving stock turnover days, and together with the disposal of subsidiaries, gearing level for the Group has improved. The Group remain optimistic that we will stay fundamentally strong as we continue to see strong support from our loyal customer base, raw material suppliers and dedication from our experienced and established management team. The Group is also constantly looking for opportunities in the industry to expand our business worldwide, especially in the cocoa origin market.

### FY2016 FINANCIAL HIGHLIGHTS

GCB was able to record a second straight year of revenue exceeding the RM 2 billion mark. However, there was a

slight reduction of 2.7% in the Group revenue, from RM 2,381 million in previous financial year to RM 2,316 million current year. The decline was mainly contributed by disposal of subsidiaries during the year, which contributed RM 84 million of revenue to the Group in previous financial year. This impact was mitigated by greater revenue contribution from cocoa solids, as a result of increased customer demand.

Despite the decrease in revenue, GCB managed to double its profit after taxation, from RM 22.4 million in preceding financial year to RM 42.8 million this financial year. One of the main reasons was improvement in sales of cocoa cake and cocoa powder, by RM 150 million from RM 659 million in FY2015 to RM 809 million in FY2016. This is contributed by increase in selling price for cocoa solids, from approximately RM 7,500 per MT in 2015 to RM 9,200 per MT in 2016. Gain of RM7 million arose from disposal of non-profit making subsidiaries also helped in achieving higher profit after taxation this year.

The Group's equity was being strengthened during the year as 1.6 million number of shares with value of RM 1.34 per share was issued following warrant conversion. This exercise increases the Group share capital to a total of RM 114,844,865 representing 477,917,752 number of shares at value of RM 0.25 each (excluding treasury shares) and give rises to share premium of RM 1.8 million. Besides that, US Dollar strengthening against Ringgit Malaysia caused GCB's foreign currency translation reserve to increase by RM 10.4 million, arising from revaluation of investment in foreign subsidiaries.

### DIVIDEND

GCB has a dividend policy of paying a minimum of 25.0% of net profit to shareholders. However, the Group was not able to distribute dividend for the past two financial years due to unsatisfactory financial performance.

In view of improving financial results and in appreciation of our shareholder's undivided support and confidence in Guan Chong, the Group has declared the first single tier dividend of 1.5 cents per ordinary share or RM7.2 million on 18 November 2016, which was subsequently paid out on 4 January 2017.



# CHAIRMAN'S STATEMENT



## CORPORATE EXERCISE / CHANGE IN GROUP STRUCTURE

### Disposal of equity interest in GCB Specialty Chocolates Sdn Bhd as a group

On 29 July 2016, Guan Chong disposed 70% of its equity interest in GCB Specialty Chocolates Sdn Bhd ("GCBSC"), retained only 27.75% of investment in the company. The shares were sold to Fuji Oil Asia Pte Ltd, whose principal activities of the company are sales and marketing, research and development of oils and fats, confectionery ingredients and soy protein.

70% of GCB'S equity interest in GCBSC, representing 12,950,000 ordinary shares of RM1.00 each was disposed for a total cash consideration of RM 11,849,250. GCBSC is now an associate of the Group. Through this collaboration with Fuji Oil, it creates synergy for both parties whereby our Group could concentrate on better efficient cocoa processing and Fuji Oil focus on improving industrial chocolate business. As a whole, better industrial chocolate could be produced with high quality raw material supplied from the Group.

### Disposal of equity interest in GCB Marketing Sdn Bhd

On 30 June 2016, 100% shareholding in GCB Marketing Sdn Bhd, representing 3,000,000 ordinary shares of RM1.00 each was disposed for a total consideration of RM 150,000. This disposal is in line with our strategy to streamline our operation and to focus on cocoa processing business.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

In addition to generating values for shareholders, GCB also recognises its roles in corporate social responsibility - acting responsibly, operating sustainably, and contributing to the communities in which we work in. It was undeniable that CSR has favourable impact on the wellbeing of our employees,

the environment, and our business operations. Thus, we believe that the implementation of CSR initiatives is vital for the benefits of shareholders and to the Group.

The Group's CSR initiatives are highlighted in the Statement on Corporate Social Responsibility of the Annual Report.

## CORPORATE GOVERNANCE

The Board of GCB is a strong advocate of good and sound corporate governance. Moreover, the Board is committed in providing a satisfactory return to its shareholders and fulfilling its corporate governance obligations and responsibilities in the best interest of the company and its stakeholders.

The implementation methods are highlighted in the Corporate Governance Statement of the Annual Report.

## APPRECIATION

First and foremost, I wish to extend my sincere thanks to our dedicated and committed key management team and staff, which have facilitated the Group in achieving a successful year. I would also like to express my sincerest gratitude to our loyal customers, suppliers, business associates, and the various regulatory authorities for the continued support and trust in the Group.

Finally, I would like to express my warmest appreciation to my fellow Board members and our faithful shareholders for the unfailing cooperation and guidance throughout these years.

Thank you.

**Dato Dr Mohamad Musa bin Md Jamil**  
Chairman

# MANAGEMENT DISCUSSION AND ANALYSIS

From its humble beginnings in early 1980s, our Group now prides itself as one of the leading producers in the region providing cocoa-derived food ingredients, namely cocoa liquor, cocoa butter, cocoa cake and cocoa powder. To date, our Group is one of the top five (5) players in the world in terms of processing volume, with a total annual production capacity of 200,000MT. Currently, besides having cocoa processing plants in Malaysia and Batam, Indonesia, we have also cake grinding plant in United States, trading subsidiaries in both Singapore and Jakarta, Indonesia and cocoa related product manufacturing plant in Malaysia.

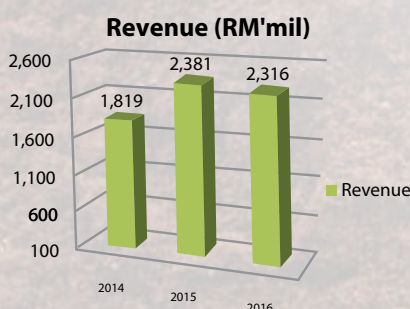
## OBJECTIVES AND STRATEGIES

Over the years, our Group has diversified our business from producing cocoa-derived food ingredients to producing products like industrial chocolates and chocolate beverages for consumer downstream. However in FY2016, we further streamline our operations to focus on the core business of manufacturing and marketing of cocoa-derived food ingredients and cocoa products.

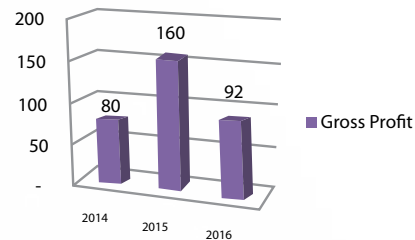
Hence, during the year, the Group has disposed their shares in GCB Marketing Sdn Bhd, whose principal activity is retail sales of chocolate and beverage. Besides that, the Group retained 27.75% of its equity interest in GCB Specialty Chocolates Sdn Bhd, and sold 70% of its shares to Fuji Oil Asia Pte Ltd, which is one of the key market player for industrial chocolate in Japan, Brazil and Indonesia. They are also specialize in marketing and research of oils and fats. Through this collaboration, it creates synergy for both parties whereby our Group could concentrate on better efficient cocoa processing and Fuji Oil focus on improving industrial chocolate business. As a whole, better industrial chocolate could be produced with high quality raw material supplied from the Group.

In coming years, GCB aims to concentrate on strengthening our position as cocoa processor and increase sales and production volume by increasing customer base and improving production efficiency.

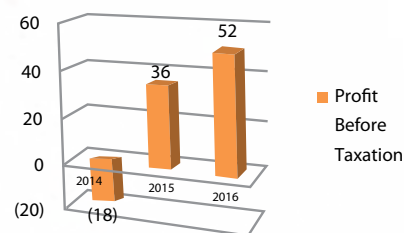
## FINANCIAL PERFORMANCE



## Gross Profit (RM 'mil)



## PBT (RM 'mil)



### Revenue:

The Group revenue decreased from RM 2,381 million to RM 2,316 million during the financial year, a decrease of 2.7% as compared to previous financial year. One of the contributing factors was change in group structure over the years, as the consolidation figure in FY2015 consist of few subsidiaries which were being disposed off in end of FY 2015 and during FY2016, namely Enrich Mix Sdn Bhd, GCB Marketing Sdn Bhd and GCB Specialty Chocolates Sdn Bhd. These subsidiaries contributed total revenue of RM 84 million to the Group in previous financial year.

However the impact is being offset by improvement in sales of cocoa cake and cocoa powder, collectively named as cocoa solids; by RM 150 million from RM 659 million in FY2015 to RM 809 million in FY2016. This is the result of marketing team effort during the year to increase our customer base and also higher sales to existing customer by offering high quality product.

### Gross Profit:

GCB recorded gross profit of RM 92 million for FY2016, which is a decline trend as compared to RM 160 million in previous financial year. In terms of year on year comparison, the margin improved by 100% for FY2015 and decreased by 42.5% for FY2016. Margin for the year was deflated by weakening of Ringgit Malaysia against United State Dollar, as the exchange rate ended at RM 4.486 per US Dollar as at

# MANAGEMENT DISCUSSION AND ANALYSIS

31 December 2016, whereas fluctuation during the year was RM 0.1925 as compared to RM 4.2935 as at 31 December 2015. During 2015, the fluctuation was significantly higher, at RM 0.7970, when comparing to RM 3.4965 at the beginning of the year.

For our local subsidiary, purchase of cocoa bean is being financed by US Dollar loan but the stock is recorded at Ringgit Malaysia. As the currency fluctuates, our outstanding loan was being marked to market at RM 4.486 whereas inventory is still recorded at historical cost. Hence, we will suffer foreign currency loss when US Dollar appreciates. However, this loss will be recovered when the goods are sold in the future, which is also denominated in US Dollar and this debtor balance will also be marked to market as at month end. Foreign currency differences arise from loan and debtor balance could be offset, but due to timing difference in purchase and sales, we will still suffer the impact in our income statement. Hence, with lower currency fluctuation during the year, our gross margin is thinner but at the same time we suffer less foreign currency loss.

## Profit Before Taxation:

Profit Before Taxation of the Group improved from RM 36 million in FY2015 to RM 52 million in FY2016, an increase of 44.4% over the year. The improvement was due to many contributing factors which are:

- RM7million gain from disposal of significant amount of shares in non-profit making subsidiaries
- Reduction in foreign currency loss by approximately 86.6%, from RM 64.7million in FY2015 to RM 8.4 million in FY2016, as the fluctuation in United State Dollar ("USD") was less significant in FY 2016 as compared to FY2015

## RISK AND STRATEGIES

### Competition Risk:

The Group's business is very competitive and faces stiff competition from other cocoa bean grinders and producer of cocoa-derived food ingredients. Our competitors may have greater financial or other resources in the cocoa ingredients business than our Group as most of them are consolidating and having advantage of stream of business covering from cocoa bean trading till chocolate manufacturing. Hence, GCB is constantly looking for opportunities to expand their market shares at both cocoa origin and customer base countries.

### Cocoa Bean Price Fluctuation Risk:

The cost of cocoa beans is the main raw material costs for our industry. As cocoa bean is a commodity, it may subject to significant fluctuation in prices. Fluctuation in cocoa bean prices and cocoa ingredients may be attributable to supply and demand conditions as well as market speculation. The Group generally protects itself against such movements in cocoa bean prices by hedging forward contracts of cocoa products.

### Foreign Currency Fluctuation Risk:

Our Group's functional and reporting currency is Ringgit Malaysia. In FY2016, more than 95% of our sales and purchases were denominated in currencies other than Ringgit Malaysia. To the extent that the sales and purchases of our Group are denominated in currencies other than Ringgit Malaysia, our Group will have foreign currency exposure, which we manage by attempting to match our purchases of imported raw materials with our export sales to the extent possible.

However, fluctuation in foreign currencies against Ringgit Malaysia due to time lag between import and export could have a material adverse effect on our Group's financial results. Most of the loans taken by our Group are also denominated in USD. If the exchange rate fluctuates unfavorably, our net asset value and profitability may be negatively affected.

## PROSPECT AND PLAN

Over the years, substantial effort has been done by product development team in improving product quality and production efficiency. By introducing higher quality product, it helped to increase our customer base and attract more sales from existing customers.

GCB expect world economy and business environment to remain challenging but we are optimistic that our market share will improve as we continue to strengthen our position as leading cocoa processor in the world. We are constantly looking for opportunities in the industry to expand our business worldwide, especially in the cocoa origin market.



# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

The Group uphold the importance of being a responsible corporate citizen and hence, while commercial success is the core of our business, our policy remains centered on addressing and balancing the interest of shareholders, workforce, the community and also future generations.

Therefore, GCB's corporate social responsibility ("CSR") activities are largely in line with Bursa Malaysia Securities Berhad's ("Bursa Securities") CSR framework, which are focused on four main key areas as stated below.

## **The Workplace**

The Group adopts a corporate philosophy that values employees and emphasizes the development of human capital. They are the foundation stone upon which our success as a business entity is built upon. Their physical well-being and skillset development are of utmost importance to us.

In light of showing our utmost appreciation for the management and employees' contribution throughout the year, we have organized annual dinner for them to meet and socialize outside workplace. Long service employees were awarded with a token of appreciation as a recognition for their loyalty and dedication.

It is also our Group practice that sporting events such as badminton tournament is being held annually to promote physical well-being and close relationship between employees.

In terms of workplace safety, GCB constantly monitors operation within our facilities to ensure that safety standard are adhered to at all times. On top of that, fire and safety drills are held on a regular basis to ensure that our employees are prepared for any eventuality. All employees are also being trained annually on Good Manufacturing Practice - especially on cleanliness and personal hygiene.

Lastly, as the Group's success is built upon having staff that are well-trained and motivated, our Human Resource Department constantly undertakes programs to provide continuous training and equal career advancement opportunities. This help in upgrading the skillsets of our workers and also improving day-to-day operations, achieving better performance.

## **The Marketplace**

GCB is well aware of the need to have transparent and open channels of communication in our day-to-day operations. This is essential if the Group is to build a long-term and sustainable relationship with the market. Over the years, we have adopted various strategies and best practices to ensure that what we done as a commercial entity can be accepted by the market.

GCB constantly updates the marketplace on the Group's corporate updates and actions through Bursa Securities announcements, company websites together with press releases. The Group always makes sure that our stakeholders are kept informed from time to time on the Group's latest development.

We also participate in various career fairs, in which provides us to large pools of qualified candidates. This will indeed facilitate with our long-term growth plan while enhancing our brand profile within the marketplace.

# STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

## **The Environment**

The Group's environmental management approach is to sustain a greener earth. The Group always promote environmental friendly working environment. Employees are also being reminded on the importance of protecting environment by managing wastes effectively.

The Group's initiatives include the use of recycling bins throughout our factory premises to make it easier for our employees to dispose of recyclable items. We also monitor our energy usage and seek methods to minimize production wastage through the use of energy-efficient lighting and waste water treatment plant.

## **The Community**

GCB has established a reputation for contributing to the society in which we operate in. The Group's management and employees have, over the years, donated time, skills and money to various initiatives that have helped make lives easier for those less fortunate than us.

During the year, one such initiative was the donation of rice we made at Labour Day Carnival to Ministry of Human Resources and City Council of Pasir Gudang, which allowed them to help needy families in the community. This contribution was in line with GCB's philosophy of contributing to the society.



# SUSTAINABILITY STATEMENT

Guan Chong Berhad is committed to establish sustainable practice across our business operations. Our sustainability footprint covers on three key areas below.

## 1. SOCIAL SUSTAINABILITY

The Group focuses on developing programs to facilitate the wellbeing of the employees:

- Social Recreation and Welfare Club (“SRWC”) routinely organize sports program to promote healthy workforce;
- The Group engage professional cleaning service provider to ensure hygienic working environment;
- Safety and health committee constantly review and improve workplace safety in all premises; and
- Regular training is provided to retain high potential and performing employees.

## 2. ENVIRONMENTAL SUSTAINABILITY

The Group pledge to safeguard our natural environment, putting our environmental objectives on equal standing with our primary business objectives by:

- Usage of waste water treatment plant to prevent and minimize damage to natural environment;
- Promote the idea of reduce, reuse & recycle and practice recycling cartons and paper in all factory premises to avoid wastage;
- Ensures that the level of pollutants released into the environment is maintained at minimal level in all factory premises;
- Improve energy saving through replacing existing light with light-emitting diode (“LED”) light bulb in office and also production area;
- Employees are being trained annually on Good Manufacturing Practice – especially on maintaining cleanliness and personal hygiene, reducing pollutions to environment; and
- Complies with all environmental safety regulations.

## 3. GOVERNANCE SUSTAINABILITY

The credibility and integrity of the Group is greatly reflected by the proper execution of this practice. As such, the Group:

- Ensure it is regularly monitored and forms part of strategic planning;
- Meets all ISO regulation and satisfy customer audit requirement; and
- Enhance it through regular updates and trainings.

# STATEMENT OF CORPORATE GOVERNANCE

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 having duly considered the rationale for the said exception as explained in this Annual Report 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 2012 ("MCCG 2012") and other applicable laws, regulations, directives and guidelines.

This corporate governance statement ("Statement") sets out the adoption and practices of the principles and recommendations as set out in the MCCG 2012 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 2016 is summarized as follows:

## **PRINCIPAL 1 : ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGEMENT**

### **Principle 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.

Broadly, the Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:

- reviewing and adopting a strategic plan for the Group, including giving inputs to address the sustainability of the Group's business;
- overseeing the conduct of the Group's business, including the Group's and Management Team's performance, and evaluating whether or not its businesses are being properly managed;
- identify principal business risks faced by the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risks;
- ensuring that all candidates appointed to senior management positions are of sufficient caliber, including having in place a process to provide for the orderly succession of senior management personnel and members of the Board;
- giving inputs to the development and implementation of an investor relations programme and stakeholder communications policy; and
- reviewing the adequacy and integrity of the Group's internal control and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

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.

# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPAL 1 : ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGEMENT (CONT'D)

### 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.

### Code of Ethics for Directors and Code of Conduct

#### Board Conduct

The Board recognizes the importance of establishing a single source of reference for Board activities through a Board Charter as recommended by the MCCG 2012. As such, the Board has adopted a Board Charter to clearly delineate the roles of the Board, Board Committees and Management in order to provide a structured guidance for Directors and Management regarding their responsibilities of the Board, its Committees and Management, including the requirements of Directors in carrying out their stewardship role and in discharging their duties towards the Group as well as boardroom activities. The salient features of the Board Charter are also accessible by the public through the Company website [www.guanchong.com](http://www.guanchong.com).

#### Conflict of Interest and Related Party Transactions

To assure accountability and prevent conflict of interest in relation to issues that come before the Board, Directors are reminded by the Company Secretary of their statutory duties and responsibilities and are provided with updates on any changes thereon.

The Directors further acknowledge that they are also required to abstain from deliberation and voting on relevant resolutions in which they have an interest at the Board or any general meeting convened. In the event a corporate proposal is required to be approved by shareholders, the interested Directors will abstain from voting in respect of their shareholdings and will further undertake to ensure that persons connected to them will similarly abstain from voting on the resolutions.



# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPAL 1 : ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGEMENT (CONT'D)

### Trading on Insider Information

The Directors and employees of the Group are prohibited from trading in securities or any other kind of property based on price sensitive information and knowledge which has not been publicly announced.

Directors are also prompted not to deal in the Company's shares at any point when price sensitive information is shared with them, occasionally in the form of Board papers.

### Code of Ethics and Code of Conduct

Apart from the above, the Board recognizes the importance of establishing a Code of Ethics and Code of Conduct (collectively referred to as the "Code") as recommended by the MCCG 2012. As such, the Board has formalized such Code which aims to instill, internalize and uphold the value of uncompromising integrity in the behavior and conduct of the Board of Directors, Management, employees and all stakeholders of the Company.

### 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.

### 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. Prior to the Board and the Board Committees meetings, a formal and structured agenda, together with a set of Board and Board Committees papers, are forwarded to all Directors at least seven (7) days prior to the Board and Board Committees meetings, to enable the Board to make decisions and for Directors to be prepared to deal with matters arising from such meetings. The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by Management.

Presentations to the Board and the Board Committees are prepared and delivered in a manner that ensures a clear and adequate understanding of the subject matter. In addition, reading materials on the subject matter are prepared and circulated prior to each meeting to assist Directors in having an understanding of the subject matter. The Management Team and external advisers are invited to attend Board and Board Committees meetings, as the case may be, to provide additional insights and professional views, advice and explanations on specific items on the meeting agenda.

The Company Secretary of the Company is competent and qualified to act as company secretary under Section 235 of the Companies Act 2016. The Board is satisfied with the performance and support rendered by the Company Secretary to the Board in the discharge of her functions. All Directors have unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The Company Secretary, advises the Board on any updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and their impact and implication to the Company and Directors in carrying out their fiduciary duties and responsibilities.

The Company Secretary organizes and attends all Board and Board Committees meetings and ensures meetings are properly convened; accurate and proper records are maintained accordingly at the Registered Office of the Company, and produced for inspection, if required. The removal of the Company Secretary is a matter for the Board, as a whole to decide.



# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 2 : STRENGTHEN THE COMPOSITION OF THE BOARD

### 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 11 of this Annual Report.

### Nomination Committee – Selection and Assessment of Directors

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 chaired by the Senior Independent Non-Executive Director, comprises wholly of Non-Executive Directors, with a majority of whom are independent. The members of the Nomination Committee are:

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

The Nomination Committee operates under its terms of reference and had one (1) meeting during the financial year ended 31 December 2016. This meeting was attended by all members.

The Board through the Nomination Committee's annual appraisal, believes that the current composition of the Board brings the requisite mix of skills and core competencies required for the Board to discharge its duties effectively. Furthermore, the Board continuously reviews its size and composition with particular consideration on its impact on the effective functioning of the Board.

The Board appoints its members through a formal selection process. This process has been reviewed, approved and adopted by the Board. New candidates will be considered and evaluated by the Nomination Committee. The Nomination Committee will then recommend the candidates to be approved and appointed by the Board. The Company Secretary will ensure that all appointments are properly made, that all necessary information is obtained, as well as legal and regulatory obligation are met.

In accordance with the Company's 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 Articles also provide 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.

# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 2 : STRENGTHEN THE COMPOSITION OF THE BOARD (CONT'D)

### Nomination Committee – Selection and Assessment of Directors (Cont'd)

The Nomination Committee is tasked to review succession plans and boardroom diversity and to develop criteria for the assessment of the Board, Board Committees and individual Directors, including where appropriate, criteria on assessing the independence of candidates' appointment as Independent Non-Executive Directors and to assess the contribution and performance of members of the Board. The Board recognises that gender diversity as encouraged by Bursa Securities, is critical to a well-functioning Board and an essential measure of good governance. However, the appointment of a new Board member shall not be guided solely by gender but rather the skills-set, experience and knowledge of the candidate. Currently, the Company does not have a female member of the Board and will evaluate and assess the possibility of appointing any female member to the Board.

In respect of the assessment for the financial year ended 31 December 2016, the Board, through the Nomination Committee assessed and was satisfied that the Board and Board Committees have discharged their duties and responsibilities effectively. The Board was also satisfied that the Board composition in terms of size, the balance between Executive Directors, Non-Executive and Independent Directors and mix of skills was adequate.

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.

The Nomination Committee has accessed 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.

### Remuneration Committee – Directors' Remuneration

The Remuneration Committee was established on 26 April 2005 and is primarily responsible for the development and review of the remuneration policy and packages for the Board members. The Remuneration Committee comprises wholly of Non-Executive Directors. The members of the Remuneration Committee are as follows:

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

The Remuneration Committee had one (1) meeting during the financial year ended 31 December 2016. This meeting was attended by all members.

The remuneration policy aims to attract and retain Directors necessary for proper governance and hence success of the Group. The Remuneration Committee is responsible for recommending the remuneration packages of Executive Directors to the Board. None of the Executive Directors participated in any way in determining their individual remuneration. The Board is of the view that the current remuneration level suffices to attract, retain and motivate qualified Directors to serve on the Board.

The Board as a whole recommends the remuneration of Non- Executive Directors in accordance with the fiduciary duties, experience, level of responsibilities undertaken and time commitments expected of Non-Executive Directors and Board Committee members with individual Directors abstaining from decision in respect of their individual remuneration. The Board, where appropriate, recommends payment of fees to Directors for approval by shareholders at the Company's AGM.

# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 2 : STRENGTHEN THE COMPOSITION OF THE BOARD (CONT'D)

### Directors' Remuneration

The details of Directors' remuneration payable to the Directors of the Company for the financial year ended 31 December 2016, by category and in successive bands of RM50,000 are as follows:

	Executive Directors RM	Non-Executive Directors# RM	Total RM
Fees	450,000	117,000	567,000
Salaries & Allowances	2,709,779	9,000	2,718,779
Bonuses	3,080,878	19,500	3,100,378
EPF & SOCSO	204,737	-	204,737
Share options granted under ESOS	-	-	-
Benefits-in-kind	47,202	-	47,202

	Number of Directors		Total
	Executive Directors	Non-Executive Directors#	
RM1 - RM50,000	-	2	2
RM50,001 - RM100,000	-	1	1
RM1,150,001 – RM1,200,000	1	-	1
RM1,950,001 – RM2,000,000	1	-	1
RM3,350,001 – RM3,400,000	1	-	1

In respect of the non-disclosure of detailed remuneration of each director, the Board views that the transparency in respect of the Directors' remuneration has been appropriately dealt with by the 'band disclosure' presented in this Statement.

## PRINCIPLE 3 : REINFORCE INDEPENDENCE OF THE BOARD

### Independence of the Board

The responsibilities of the Chairman and Chief Executive Officer are clearly divided in accordance with the requirements of the MCCG 2012 to ensure that there is a balance of power and authority. The Chairman, a Non-Independent Non-Executive Director is primarily responsible for ensuring the effective conduct of the Board. Executive management led by the Managing Director/Chief Executive Officer who is responsible for the day to day management of the business as well as the implementation of the Board policies, decisions and operational effectiveness.

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.

Having a Non-Independent Chairman, the two Independent Directors have not formed a majority on the Board of Directors. However, the Board continues with the view that although with the representative of major shareholder on the Board, its existing two (2) Independent Non-Executive Directors, with their extensive knowledge and experience would be able to represent the investment of the public and the minority shareholders. They are independent of Management and free from any undue influence from interested parties which could materially interfere with the exercise of their independent judgment. They play a significant role in bringing impartiality and scrutiny to Board deliberations and decision making, and also serve to stimulate and challenge the Management in an objective manner.

# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 3 : REINFORCE INDEPENDENCE OF THE BOARD (CONT'D)

### Independence of the Board (Cont'd)

The MCCG 2012 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. 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.

### Tenure of Independent Director

YBhg Datuk Tay Puay Chuan was appointed as Independent Director since 8 January 2005 and resumed the role as Senior Independent Director of the Company. Pursuant to Recommendation 3.2 of the MCCG 2012, YBhg Datuk Tay Puay Chuan would have served as Independent Director for a period of more than nine (9) years by 30 May 2017, the scheduled date for the 2017 AGM.

Tan Ah Lai was appointed as Independent Director since 26 October 2007. Pursuant to Recommendation 3.2 of the MCCG 2012, Tan Ah Lai would have served as Independent Director for a period of more than nine (9) years by 30 May 2017, the scheduled date for the 2017 AGM.

Pursuant to Recommendation 3.3 of the MCCG 2012 and notwithstanding their long tenure in office; the Board is unanimous in its opinion that YBhg Datuk Tay Puay Chuan's and Tan Ah Lai's independence has not been compromised or impaired in any way after having noted the following considerations during the review and assessment of their independence:

- They continue to fulfill the criteria and definition of an Independent Director as set out under Paragraph 1.01 of Listing Requirements;
- During their tenure in office, they have not developed, established or maintained any significant relationship which would impair their independence as Independent Directors with the Executive Directors and major shareholders other than normal engagements and interactions on a professional level consistent and expected of them to carry out their duties as Independent Non-Executive Directors and Chairman or member of the Board's Committees;
- During their tenure in office, they had never transacted or entered into any transactions with, nor provided any services to the Company and any of its subsidiaries, within the scope and meaning as set forth under Paragraph 5 of Practice Note 13 of Listing Requirements;
- They are currently not sitting on the board of any other public and/or private companies having the same nature of business as that of the Group; and
- During their tenure in office as Independent Non-Executive Directors in the Company, they had not been offered or granted any options by the Company. Other than Director's fees and allowances paid which have been an industry norm and within acceptable market rates, duly disclosed in this Annual Report, no other incentives or benefits of whatsoever nature had been paid to them by the Company.

Accordingly the Board strongly recommends retaining YBhg Datuk Tay Puay Chuan and Tan Ah Lai as Independent Non-Executive Directors and will be tabling an Ordinary Resolution to shareholders at the 2017 AGM for the said purpose.

# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 4 : FOSTER COMMITMENT OF DIRECTORS

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 2016. 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 Statement on Corporate Social Responsibility, 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.

All pertinent issues discussed at Board meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretary by way of minutes of meetings. 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.

### 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 2016, all Directors have attended relevant courses and training programmes to enhance their knowledge to effectively discharge their duties and obligations.

# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 4 : FOSTER COMMITMENT OF DIRECTORS (CONT'D)

### Directors' Training (Cont'd)

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

Name of Director	Courses/Training Programmes Attended
YBhg Dato Dr Mohamad Musa bin Md Jamil	Highlights of The Companies Act 2016 - Changes & Implications
Tay Hoe Lian	Lean Manufacturing in Some Malaysia Companies Perception of Reality / 8 Roles of Effective CEOs Asean Economic Community (AEC) & TransPacific Partnership Agreement (TPPA)
Tay How Sik @ Tay How Sick	The Director's Role in Protecting The Company Against Corruption
Hia Cheng	Role Analysis Program
Tan Ah Lai	National Tax Conference 2016 Impact of The New Companies Act 2016 on Directors & Shareholders 2017 Budget Seminar Highlights of The Companies Act 2016 - Changes & Implications
YBhg Datuk Tay Puay Chuan	Malaysian Companies Act With Comparison Between Companies Act 1965 and Companies Act 2016

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.

## PRINCIPLE 5 : 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, quarterly and half yearly 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 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 1965 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.



# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 5 : UPHOLD INTEGRITY IN FINANCIAL REPORTING BY COMPANY (CONT'D)

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.

To assist in the discharge of its duties on financial reporting, the Board has established an Audit Committee on 10 January 2005. The composition of the Audit Committee, including its roles and responsibilities are set out in this Annual Report. One of the key responsibilities of the Audit Committee is to ensure that the financial statements of the Group and Company comply with applicable financial reporting standards in Malaysia. Such financial statements comprise the quarterly financial report announced to Bursa Securities and the annual statutory financial statements.

The Board's obligation to establish formal and transparent arrangements in considering how it should apply financial reporting and internal controls, and maintaining an appropriate relationship with the Group's external auditors is met through the Audit Committee.

The Audit Committee discusses with the external auditors the nature and scope of the audit and reporting obligations before audit commences. The Audit Committee ensures that the Management provides timely response on any material queries raised by the external auditors, in respect of the accounting records, financial accounts or system of controls. The Audit Committee is empowered by the Board to review any matters concerning the appointment and re-appointment, resignations or dismissals of external auditors and review and evaluate factors relating to the independence of the external auditors. The Audit Committee works closely with the external auditors in establishing procedures in assessing the sustainability and independence of the external auditors.

## PRINCIPLE 6 : RECOGNISE AND MANAGE RISKS OF THE GROUP

The Board recognizes 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 Board is fully aware of the importance of the internal audit function and has outsourced this function to an independent consulting service provider to provide an independent appraisal over the system of internal control of the Group to the Audit Committee.

The internal audit adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the business unit of the Group. Scheduled internal audits are carried out by the internal auditors based on the approved internal audit plan. The internal auditors provide quarterly reports to the Audit Committee, reporting on the outcome of the audits conducted which highlight the effectiveness of the system of internal control and significant risks. The Audit Committee reviews and evaluates the key concerns and issues raised by the internal auditors and ensures that appropriate and prompt remedial action is taken by the Management.

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 37 to 41 of this Annual Report.



# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 7 : 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.

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 <http://www.bursamalaysia.com>.

In addition, the Company's website at [www.guanchong.com](http://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.

## PRINCIPLE 8 : STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHREHOLDERS

The Board believes that they are not only accountable to shareholders but also responsible for managing a successful and productive relationship with the Company's stakeholders.

### Annual Report and shareholder participation at 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, which contents are continuously enhanced to take into account the developments, amongst others, in corporate governance.

The Company's AGM provides a vital platform for both private and institutional shareholders to share viewpoints and acquire information on issues relevant to the Group. Shareholders are encouraged to attend and participate at the AGM by raising questions on the resolutions being proposed or on the Group's business operations in general. The Notice of the AGM and related documents are issued to the shareholders at least twenty-one (21) days before the meeting. Shareholders who are unable to attend are allowed to appoint proxies. Members of the Board, the external auditors and where applicable, other advisers of the Company are present to answer queries at the AGM as well as to discuss with shareholders and invited attendees and members of the press. Shareholders and the public can convey their concerns and queries to the Company's Senior Independent Non-Executive Director.

### Voting by Poll

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 to be tabled at the forthcoming Annual General Meeting shall be voted by poll. The Chairman of the forthcoming Annual General Meeting of the Company shall notify the shareholders of the procedures for the poll and declare the number of votes received, both for and against each separate resolution where appropriate. The outcome of the AGM is announced to Bursa Securities on the same meeting day.



# STATEMENT OF CORPORATE GOVERNANCE

## PRINCIPLE 8 : STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHREHOLDERS (CONT'D)

### Communication and engagement with shareholders

The Company recognizes the importance of being transparent and accountable to its stakeholders and, as such, maintains an active and constructive communication policy that enables the Board and Management to communicate effectively with investors, financial community and the public generally.

The various channels of communications are through meetings with institutional shareholders and investment communities, quarterly announcements on financial results to Bursa Securities, relevant announcements and circulars, when necessary, the annual and extraordinary general meetings and through the Company's corporate website at [www.guanchong.com](http://www.guanchong.com), from which shareholders and prospective investors can access corporate information, annual reports, press releases, financial information, company announcements and share prices of the Company.

### COMPLIANCE STATEMENT

The Board is pleased to report that this Statement provides the corporate governance practices of the Company with reference to the MCCG 2012. The Board considers and is satisfied that the Company has fulfilled its obligations under the broad Principles as set out in the MCCG 2012. However, the Board has reserved several of the Recommendations and their Commentaries and has rationalized and provided justifications for the deviations in this Statement. 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 29 March 2017.

# 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

### Objectives

The primary objective of the Audit Committee is to assist the Board in fulfilling their responsibilities relating to accounting and reporting practices of the Group. In addition, the Audit Committee will:-

- oversee and appraise the quality of the audit conducted by the Company's external auditors and where applicable, the internal auditors in order to strengthen the confidence of the public in the Group's reported results;
- maintain, by scheduling regular meetings, open lines of communication amongst the Board, the external auditors and where applicable the internal auditors, to exchange view and information as well as to confirm their respective authority and responsibilities;
- provide emphasis on the internal audit function by increasing the objectivity and independence of the internal audit personnel and provide a forum for discussion that is independent of management;
- review related party transactions entered into by the Company and the Group to ensure that such transactions are undertaken on the Group's normal commercial terms and that the internal control procedures with regards to such transactions are sufficient;
- provide assistance to the Board in fulfilling its fiduciary responsibilities relating to the Company's administrative, operating and accounting controls; and
- act upon the Board's request to investigate and report on any issues or concerns on the management of the Group.

### Composition

The Audit Committee shall be appointed by the Board from among their members and composed no fewer than three (3) members. All the Audit Committee members must be Non-Executive Directors of which a majority shall be Independent Directors.

At least one (1) Member of the Audit Committee:-

- must be a Member of the Malaysian Institute of Accountants (MIA); or
- if he is not a Member of MIA, he must have at least three (3) years' working experience and :-
  - he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
  - he must be a Member of one of the Associations of Accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
- he must have
  - a degree/masters/doctorate in accounting or finance and at least three (3) years' post qualification experience in accounting or finance; or
  - at least seven (7) years' experience being a chief financial officer of a corporation or having the function primarily responsible for the management of the financial affairs of a corporation.



# AUDIT COMMITTEE REPORT

## TERMS OF REFERENCE (CONT'D)

### Composition (Cont'd)

The Members of the Audit Committee shall elect a Chairman from among their number who shall be an Independent Director.

In the event that if a Member of the Audit Committee vacates office resulting the total number reduced to below three (3), the Board shall, within three (3) months of that event, appoint a new Member to make up the minimum number of three (3).

### Meetings

The Audit Committee will meet at least once a quarter and such additional meetings as the Chairman shall decide in order to fulfill its duties. In addition, the Chairman may call a meeting if a request is made by any Committee member, the Company's Managing Director/Chief Executive Officer, the external auditors or the internal auditors where applicable. However, the Audit Committee should meet with the external auditors without the presence of the executive directors, at least twice a year. The Chairman may appoint a secretary responsible for keeping the minutes of meetings of the Audit Committee, and circulating them to Audit Committee members and to other members of the Board.

A quorum for a meeting shall be two (2) members with the majority of the members present shall be Independent Directors. The Board must prepare an Audit Committee Report at the end of the financial year in the Annual Report of the Company which summarises the Audit Committee's activities during the year and the related significant findings noted.

### Authority

The Audit Committee is authorised to investigate any activity of the Company within its Terms and Reference and all employees shall be directed to co-operate with any request made by the Audit Committee. The Audit Committee shall have unrestricted access to any information pertaining to the Company and have direct communication channels with the external and internal auditors, when applicable and to the senior management of the Group. The Audit Committee shall be empowered to retain persons or experts having special competence as necessary to assist the Audit Committee in fulfilling its responsibilities.

### Duties and Responsibilities

The duties and responsibilities of the Audit Committee shall be as follows:-

- to consider and recommend the appointment or re-appointment of the external auditors, the audit fees and questions of resignation or dismissal;
- to oversee all matters pertaining to audit including the review of the audit scope and audit plan based on the external auditors' presentation of audit strategy and plan; and audit report with the external auditors;
- to review the financial statements of the Company/Group, and to discuss problems and reservations arising from the interim and final results, and any matters that the external auditors may wish to discuss (in the absence of the management where necessary);
- to review the unaudited financial results announcements before recommending them for Board's approval.
- to convene meetings with the external auditors, the internal auditors or both excluding the attendance of other directors and employees of the Group, whenever deemed necessary;

# AUDIT COMMITTEE REPORT

## TERMS OF REFERENCE (CONT'D)

### Duties and Responsibilities (Cont'd)

- to develop and review for recommendation to the Board, the Company's policy in relation to the provision of non-audit services by the external auditors and/or its network firms, which takes into consideration:
  - whether the skills and experience of the audit firm make it a suitable service provider for non-audit services;
  - whether there are safeguards to eliminate or reduce to an acceptable level any threat to the objectivity or independence of the external auditors in the conduct of external audit resulting from non-audit services provided by the external auditors; and
  - the nature of the non-audit services and the fee level or threshold permitted in relation to the audit fees payable to the external auditors and/or its network firms for each financial year;
- to review the non-audit services provided by the external auditors and/or its network firms to the Group for the financial year, including the nature of the non-audit services, fee level or threshold of the non-audit services, individually and in aggregate, relative to the external audit fees and safeguards deployed to eliminate or reduce the threat to objectivity and independence in the conduct of the external audit resulting from the non-audit services provided;
- in relation to the internal audit function :
  - to review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its works;
  - to review the internal audit programme, results of the internal audit process and implementation of the recommendations of the internal audit function through follow up audit reports as to ensure that appropriate action is taken on these recommendations;
  - to suggest on additional improvement opportunities in the areas of internal control, systems and efficiency improvement;
  - to review the appointment or re-appointment of the internal auditors, the audit fee and questions of resignation or dismissal;
  - to review and approve the risk management framework from time to time and any significant proposed changes to risk management policies and strategies; and
  - to review the Statement on Risk Management and Internal Control to be published in this Annual Report;
- to review any related parties transactions that may arise within the Company or the Group;
- to exercise its power and carry out its responsibility as may be required from time to time under the whistle-blowing policy as and when necessary;
- to ensure that the Group is in compliance with the regulations of the Companies Act 2016, Listing Requirements and other legislative and reporting requirements;
- to identify and direct any special project or investigate and to report on any issues or concerns in regards to the management of the Group; and
- to commission such investigations or reviews relevant to its role as it sees fit.

# AUDIT COMMITTEE REPORT

## SUMMARY OF ACTIVITIES

A total of five (5) Audit Committee meetings were held for the financial year ended 31 December 2016. 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 activities undertaken by the Audit Committee during the financial year included the following:

- reviewed the external auditors' scope of work and audit plans for the year. Prior to the audit, representatives from the external auditors, presented their audit strategy and plan;
- 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 Federation of Accountants and MIA;
- consideration and recommendation to the Board for approval of the audit fees payable to the external auditors;
- 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 2016;
- ensured that the Group is in compliance with the regulations of Companies Act 1965, the applicable approved accounting standards as per MASB, Listing Requirements and other legislative and reporting requirements;
- reviewed the recurrent related party transactions 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;
- reviewed the Statements of Corporate Governance, Audit Committee Report and the Statement on Risk Management and Internal Control and recommend their adoption to the Board, deliberated the disclosure requirements for corporate social responsibility and noted the management action plan; and
- reviewed the application of corporate governance principles and recommendations and the extent of the Group's compliance with the best practices set out under the MCCG 2012.

## 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 37 to 41 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

- **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.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## RISK MANAGEMENT FRAMEWORK (CONT'D)

- **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.

- **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.



# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTERNAL CONTROL SYSTEM (CONT'D)

### • Organisational Structure (Cont'd)

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 2016 was about RM48,000.

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.

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

- Prepare a detailed Internal Audit Plan in consultation with the senior management for submission to the Audit Committee for approval;
- Carry out all activities to conduct the audits in an effective, professional and timely manner;
- Discuss with the auditee upon completion of each audit for any significant control lapses and/or deficiencies noted from the reviews for their review and corrective actions; and
- 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.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTERNAL CONTROL SYSTEM (CONT'D)

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

The key elements of the Group's organisational structure are as follows: (Cont'd)

- **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 36 of this Annual Report contains further details on the activities undertaken by the Audit Committee in 2016.

- **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.

- **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.
- **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.

- **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.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## **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 2016. Their review was performed in accordance with the Recommended Practice Guide 5 (Revised 2015) issued by the Malaysian Institute of Accountants ("RPG 5").

RPG 5 (Revised) 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 29 March 2017.



# 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 Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 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 2016.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in business of investment holding and provision of management services to subsidiaries. The principal activities of the subsidiaries are set out in Note 11 to the financial statements.

## RESULTS

	<b>Group RM</b>	<b>Company RM</b>
Profit for the financial year	42,761,291	2,268,076
Profit attributable to:		
Owners of the parent	42,575,246	2,268,076
Non-controlling interests	186,045	-
Profit for the financial year	42,761,291	2,268,076

## DIVIDEND

The dividends paid, declared or proposed by the Company since the end of the previous financial year were as follows:

	<b>Company RM</b>
In respect of financial year ended 31 December 2016:	
First interim single tier dividend of 1.5 sen per ordinary share, paid on 4 January 2017	7,168,769

## RESERVES AND PROVISIONS

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

## ISSUE OF SHARES AND DEBENTURES

During the financial year, the Company increased its issued and paid-up capital by way of issuance of 1,644,163 ordinary shares pursuant to the exercise of Warrants 2011/2016. The newly issued shares rank pari passu in all respects with the existing ordinary shares of the Company. There were no other issues of shares during the financial year.

There were no issues of debentures during the financial year.

# DIRECTORS' REPORT

## TREASURY SHARES

As at 31 December 2016, the Company held 2,240,700 of its issued ordinary shares of RM0.25 each as treasury shares out of its total 480,158,452 ordinary shares. Such treasury shares are held at a carrying amount of RM5,194,748 and further details are disclosed in Note 18 to the financial statements.

## 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 since the date of the last report are:

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

## DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in ordinary shares and options over ordinary shares in the Company and of its related corporations during the financial year ended 31 December 2016 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 in Malaysia were as follows:

	<-----Number of ordinary shares of RM0.25 each----->			
	Balance as at 1.1.2016	Bought	Sold	Balance as at 31.12.2016
<b>Shares in the Company</b>				
<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 <sup>a</sup>	29,079,999	-	-	29,079,999
Tay Hoe Lian <sup>b</sup>	251,480,469	-	-	251,480,469
Tay How Sik @ Tay How Sick <sup>c</sup>	60,000	-	-	60,000
Hia Cheng <sup>d</sup>	9,631,799	-	-	9,631,799

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS (CONT'D)

	<-----Number of ordinary shares of RM0.25 each----->			
	Balance as at 1.1.2016	Bought	Sold	Balance as at 31.12.2016
<b>Shares in the ultimate holding company</b>				
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 <sup>e</sup>	2,375	-	-	2,375

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

The other Director holding office at the end of the financial year did not hold any interest in ordinary shares in the Company or ordinary shares, options over ordinary shares and debentures of its related corporations during the financial year.

	<-----Number of warrants----->			
	Balance as at 1.1.2016	Exercised	Expired	Balance as at 31.12.2016
<u>Indirect interests:</u>				
Dato Dr. Mohamad Musa Bin Md. Jamil <sup>a</sup>	6,187,500	(6,187,500)	-	-
Tay Hoe Lian <sup>b</sup>	46,815,012	(11,226,512)	(35,588,500)	-
Tay How Sik @ Tay How Sick <sup>c</sup>	11,250	11,250	-	-

<sup>a</sup> Deemed interest by virtue of his shareholding in Misi Galakan Sdn. Bhd..

<sup>b</sup> Deemed interest by virtue of his shareholding in Guan Chong Resources Sdn. Bhd. and his wife, Yap Kim Hong's shareholding in the Company.

<sup>c</sup> Deemed interest by virtue of his daughter, Tay Jing Ye's shareholding in the Company.

<sup>d</sup> Deemed interest by virtue of his wife, Wong Saow Lai's shareholding in the Company.

<sup>e</sup> Deemed interest by virtue of his wife, Yap Kim Hong's shareholding in Guan Chong Cocoa Resources Sdn. Bhd..

Other than as disclosed above, none of the directors in the office at the end of the financial year had any other interest in shares of the Company and its related corporation during the financial year.

## DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors have received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in the financial statements) 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, except for any benefits which may be deemed to have arisen by virtue of those transactions as disclosed in Note 36 to the financial statements.

There were no arrangements during and at the end of the financial year, 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' REPORT

## OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

### (I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, 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 allowance 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 amounts of the allowance 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

## 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, have expressed their willingness to continue in office.

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

.....  
Tay Hoe Lian  
Director

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

Johor Bahru  
29 March 2017

# STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 54 to 137 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 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 2016 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

In the opinion of the Directors, the information set out in Note 40 to the financial statements on page 138 has been compiled in accordance with the Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

On behalf of the Board,

.....  
Tay Hoe Lian  
Director

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

Johor Bahru  
29 March 2017

# 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 54 to 138 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 )  
29 March 2017 )

Before me:

# INDEPENDENT AUDITORS' REPORT

## Report on Audit of the Financial Statements

### Opinion

We have audited the financial statements of Guan Chong Bhd., which comprise statements of financial position as at 31 December 2016 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, including a summary of significant accounting policies, as set out on pages 54 to 137.

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 2016, and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

### Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ('ISAs'). 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 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, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

As at 31 December 2016, inventories of the Group of RM713,323,810 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 value.

Written down of inventories to their net realisable values is mainly based on management estimates, which has 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.



# INDEPENDENT AUDITORS' REPORT

## Key Audit Matters (Cont'd)

### 1) Carrying amount of inventories at lower of cost and net realisable value (Cont'd)

#### 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) Evaluated the net realisable values of key inventory items determined by management against the movements of cocoa prices;
- (iii) Analysed the inventories turnover period by comparing that to the assessment of management on the identification of slow moving and obsolete inventories; and
- (iv) Assessed the appropriateness of inventories written down and written back by verifying selling prices subsequent to the end of the reporting period.

### 2) Recoverability of trade receivables

As at 31 December 2016, trade receivables that had been past due but not impaired was RM38,969,965. The details of trade receivables have been disclosed in Note 14 to the financial statements.

Management recognises impairment losses on trade receivables based on specific known facts or circumstances or management judgement on customers' abilities to pay.

The determination of whether trade receivables are recoverable involves significant management judgement.

#### Audit response

Our procedures included the following:

- (i) Evaluated the credit process operated by management over the recoverability of trade receivables of the Group;
- (ii) Critically assessed recoverability of receivables that were past due but not impaired with reference to their historical bad debt expense, ageing profiles of the counter parties and past historical repayment trends; and
- (iii) Assessed cash receipts subsequent to the end of the reporting period for its effect in reducing amounts outstanding as at the end of the reporting period.

## 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.

# INDEPENDENT AUDITORS' REPORT

## Information Other than the Financial Statements and Auditors' Report Thereon (Cont'd)

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, 1965 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.

## 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 ISAs 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 ISAs, 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.



# INDEPENDENT AUDITORS' REPORT

## Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also (Cont'd):

- 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 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.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' report of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 11 to the financial statements, being financial statements that have been included in the consolidated financial statements
- (c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

# INDEPENDENT AUDITORS' REPORT

## Other Reporting Responsibilities

The supplementary information set out in Note 40 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ('MIA Guidance') and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## Other Matters

The financial statements of the Group and of the Company as at 31 December 2015 were audited by another firm of chartered accountants, whose report dated 8 April 2016, expressed an unqualified opinion on those statements.

The financial statements of the Group and of the Company as at 31 December 2015 were audited by another firm of chartered accountants, whose report dated 8 April 2016, expressed an unqualified opinion on those statements.

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**BDO**  
AF : 0206  
Chartered Accountants

**Lee Ken Wai**  
3185/07/17(J)  
Chartered Accountant

Johor Bahru  
29 March 2017

# STATEMENTS OF FINANCIAL POSITION

		Group		Company	
Note	2016 RM	2015 RM	2016 RM	2015 RM	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	7	374,337,909	437,943,439	–	–
Investment properties	8	25,845,679	26,563,468	–	–
Prepaid lease payments	9	12,500,663	14,307,654	–	–
Intangible assets	10	11,944,983	11,944,986	–	–
Investment in subsidiaries	11	–	–	52,051,203	65,551,203
Investment in associate	12	6,962,200	4,996,024	7,283,670	5,000,000
Trade and other receivables	14	–	–	92,385,287	57,190,239
		431,591,434	495,755,571	151,720,160	127,741,442
<b>Current assets</b>					
Inventories	13	713,323,810	776,334,454	–	–
Trade and other receivables	14	274,281,760	295,865,585	40,114,822	58,127,984
Derivative financial assets	15	11,200,141	12,839,635	–	–
Current tax assets		242,495	9,033,026	6,882	12,082
Cash and bank balances	16	62,645,883	28,610,034	1,125,903	29,693
		1,061,694,089	1,122,682,734	41,247,607	58,169,759
<b>TOTAL ASSETS</b>		<b>1,493,285,523</b>	<b>1,618,438,305</b>	<b>192,967,767</b>	<b>185,911,201</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	17	120,039,613	119,628,572	120,039,613	119,628,572
Share premium	19	1,792,138	–	1,792,138	–
Treasury shares	18	(5,194,748)	(5,194,748)	(5,194,748)	(5,194,748)
Reserves	19	307,596,730	261,995,967	33,947,756	38,848,449
		424,233,733	376,429,791	150,584,759	153,282,273
Non-controlling interests	11	–	430,851	–	–
<b>TOTAL EQUITY</b>		<b>424,233,733</b>	<b>376,860,642</b>	<b>150,584,759</b>	<b>153,282,273</b>



# STATEMENTS OF FINANCIAL POSITION

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	20	54,562,976	128,428,035	-	-
Deferred tax liabilities	22	20,337,410	18,491,780	-	-
Retirement benefits obligations	23	1,458,892	750,775	-	-
		76,359,278	147,670,590	-	-
<b>Current liabilities</b>					
Trade and other payables	24	301,421,436	379,504,441	42,383,008	32,628,928
Derivative financial liabilities	15	35,552,609	13,205,560	-	-
Borrowings	20	655,718,467	701,197,072	-	-
		992,692,512	1,093,907,073	42,383,008	32,628,928
<b>TOTAL LIABILITIES</b>		1,069,051,790	1,241,577,663	42,383,008	32,628,928
<b>TOTAL EQUITY AND LIABILITIES</b>		1,493,285,523	1,618,438,305	192,967,767	185,911,201

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

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Revenue	25	2,315,865,809	2,380,668,753	–	24,000
Cost of sales		(2,223,957,823)	(2,220,638,987)	–	–
Gross profit		91,907,986	160,029,766	–	24,000
Other income		60,844,705	43,852,464	7,062,885	22,872,303
Selling and distribution costs		(17,511,221)	(14,747,710)	–	–
Administrative expenses		(29,020,739)	(35,270,736)	(577,729)	(539,979)
Other expenses		(35,141,392)	(100,871,518)	(4,217,080)	–
Finance costs		(18,553,719)	(16,615,726)	–	–
Share of loss of associates		(317,494)	(3,976)	–	–
Profit before tax	26	52,208,126	36,372,564	2,268,076	22,356,324
Tax expense	27	(9,446,835)	(13,996,102)	–	–
Profit for the financial year		42,761,291	22,376,462	2,268,076	22,356,324
<b>Other comprehensive income</b>					
<b>Items that may be reclassified subsequently to profit or loss</b>					
- foreign currency translation	27(c)	10,442,982	33,079,738	–	–
<b>Items that will not be reclassified subsequently to profit or loss</b>					
- remeasurement of employee benefits liability, net of tax	27(c)	(248,696)	171,130	–	–
Total other comprehensive income, net of tax		10,194,286	33,250,868	–	–
Total comprehensive income		52,955,577	55,627,330	2,268,076	22,356,324

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Profit attributable to:					
-owners of the company		42,575,246	22,757,052	2,268,076	22,356,324
-non-controlling interests		186,045	(380,590)	-	-
		<hr/> 42,761,291	<hr/> 22,376,462	<hr/> 2,268,076	<hr/> 22,356,324
Total comprehensive income / (expenses) attributable to :					
- owners of the company		52,769,532	56,007,920	2,268,076	22,356,324
- non-controlling interests		186,045	(380,590)	-	-
		<hr/> 52,955,577	<hr/> 55,627,330	<hr/> 2,268,076	<hr/> 22,356,324
Earnings per ordinary share attributable to owners of the parent (sen):					
- Basic	28	8.91	4.78		
- Diluted	28	8.91	4.78		

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Group	Note	Distributable					Total equity RM
		Share capital RM	Treasury shares RM	Foreign exchange translation reserve RM	Retained earnings RM	Total RM	
Balance as at 1 January 2015		119,628,572	(5,194,748)	17,229,750	188,748,750	320,412,324	324,370,168
Profit/(loss) for the year		-	-	-	22,757,052	22,757,052	22,376,462
Other comprehensive Income/(loss) for the year:							
- foreign currency translation differences	27(c)	-	-	33,079,738	-	33,079,738	33,079,738
- remeasurement of post-employment benefit obligation, net of tax	27(c)	-	-	-	171,130	171,130	171,130
Total comprehensive income/(loss), net of tax		-	-	33,079,738	22,928,182	56,007,920	55,627,330
<b>Transactions with owners</b>							
Disposals of subsidiaries	35(c)	-	-	-	-	-	(3,006,356)
Changes in a subsidiary's ownership interest that do not result in loss of control		-	-	-	9,547	9,547	(130,500)
Total transactions with owners		-	-	-	9,547	9,547	(3,136,856)
Balance as at 31 December 2015		119,628,572	(5,194,748)	50,309,488	211,686,479	376,429,791	376,860,642

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Group	Note	Non-distributable				Distributable			Total equity
		Share capital	Share premium	Treasury shares	Foreign exchange translation reserve	Retained earnings	Total interests	Non-controlling interests	
		RM	RM	RM	RM	RM	RM	RM	RM
Balance as at 1 January 2016		119,628,572	-	(5,194,748)	50,309,488	211,686,479	376,429,791	430,851	376,860,642
Profit for the financial year		-	-	-	-	42,575,246	42,575,246	186,045	42,761,291
Other comprehensive income for the year:		-	-	-	10,442,982	-	10,442,982	-	10,442,982
- foreign currency translation differences	27(c)	-	-	-	10,442,982	-	10,442,982	-	10,442,982
- remeasurement of post-employment benefit obligation, net of tax	27(c)	-	-	-	-	(248,696)	(248,696)	-	(248,696)
Total comprehensive income, net of tax		-	-	-	10,442,982	42,326,550	52,769,532	186,045	52,955,577
<b>Transactions with owners</b>									
Issuance of ordinary shares pursuant to exercise of warrants	17	411,041	1,792,138	-	-	-	2,203,179	-	2,203,179
Disposals of subsidiaries	35(a)	-	-	-	-	-	-	(616,896)	(616,896)
Dividend paid	29	-	-	-	-	(7,168,769)	(7,168,769)	-	(7,168,769)
Total transactions with owners		411,041	1,792,138	-	-	(7,168,769)	(4,965,590)	(616,896)	(5,582,486)
Balance as at 31 December 2016		120,039,613	1,792,138	(5,194,748)	60,752,470	246,844,260	424,233,733	-	424,233,733

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

# STATEMENT OF CHANGES IN EQUITY

Company	Note	<-----Non-distributable----->			Distributable	Total RM
		Share capital RM	Share premium RM	Treasury shares RM	Retained earnings RM	
Balance as at 1 January 2015		119,628,572	-	(5,198,748)	16,492,125	130,925,949
Profit for the financial year		-	-	-	22,356,324	22,356,324
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income, net of tax		-	-	-	22,356,324	22,356,324
Balance as at 31 December 2015/ Balance as at 1 January 2016		119,628,572	-	(5,198,748)	38,848,449	153,282,273
Profit for the financial year		-	-	-	2,268,076	2,268,076
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income, net of tax		-	-	-	2,268,076	2,268,076
<b>Transactions with owners</b>						
Issuance of ordinary shares pursuant to exercise of warrants	17	411,041	1,792,138	-	-	2,203,179
Dividend paid	29	-	-	-	(7,168,769)	(7,168,769)
Total transactions with owners		411,041	1,792,138	-	(7,168,769)	(4,965,590)
Balance as at 31 December 2016		120,039,613	1,792,138	(5,198,748)	33,947,756	150,584,759

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

# STATEMENTS OF CASH FLOWS

		Group		Company	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before tax		52,208,126	36,372,564	2,268,076	22,356,324
Adjustments for:					
Amortisation of:					
- leasehold land	9	667,627	707,241	-	-
- warehouse	9	259,191	259,191	-	-
Bad debts written off		26,375	27,268	-	-
Deposit written off		-	220,364	-	-
Depreciation of:					
- property, plant and equipment	7	25,059,731	26,225,622	-	-
- investment properties	8	1,005,285	231,186	-	-
Impairment loss on trade and other receivables	14(h)	9,225,002	301,045	-	-
(Gain)/Loss on disposals of:					
- subsidiaries		(7,013,836)	(1,857,064)	950,750	(4,429,466)
- property, plant and equipment		36,391	19,947	-	-
Loss on re-measurement of remaining stakes in associate		-	-	3,266,330	-
Net fair value loss/(gain) on derivatives	15(d)	22,108,093	(1,542,440)	-	-
Increase in defined benefit obligation		293,841	171,130	-	-
Property, plant and equipment written off		-	16,228	-	-
Provision for cargo loss		-	1,961,171	-	-
Reversal of:					
- impairment loss on trade receivables	14(h)	-	(113,421)	-	-
- inventories write-down		-	(4,199)	-	-
- provision of cargo loss		(1,961,171)	-	-	-
- provision of rework		(285,849)	-	-	-
Share of loss of associate		317,494	3,976	-	-
Sundry receivable written off		-	1,674,468	-	-
Unrealised loss/(gain) on foreign exchange translations		12,738,479	(3,837,313)	(7,062,885)	(8,325,257)
Inventories written down	13(b)	1,774,180	13,994,806	-	-
Interest expense		18,486,312	16,615,726	-	-
Interest income		(1,163,500)	(510,131)	-	-
Operating profit/(loss) before changes in working capital		133,781,771	90,937,365	(577,729)	9,601,601
Inventories		58,723,455	(65,677,018)	-	-
Trade and other receivables		24,104,734	(58,661,181)	(15,119,001)	343,024,476
Trade and other payables		(71,146,478)	155,576,567	9,754,080	(340,277,393)
Cash generated from/(used in) operations carried forward		145,463,482	122,175,733	(5,942,650)	12,348,684

# STATEMENTS OF CASH FLOWS

	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Cash generated from/(used in) operations carried forward		145,463,482	122,175,733	(5,942,650)	12,348,684
Interest paid		(18,486,312)	(16,615,726)	-	-
Interest received		1,163,500	510,131	-	-
Tax paid		(2,899,140)	(12,783,032)	(6,800)	(12,000)
Tax refunded		2,934,017	86,485	12,000	12,000
Contributions paid for defined benefit obligations		(2,441)	-	-	-
<b>Net cash from/(used in) operating activities</b>		<b>128,173,106</b>	<b>93,373,591</b>	<b>(5,937,450)</b>	<b>12,348,684</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment in associate		-	(13,872)	-	(13,872)
Net cash out flow from the disposal of subsidiary	35	-	(135,634)	-	-
Proceeds from disposals of:					
- subsidiaries	35	10,100,460	-	11,999,250	-
- property, plant and equipment		206,708	102,953	-	-
Purchase of:					
- property, plant and equipment	7(b)	(5,056,965)	(6,478,060)	-	-
- investment property	8	-	(19,655,437)	-	-
Payment of sub-leases of warehouses	9	(123,738)	(123,738)	-	-
<b>Net cash from/(used in) investing activities</b>		<b>5,126,465</b>	<b>(26,303,788)</b>	<b>11,999,250</b>	<b>(13,872)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>					
Dividends paid	29	(7,168,769)	(1,715,000)	(7,168,769)	-
Drawdown of term loan		-	15,180,735	-	-
Advances from/(Repayments) to holding company		10,584,765	(12,320,000)	-	(12,320,000)
Net placement of fixed deposits pledged		(13,186,345)	59,988	-	-
Net movements in short-term borrowings		(75,744,621)	(29,038,312)	-	-
Proceeds from the issuance of ordinary shares pursuant to exercise of warrants		2,203,179	-	2,203,179	-
Repayment of:					
- hire purchase liabilities		(383,598)	(607,511)	-	-
- term loans		(29,750,989)	(33,855,163)	-	-
- bankers' acceptance		(338,000)	-	-	-
<b>Net cash used in financing activities</b>		<b>(113,784,378)</b>	<b>(62,295,263)</b>	<b>(4,965,590)</b>	<b>(12,320,000)</b>



# STATEMENTS OF CASH FLOWS

	Note	Group		Company	
		2016 RM	2015 RM	2016 RM	2015 RM
Net increase in cash and cash equivalents		19,515,193	4,774,540	1,096,210	14,812
Effects of exchange rate changes on cash and cash equivalents		2,187,969	(17,280,223)	–	–
Cash and cash equivalents at beginning of financial year		26,730,602	39,236,285	29,693	14,881
Cash and cash equivalents at end of financial year	16(d)	48,433,764	26,730,602	1,125,903	29,693

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



# NOTES TO THE FINANCIAL STATEMENTS

## 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 2016 comprise the Company and its subsidiaries. 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 29 March 2017.

## 2. PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and provision of management services to subsidiaries. The principal activities 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 54 to 137 have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRSs'), International Financial Reporting Standards ('IFRSs') and the provisions of the Companies Act, 1965 in Malaysia. However, Note 40 to the financial statements set out on page 138 has been prepared in accordance with Guidance on Special Matter No. 1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, as issued by the Malaysian Institute of Accountants ('MIA Guidance') and the directive of Bursa Malaysia Securities Berhad.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Basis of accounting

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 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

## 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 and joint ventures are eliminated against the investment to the extent of the Group's interest 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.

Non-controlling interests represents the equity in subsidiaries that are not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.2 Basis of consolidation (Cont'd)

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 139 *Financial Instruments: Recognition and Measurement* or, where applicable, the cost on initial recognition of an investment in associate or jointly venture.

### 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 139 are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 139. All other subsequent changes are recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.3 Business combinations (Cont'd)

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 acquiree 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. 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 interest 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.

### 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 asset 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 except for freehold land, leasehold land and building 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 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 and building	43 years to 60 years
Factory buildings and renovation	5 years to 60 years
Plant, machineries, tools and equipment	5% - 12.5%
Motor vehicles	16% - 20%
Furniture, fittings and office equipment	5% - 14%



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.4 Property, plant and equipment and depreciation (Cont'd)

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 and the revaluation surplus related to those assets, if any, is transferred directly to retained earnings.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.5 Leases and hire purchases (Cont'd)

#### (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.

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 are 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.6 Investment properties (Cont'd)

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 Investment

#### (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 Company's separate financial statements at cost. 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.

#### (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 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.7 Investment (Cont'd)

#### (b) Associates (Cont'd)

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.

### 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 interest 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.8 Intangible assets (Cont'd)

#### (a) Goodwill (Cont'd)

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.

### 4.9 Impairment of non-financial assets

The carrying amount of assets, except for financial assets (excluding investments in subsidiaries and associates), inventories and deferred tax 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 or intangible asset 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.9 Impairment of non-financial assets (Cont'd)

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 except for the impairment on a revalued asset where the impairment loss is recognised directly against the revaluation reserve to the extent of the surplus credited from the previous revaluation for the same asset with the excess of the impairment loss charged to profit or loss.

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 except for the reversal of an impairment loss on a revalued asset where the reversal of the impairment loss is treated as a revaluation increase and credited to the revaluation reserve account of the same asset. However, to the extent that an impairment loss in the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.

### 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, other costs incurred in bringing the inventories to their present location and condition. The 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 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

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement:

##### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial assets that are held for trading (i.e. financial assets acquired principally for the purpose of resale in the near term), derivatives (both, freestanding and embedded) and financial assets that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial assets classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial assets classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other income or other operating losses.

However, derivatives that is linked to and must be settled by delivery of unquoted equity instruments that do not have a quoted market price in an active market are recognised at cost.

##### (ii) Held-to-maturity investments

Financial assets classified as held-to-maturity comprise non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, financial assets classified as held-to-maturity are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as held-to-maturity are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.11 Financial instruments (Cont'd)

#### (a) Financial assets (Cont'd)

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement: (Cont'd)

#### (iii) Loans and receivables

Financial assets classified as loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, financial assets classified as loans and receivables are measured at amortised cost using the effective interest method. Gains or losses on financial assets classified as loans and receivables are recognised in profit or loss when the financial assets are derecognised or impaired, and through the amortisation process.

#### (iv) Available-for-sale financial assets

Financial assets classified as available-for-sale comprise non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Subsequent to initial recognition, financial assets classified as available-for-sale are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss whilst dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Cash and cash equivalents consists of cash on hand, balances, 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 and the Company in the management of their 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.

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised directly in other comprehensive income shall be recognised in profit or loss.

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 trade date accounting.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.11 Financial instruments (Cont'd)

#### (b) Financial liabilities

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. A financial liability is classified into the following two (2) categories after initial recognition for the purpose of subsequent measurement:

#### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, derivatives (both, freestanding and embedded) and financial liabilities that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial liabilities classified as at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial liabilities classified as at fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial liabilities classified as at fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other income or other operating losses.

#### (ii) Other financial liabilities

Financial liabilities classified as other financial liabilities comprise non-derivative financial liabilities that are neither held for trading nor initially designated as at fair value through profit or loss.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains or losses on other financial liabilities are recognised in profit or loss when the financial 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 expires. 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.

Any 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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.11 Financial instruments (Cont'd)

#### (b) Financial liabilities (Cont'd)

The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Corporate guarantees provided by the Company for no compensation, in relation to loans or payables of subsidiaries are initially measured at fair value and any resulting differences are recognised as contributions by the Company which form part of the cost of investment in subsidiaries.

#### (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 nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Transaction costs of an equity transaction 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.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at the end of each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amounts of the assets distributed and the carrying amount of the liability in profit or loss.

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. To the extent that the carrying amount of the treasury shares exceeds the share premium account, it shall be considered as a reduction of any other reserves as may be permitted by the Companies Act, 1965 in Malaysia.

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.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.12 Impairment of financial assets

The Group assesses whether there is any objective evidence that a financial asset is impaired at the end of each reporting period.

#### Loans and receivables

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments to determine whether there is objective evidence that an impairment loss on loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of loans and receivables is reduced through the use of an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and it objectively relates to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of impairment reversed is recognised in profit or loss.

### 4.13 Borrowing costs

All borrowing cost is recognised in profit or loss in the period in which they are incurred.

### 4.14 Income taxes

Income taxes include all domestic and foreign taxes on taxable profit. Income taxes also include other taxes, such as real property gains taxes payable on disposal of properties.

Taxes in the statement of profit or loss and other comprehensive income comprise current tax and deferred tax.

#### (a) Current tax

Current tax expenses are determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits and real property gains taxes payable on disposal of properties.

#### (b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.14 Income taxes (Cont'd)

#### (b) Deferred tax (Cont'd)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profits would be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset would be reduced accordingly. When it becomes probable that sufficient taxable profits would be available, such reductions would be reversed to the extent of the taxable profits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

- (i) the same taxable entity; or
- (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax would be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax would be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the announcement of tax rates and tax laws by the Government in the annual budgets which have the substantive effect of actual enactment by the end of the reporting period.

### 4.15 Provisions

Provisions are recognised 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.

If the effect of the time value of money is material, the amount of a provision would be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits would be required to settle the obligation, the provision would be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.16 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources would be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Group does not recognise a contingent liability but discloses its existence in the financial statements.

A contingent asset is a possible asset that arises from past events whose existence would be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date.

### 4.17 Employee benefits

#### (a) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are measured on an undiscounted and are expensed when employees have rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur and they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

#### (b) Defined contribution plans

The Company and its subsidiaries incorporated in Malaysia make contributions to a statutory provident fund and foreign subsidiaries make contributions to their respective countries' statutory pension schemes. The contributions are recognised as a liability after deducting any contribution already paid and as an expense in the period in which the employees render their services.

#### (c) Defined benefit plans

The Group operates an unfunded defined benefit plan for eligible employees of the Group.

The recognition and measurement of the defined benefits plan involve:

##### (i) Determining the deficit or surplus by:

- (a) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the Group of the benefit that employees have earned in return for their service in the current and prior periods;
- (b) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost; and
- (c) Deducting the fair value of any plan assets from the present value of the defined benefit obligation.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.17 Employee benefits (Cont'd)

- (c) Defined benefit plans (Cont'd)
  - (ii) Determining the amount of the net defined benefit liability as the amount of the deficit or surplus as determined above, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling; and
  - (iii) Determining amounts to be recognised in profit or loss, i.e. current service cost, any past service cost and gain or loss on settlement and net interest on the net defined benefit liability.

The Group determines the net defined benefit liability annually so that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

The Group recognises the net defined benefit liability in the statement of financial position.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

The Group uses the yield rate of high quality government or corporate bonds which have AA rating or higher to discount the post-employment benefit obligations. The currency and term of the government bonds (corporate bonds) are consistent with the currency and estimated term of the post-employment benefit obligations of the Group.

The re-measurement of the net defined obligation is recognised directly within equity. The re-measurement includes:

- (i) Actuarial gains and losses;
- (ii) Return on plan assets, excluding interest; and
- (iii) Any asset ceiling effects, excluding interest.

Services costs are recognised in profit or loss, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognised in profit or loss, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of contributions and benefit payments during the reporting period. Gains or losses arising from changes to scheme benefits or scheme curtailment are recognised immediately in profit or loss.

Settlement of defined benefit schemes are recognised in the period when the settlement occurs.

If the Group has an unconditional right to a refund during the life of the plan, it would recognise an asset measured as the amount of the surplus at the end of the reporting period that it has a right to receive a refund which would be the fair value of the plan assets less the present value of the defined benefits obligation, less any associated costs, such as taxes. If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, the Group would make no adjustment for the time value of money, even if the refund is realisable only at a future date.

If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the present value of future service cost to the entity at the end of each reporting period over the shorter of the expected life of the plan and the expected life of the entity. The Group would assume no change to the benefits provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless it is demonstrably committed at the end of the reporting period to make a reduction in the number of employees covered by the plan.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.18 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(b) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currency at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the reporting period are translated into functional currency at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items, which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

(c) Foreign operations

Financial statements of foreign operations are translated at end of the reporting period exchange rates with respect to their assets and liabilities, and at exchange rates at the dates of the transactions with respect to the statement of profit or loss and comprehensive income. All resulting translation differences are recognised as a separate component of equity.

In the consolidated financial statements, exchange differences arising from the translation of net investment in foreign operations are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on disposal.

Exchange differences arising on a monetary item that forms part of the net investment of the Company in a foreign operation shall be recognised in profit or loss in the separate financial statements of the Company or the foreign operation, as appropriate. In the consolidated financial statements, such exchange differences shall be recognised initially as a separate component of equity and recognised in profit or loss upon disposal of the net investment.

Goodwill and fair value adjustments to the assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the acquired entity and translated at the exchange rate ruling at the end of the reporting period.

### 4.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables, net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction would flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Group's activities as follows:

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.19 Revenue recognition (Cont'd)

(a) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group does not have continuing managerial involvement over the goods, which coincides with the delivery of goods and services and acceptance by customers.

(b) Management fee

Management fee from rendering of services is recognised when the services are rendered to the subsidiaries.

(c) Rental income

Rental income is accounted for on a straight line basis over the lease term of an ongoing lease. The aggregate cost of incentive provide to the lessee is recognised as reduction of rental income over the lease term on a straight line basis.

(d) Interest income

Interest income is recognised as it accrues, using the effective interest method.

### 4.20 Operating segments

Operating segments are defined as components of the Group that:

- (a) Engages in business activities from which it could earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- (b) Whose operating results are regularly reviewed by the chief operating decision maker of the Group in making decisions about resources to be allocated to the segment and assessing its performance; and
- (c) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is ten percent (10%) or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is ten percent (10%) or more of the greater, in absolute amount of:
  - (i) The combined reported profit of all operating segments that did not report a loss; and
  - (ii) The combined reported loss of all operating segments that reported a loss.
- (c) Its assets are ten percent (10%) or more of the combined assets of all operating segments.



# NOTES TO THE FINANCIAL STATEMENTS

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.20 Operating segments (Cont'd)

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

Total external revenue reported by operating segments shall constitute at least seventy five percent (75%) of the Group's revenue. Operating segments identified as reportable segments in the current financial year in accordance with the quantitative thresholds would result in a restatement of prior period segment data for comparative purposes.

### 4.21 Earnings per share

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

### 4.22 Fair value measurements

The fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

The Group measures the fair value of an asset or a liability by taking into account the characteristics of the asset or liability if market participants would take these characteristics into account when pricing the asset or liability. The Group has considered the following characteristics when determining fair value:

- (a) The condition and location of the asset; and
- (b) Restrictions, if any, on the sale or use of the asset.

The fair value measurement for a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of a financial or non-financial liability or an entity's own equity instrument assumes that:

- (a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and
- (b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. Adoption of MFRSs and Amendments to MFRSs

### 5.1 New MFRSs adopted during the financial year

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Company adopted the following Standards that are mandatory for annual financial periods beginning on or after 1 January 2016.

Title	Effective Date
MFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to MFRS 10, MFRS 12, MFRS 128 <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
Amendments to MFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to MFRS 101 <i>Disclosure Initiative</i>	1 January 2016
Amendments to MFRS 116 and MFRS 138 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to MFRS 116 and MFRS 141 <i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to MFRS 127 <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to MFRSs <i>Annual Improvements to MFRSs 2012 - 2014 Cycle</i>	1 January 2016

Adoption of the above Standards did not have any material effect on the financial performance or position of the Group and of the Company.

### 5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2017

The Standards that are issued but not yet effective up to the date of issuance of financial statements of the Group and of the Company are disclosed below. The Group and the Company intend to adopt these Standards, if applicable, when they become effective.

Title	Effective date
Amendments to MFRS 12 <i>Annual Improvements to MFRS Standards 2014 – 2016 Cycle</i>	1 January 2017
Amendments to MFRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS 9 as issued by IASB in July 2014)</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48
MFRS 16 <i>Leases</i>	1 January 2019
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associates or Joint Venture</i>	Deferred

The Group and the Company is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for future financial years.



# NOTES TO THE FINANCIAL STATEMENTS

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### 6.1 Changes in estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Directors are of the opinion that there are no significant changes in estimates at the end of the reporting period.

### 6.2 Critical judgements made in applying accounting policies

There are no critical judgments made by management in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

### 6.3 Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Adequacy of write down of inventories to net realisable value

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

Written down of inventories to their net realisable values is mainly based on management estimates, which has 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.

(b) Recoverability of trade receivables

Management recognises impairment losses on trade receivables based on specific known facts or circumstances or management judgement on customers' abilities to pay.

The determination of whether trade receivables are recoverable involves significant management judgement.



# NOTES TO THE FINANCIAL STATEMENTS

## 7. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM	Leasehold land and building RM	Factory buildings and renovation RM	Plant, machinery, tools and equipment RM	Motor vehicles RM	Furniture, fittings and office equipment RM	Capital work-in-progress RM	Total RM
<b>Cost</b>								
Balance as at 1 January 2016	20,281,491	31,905,332	149,198,055	374,518,039	15,252,442	16,039,489	6,205,855	613,400,703
Additions	-	-	215,484	1,418,858	9,862	113,186	3,396,030	5,153,420
Disposals	-	-	-	(478,600)	(787,430)	(8,070)	-	(1,274,100)
Disposals of subsidiaries (Note35)	-	(27,976,053)	(646,188)	(26,403,413)	(1,037,986)	(7,299,520)	(1,157,503)	(64,520,663)
Reclassification	-	-	4,897,861	-	-	-	(4,897,861)	-
Translation differences	-	-	5,593,597	9,013,289	306,879	194,068	(13,625)	15,094,208
Balance as at 31 December 2016	20,281,491	3,929,279	159,258,809	358,068,173	13,743,767	9,039,153	3,532,896	567,853,568
<b>Accumulated depreciation</b>								
Balance as at 1 January 2016	-	(2,474,339)	(21,440,331)	(132,853,598)	(9,620,022)	(6,526,336)	-	(172,914,626)
Charge for the financial year	-	(447,587)	(4,271,094)	(17,586,002)	(1,519,153)	(1,235,895)	-	(25,059,731)
Disposals	-	-	-	159,337	637,430	4,005	-	800,772
Disposals of subsidiaries (Note35)	-	2,192,858	473,135	4,449,452	497,500	2,558,005	-	10,170,950
Translation differences	-	-	(868,761)	(2,943,074)	(289,797)	(98,983)	-	(4,200,615)
Balance as at 31 December 2016	-	(729,068)	(26,107,051)	(148,773,885)	(10,294,042)	(5,299,204)	-	(191,203,250)
<b>Accumulated impairment losses</b>								
Balance as at 1 January 2016	-	-	-	(2,542,638)	-	-	-	(2,542,638)
Disposals	-	-	-	230,229	-	-	-	230,229
Balance as at 31 December 2016	-	-	-	(2,312,409)	-	-	-	(2,312,409)
<b>Net carrying amount</b>								
Balance as at 31 December 2016	20,281,491	3,200,211	133,151,758	206,981,879	3,449,725	3,739,949	3,532,896	374,337,909

# NOTES TO THE FINANCIAL STATEMENTS

## 7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Freehold land RM	Leasehold land and building RM	Factory buildings and renovation RM	Plant, machinery, tools and equipment RM	Motor vehicles RM	Furniture, fittings and office equipment RM	Capital work-in-progress RM	Total RM
<b>Cost</b>								
Balance as at 1 January 2015	19,655,890	31,905,332	127,530,883	339,961,510	13,629,512	15,500,475	3,754,155	551,937,757
Additions	625,601	-	272,226	1,545,179	1,065,178	363,288	2,822,768	6,694,240
Disposals	-	-	-	-	(141,176)	(40,350)	-	(181,526)
Disposals of subsidiaries (Note 35)	-	-	-	(4,909,695)	(533,476)	(540,095)	-	(5,983,266)
Written off	-	-	-	-	-	(17,898)	-	(17,898)
Reclassification	-	-	13,100	1,164,542	-	-	(1,177,642)	-
Translation differences	-	-	21,381,846	36,756,503	1,232,404	774,069	806,574	60,951,396
Balance as at 31 December 2015	20,281,491	31,905,332	149,198,055	374,518,039	15,252,442	16,039,489	6,205,855	613,400,703
<b>Accumulated depreciation</b>								
Balance as at 1 January 2015	-	(1,755,665)	(15,348,632)	(110,526,359)	(7,096,282)	(5,159,324)	-	(139,886,262)
Charge for the financial year	-	(718,674)	(3,998,572)	(17,828,970)	(2,097,507)	(1,581,899)	-	(26,225,622)
Disposals	-	-	-	-	43,662	14,964	-	58,626
Disposals of subsidiaries (Note 35)	-	-	-	3,286,378	317,297	427,859	-	4,031,534
Written off	-	-	-	-	-	1,670	-	1,670
Translation differences	-	-	(2,093,127)	(7,784,647)	(787,192)	(229,606)	-	(10,894,572)
Balance as at 31 December 2015	-	(2,474,339)	(21,440,331)	(132,853,598)	(9,620,022)	(6,526,336)	-	(172,914,626)
<b>Accumulated impairment losses</b>								
Balance as at 1 January/31 December 2015	-	-	-	(2,542,638)	-	-	-	(2,542,638)
<b>Net carrying amount</b>								
Balance as at 31 December 2015	20,281,491	29,430,993	127,757,724	239,121,803	5,632,420	9,513,153	6,205,855	437,943,439

# NOTES TO THE FINANCIAL STATEMENTS

## 7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

- (a) The net carrying amount of the Group's property, plant and equipment held under hire purchase arrangements is as follows:

	<b>2016</b>	<b>Group</b>
	<b>RM</b>	<b>2015</b>
		<b>RM</b>
Motor vehicles	721,828	1,770,894

- (b) During the financial year, the Group made the following cash payments to purchase property, plant and equipment:

	<b>2016</b>	<b>Group</b>
	<b>RM</b>	<b>2015</b>
		<b>RM</b>
Additions of property, plant and equipment	5,153,420	6,694,240
Additions via hire purchase	-	(586,733)
Unpaid balances included in sundry payables	(119,221)	(388,657)
Cash paid in respect of acquisitions in previous year	22,766	759,210
<b>Cash outflow for acquisition of property, plant and equipment</b>	<b>5,056,965</b>	<b>6,478,060</b>

- (c) During the financial year, the carrying amount of property, plant and equipment of the Group have been charged to financial institutions for credit facilities granted to the Group as disclosed in Note 20 to the financial statements are as follows:

	<b>2016</b>	<b>Group</b>
	<b>RM</b>	<b>2015</b>
		<b>RM</b>
Leasehold land and building	-	26,162,715
Plant, machinery, tools and equipment	-	946,624
	-	27,109,339

# NOTES TO THE FINANCIAL STATEMENTS

## 8. INVESTMENT PROPERTIES

	2016 RM	Group 2015 RM
<b>Cost</b>		
Balance as at 1 January	27,743,168	6,586,409
Additions	–	19,655,437
Translation differences	362,614	1,501,322
Balance as at 31 December	28,105,782	27,743,168
<b>Accumulated depreciation</b>		
Balance as at 1 January	1,179,700	753,782
Charge for the financial year	1,005,285	231,186
Translation differences	75,118	194,732
Balance as at 31 December	2,260,103	1,179,700
<b>Net carrying amount</b>		
Balance as at 31 December	25,845,679	26,563,468

(a) The investment properties consist of the following:

	2016 RM	Group 2015 RM
Freehold property	4,888,977	4,866,296
Leasehold office	2,037,438	2,041,735
Leasehold land and buildings	18,919,264	19,655,437
	25,845,679	26,563,468

(b) Direct operating expenses arising from investment properties during the financial year are as follows:

	2016 RM	Group 2015 RM
<b>Quit rent and assessment</b>		
- generating rental income	66,730	57,179
<b>Insurance</b>		
- generating rental income	41,362	4,182

(c) The fair value of the investment properties of approximately RM26,401,253 (2015: RM30,712,612) at Level 3 was recommended by the Directors as at the end of reporting period based on comparison method that makes reference to recent market value of a similar property in the vicinity on a price per square feet basis. Any changes in the price per square feet will result in a reasonable change in the fair value of the investment property.

(d) Investment properties with an aggregate carrying amount of RM4,888,977 (2015: RM4,866,296) are charged to a financial institution for banking facilities granted to the Group and of the Company as disclosed in Note 20 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 9. PREPAID LEASE PAYMENTS FOR LAND

Group	Balance as at 1.1.2016 RM	Amortisation charge for the financial year RM	Disposals of subsidiaries (Note 35) RM	Payment of sub-lease rental RM	Foreign exchange difference RM	Balance as at 31.12.2016 RM
<b>Carrying amount</b>						
Sub-leases of warehouse	948,153	(259,191)	–	123,738	–	812,700
Leasehold land	13,359,501	(667,627)	(1,484,983)	–	481,072	11,687,963
	14,307,654	(926,818)	(1,484,983)	123,738	481,072	12,500,663

	<----- At 31.12.2016 ----->	
	Accumulated Cost RM	Carrying amount RM
Sub-leases of warehouse	1,331,082	812,700
Leasehold land	15,337,611	11,687,963
	16,668,693	12,500,663

	Balance as at 1.1.2015 RM	Amortisation charge for the financial year RM	Payment of sub-lease rental RM	Foreign exchange difference RM	Balance as at 31.12.2015 RM
<b>Carrying amount</b>					
Sub-leases of warehouse	1,083,606	(259,191)	123,738	–	948,153
Leasehold land	11,825,163	(707,241)	–	2,241,579	13,359,501
	12,908,769	(966,432)	123,738	2,241,579	14,307,654

	<----- At 31.12.2015 ----->	
	Accumulated Cost RM	Carrying amount RM
Sub-leases of warehouse	1,207,344	948,153
Leasehold land	16,928,555	13,359,501
	18,135,899	14,307,654

- (a) The leasehold land has a lease period of nineteen (19) to twenty-five (25) years which expires on year 2022 to 2031.
- (b) Leasehold land of the Group with an aggregate carrying amount of RM Nil (2015: RM1,585,904) are charged to a financial institution for banking facilities granted to the Group and of the Company as disclosed in Note 20 to the financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## 10. INTANGIBLE ASSETS

<b>Group At 31 December 2016</b>	<b>Goodwill RM</b>	<b>Technical know-how RM</b>	<b>Clientele List RM</b>	<b>Total RM</b>
<b>Cost</b>				
At beginning of financial year	12,650,288	1,016,000	972,000	14,638,288
Disposals of subsidiaries (Note 35)	(705,305)	(1,016,000)	(972,000)	(2,693,305)
At end of financial year	11,944,983	–	–	11,944,983
<b>Accumulated amortisation</b>				
At beginning of financial year	–	(203,200)	(388,792)	(591,992)
Disposals of subsidiaries (Note 35)	–	203,200	388,792	591,992
At end of financial year	–	–	–	–
<b>Accumulated impairment loss</b>				
At beginning of financial year	(705,304)	(812,799)	(583,207)	(2,101,310)
Disposals of subsidiaries (Note 35)	705,304	812,799	583,207	2,101,310
At end of financial year	–	–	–	–
<b>Net carrying amount</b>	<b>11,944,983</b>	<b>–</b>	<b>–</b>	<b>11,944,983</b>
<b>At 31 December 2015</b>				
<b>Cost</b>				
At beginning of financial year/ end of financial year	12,650,288	1,016,000	972,000	14,638,288
<b>Accumulated amortisation</b>				
At beginning of financial year end of financial year	–	(203,200)	(388,792)	(591,992)
<b>Accumulated impairment loss</b>				
At beginning of financial year At end of financial year	(705,304)	(812,799)	(583,207)	(2,101,310)
<b>Net carrying amount</b>	<b>11,944,984</b>	<b>1</b>	<b>1</b>	<b>11,944,986</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 10. INTANGIBLE ASSETS (CONT'D)

- (a) For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions, which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.
- (b) The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The following key assumptions are used to generate the financial budgets:

	<b>Group</b>	
	<b>2016</b>	<b>2015</b>
	%	%
Sales growth rate	1	1
Pre-tax discount rate	5.2	5.5

- (c) A reasonable change in the assumptions above would not cause any impairment loss on goodwill. The calculations of value in use for the CGUs are most sensitive to the following assumptions:
- (i) Sales growth rate  
The forecasted sale growth rate is based on business past performance and management's expectations of market development.
- (ii) Pre-tax discount rate  
Discount rate reflects the current market assessment of the risks specific to each CGU. This is the benchmark used by management to assess the operating performance of the CGU

## 11. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2016</b>	<b>2015</b>
	RM	RM
<b>At cost</b>		
Unquoted equity shares		
As at 1 January	73,396,205	73,952,867
Additional investment in existing subsidiary subscription	5,000,000	-
Disposals of subsidiaries (Note 35)	(21,475,001)	(556,662)
	56,921,204	73,396,205
<b>Accumulated impairment loss</b>		
Balance as at 1 January/ 31 December 2015	(7,845,002)	(7,845,002)
Disposals of subsidiaries (Note 35)	2,975,001	-
As at 31 December	(4,870,001)	(7,845,002)
Unquoted equity shares, at cost	52,051,203	65,551,203

- (a) During the financial year, the Company increase the investment in subsidiary, GCCM of RM5,000,000 (2015: Nil) vide the contra settlement of the amount owing by subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

## 11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:

Name of companies	Country of incorporation	Effective interest in equity		Principal activities
		2016 %	2015 %	
Guan Chong Cocoa Manufacturer Sdn. Bhd. ("GCCM")#	Malaysia	100	100	Producing cocoa-derived food ingredients.
Guan Chong Trading Sdn. Bhd. ("GCT")#	Malaysia	100	100	Dormant.
GCB Foods Sdn. Bhd. ("GCBF")#	Malaysia	100	100	Manufacturing, marketing and promotion of cocoa related products.
GCB Marketing Sdn. Bhd. ("GCBM")^	Malaysia	–	100	Marketing and promotion activities of chocolate related products and confectioneries.
GCB Specialty Chocolates Sdn. Bhd. ("GCBSC")^	Malaysia	–	92.50	Manufacturing, marketing and promotion of cocoa related products.
GCB America, Inc ("GCBA")*	United States of America	100	100	Purchases and distributor of cocoa derived food ingredients and investment holding.
Cocoarich Sdn. Bhd. ("CSB")#	Malaysia	100	100	Investment holding.
GCB Oversea Holdings Corporation ("GCBOHC")^	Federal Territory of Labuan, Malaysia	100	100	Investment holding.
<b>(a) Subsidiaries of GCBOHC</b>				
GCB Cacao GmbH *	Germany	100	100	Dormant.
GCB Cocoa Singapore Pte. Ltd. ("GBCSPL")#	Singapore	100	100	Trading of cocoa beans, cocoa-derived food ingredients and cocoa products.
<b>(b) Subsidiaries of GBCSPL</b>				
PT Asia Cocoa Indonesia ("PTACI")^	Indonesia	90% (Direct) **10% (Indirect)	90% (Direct) **10% (Indirect)	Manufacture of cocoa butter, cocoa cake and cocoa liquor.
PT GCB Cocoa Indonesia ("PTGCB")^	Indonesia	90% (Direct) **10% (Indirect)	90% (Direct) **10% (Indirect)	Trading of cocoa products.



# NOTES TO THE FINANCIAL STATEMENTS

## 11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:

Name of companies	Country of incorporation	Effective interest in equity		Principal activities
		2016 %	2015 %	
<b>(c) Subsidiaries of GCBA</b>				
Carlyle Cocoa Co., LLC*	United States of America	100	100	Manufacture of cocoa powders.

# Audited by BDO or BDO Member Firms.

^ Audited by firms other than BDO in Malaysia and BDO Member Firms.

\* Not a legal requirement to be audited and therefore consolidated based on unaudited management accounts.

(b) The non-controlling interests at the end of the reporting period comprise of the following:

	Equity Interest		Group	
	2016 %	2015 %	2016 RM	2015 RM
GCB Specialty Chocolates Sdn. Bhd. ("GCBSC")	–	7.5	–	430,851

(c) The summarised financial information before intra-group elimination of the subsidiaries that have material NCI as at the end of each reporting period are as follows:

	GCBSC	
	2016 RM	2015 RM
<b>Balance as at 31 December</b>		
Non-current assets	–	56,925,489
Current assets	–	17,592,289
Non-current liabilities	–	(30,473,839)
Current liabilities	–	(38,299,259)
Net assets	–	5,744,680
<b>Financial Year Ended 31 December</b>		
Revenue	–	38,470,359
Loss for the financial year	–	(6,120,019)
Total comprehensive loss	–	(6,120,019)
Total comprehensive loss contributable to non-controlling interests	–	(459,001)
Net cash flows from operating activities	–	11,398,488
Net cash flows used in investing activities	–	(378,620)
Net cash flows used in financing activities	–	(12,594,031)
Net decrease in cash and cash equivalents	–	(1,574,163)

# NOTES TO THE FINANCIAL STATEMENTS

## 11. INVESTMENTS IN SUBSIDIARIES (CONT'D)

- (d) On 29 July 2016, the Company had disposed 70% of equity interest in GCB Specialty Chocolates Sdn. Bhd. ("GCBSC"), representing 12,950,000 ordinary shares of RM1.00 each for a total cash consideration of RM11,849,250. Upon the completion on 29 July 2016, GCBSC is no longer a subsidiary of the Company while become an associate of the Company.
- (e) On 30 June 2016, the Company had disposed 100% of equity interest in GCM Marketing Sdn. Bhd. ("GCBM"), representing 3,000,000 ordinary share of RM1.00 each for a total cash consideration of RM150,000. Upon the completion on 30 June 2016, GCBM is no longer a subsidiary of the Company.

## 12. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Unquoted equity shares, at cost	5,000,000	5,000,000	5,000,000	5,000,000
Addition	2,283,670	-	2,283,670	-
Share of post-acquisition reserves, net of dividends received	(321,470)	(3,976)	-	-
	6,962,200	4,996,024	7,283,670	5,000,000

- (a) The details of the associates are as follows:

Name of companies	Country of incorporation	Effective interest in equity		Principal activities
		2016 %	2015 %	
SMC Food21 Malaysia Sdn. Bhd. ("SMC") <sup>^</sup>	Malaysia	20.00	20.00	Produce blended cocoa-derived food ingredients.
GCB Specialty Chocolates Sdn. Bhd. ("GCBSC") <sup>^</sup>	Malaysia	27.75	-	Manufacturing, marketing and promotion of cocoa related products.

<sup>^</sup> Audited by firms other than BDO in Malaysia and BDO Member Firms.

# NOTES TO THE FINANCIAL STATEMENTS

## 12. INVESTMENTS IN ASSOCIATES (CONT'D)

- (b) The Group recognised its share of results in SMC based on unaudited financial statements as at 31 December 2016. The summarised unaudited financial information for the associate is as follows:

	2016 RM	SMC	2015 RM
<b>Assets and liabilities</b>			
Current assets	170,327,855		72,350,980
Non-current assets	56,744,630		62,701,039
<b>Total assets</b>	<b>227,072,485</b>		<b>135,052,019</b>
<hr/>			
Current liabilities	183,899,327		84,321,872
Non-current liabilities	20,264,738		28,778,404
<b>Total liabilities</b>	<b>204,164,065</b>		<b>113,100,276</b>
<hr/>			
<b>Results</b>			
Revenue	115,711,542		10,522,731
Profit/(Loss) for the financial year	936,795		(19,879)

- (c) The Group recognised its share of results in GCBSC based on audited financial statements as at 31 December 2016. The summarised audited financial information for the associate is as follows:

	2016 RM	GCBSC	2015 RM
<b>Assets and liabilities</b>			
Current assets	24,118,965		-
Non-current assets	56,403,930		-
<b>Total assets</b>	<b>80,522,895</b>		<b>-</b>
<hr/>			
Current liabilities	29,245,159		-
Non-current liabilities	44,881,911		-
<b>Total liabilities</b>	<b>74,127,070</b>		<b>-</b>
<hr/>			
<b>Results</b>			
Revenue	51,824,984		-
Profit for the financial year	2,296,828		-
Other comprehensive loss	(1,649,841)		-
	<b>646,987</b>		<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 12. INVESTMENTS IN ASSOCIATES (CONT'D)

- (d) All the above associates are accounted for using the equity method in the consolidated financial statements.
- (e) The reconciliation of net assets of the associates to the carrying amount of the investments in associates are as follows:

	2016 RM	SMC 2015 RM
Share of net assets of the Group	4,581,684	4,390,349
Goodwill	605,675	605,675
Carrying amount in the statement of financial position	5,187,359	4,996,024

	2016 RM	GCBSC 2015 RM
Share of net assets of the Group	1,774,841	-
Goodwill	-	-
Carrying amount in the statement of financial position	1,774,841	-

## 13. INVENTORIES

	2016 RM	Group 2015 RM
<b>At cost</b>		
Raw materials	323,845,823	353,645,939
Work-in-progress	16,638,980	1,516,867
Finished goods	308,225,964	191,161,462
Packaging materials	4,138,435	2,389,053
Stores and supplies	14,019,519	16,452,012
	666,868,721	565,165,333
<b>At net realisable value</b>		
Work-in-progress	5,025,991	15,395,257
Finished goods	41,429,098	195,773,864
	713,323,810	776,334,454

- (a) During the financial year, inventories of the Group recognised as cost of sales amounted to RM2,088,760,883 (2015: RM1,988,100,866).
- (b) During the financial year, the Group had written down inventories of RM1,774,180 (2015: RM13,994,806) in cost of sales.
- (c) Inventories with carrying amounts of RM62,542,717 (2015: RM8,273,753) are held as security by way of floating charge for certain of the Company's banking facilities.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
<b>Non- current</b>				
<b>Other receivables</b>				
Amount owing by subsidiaries	-	-	99,741,247	64,546,199
Less: Allowance for impairment	-	-	(7,355,960)	(7,355,960)
<b>Loans and receivables</b>	-	-	92,385,287	57,190,239
<b>Current</b>				
<b>Trade receivables</b>				
Third parties	240,000,198	283,367,602	-	-
Amount owing by associates	3,142,992	1,996,643	-	-
Amount owing by a related party	4,000	672,109	4,000	-
Amount owing by subsidiaries	-	-	313,072	325,072
	243,147,190	286,036,354	317,072	325,072
Less: Allowance for impairment				
- Third parties	(9,917,545)	(1,134,526)	-	-
- Related parties	-	(26,615)	-	-
- Subsidiaries	-	-	(265,072)	(265,072)
	233,229,645	284,875,213	52,000	60,000
<b>Other receivables</b>				
Sundry receivables	39,247,363	8,708,615	-	-
Amount owing by associates	61,702	-	-	-
Amount owing by a related party	190,253	15,000	-	-
Amount owing by subsidiaries	-	-	40,058,822	58,695,140
	39,499,318	8,723,615	40,058,822	58,695,140
Less: Allowance for impairment				
- Subsidiaries	-	-	-	(631,156)
	39,499,318	8,723,615	40,058,822	58,063,984
<b>Loans and receivables</b>	272,728,963	293,598,828	40,110,822	58,123,984
<b>Deposits and prepayments</b>				
Deposits	1,158,409	1,304,485	4,000	4,000
Prepayments	394,388	962,272	-	-
	1,552,797	2,266,757	4,000	4,000
	274,281,760	295,865,585	40,114,822	58,127,984
<b>Grand Total</b>	274,281,760	295,865,585	132,500,109	115,318,223

# NOTES TO THE FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES (CONT'D)

- (a) Trade receivables are non-interest bearing and the normal trade terms granted by the Group range from 30 days to 120 days (2015: 30 days to 120 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.
- (b) Amount owing by associates represent trade balances, which are non-interest bearing and subject to normal trade terms of 30 days (2015: 30 days) from the date of invoices.
- (c) Amount owing by a related party represent trade balances, which are subject to the normal trade terms ranging 30 days to 60 days. (2015: 30 days to 60 days) from the date of invoices.
- (d) Trade amount owing by subsidiaries is unsecured, interest free and payable on demand in cash and cash equivalents.
- (e) Non-trade amounts owing by subsidiaries, associates and a related party are unsecured, interest-free and payable on demand in cash and cash equivalents.
- (f) The currency exposure profile of trade and other receivables is as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
United States Dollar	154,167,642	166,197,146	130,295,980	112,918,952
British Pound	87,500,345	105,270,570	-	-
Ringgit Malaysia	20,005,476	14,565,665	2,200,341	2,395,507
Indonesian Rupiah	11,807,528	8,145,742	-	-
Singapore Dollar	232,344	479,709	-	-
Others	174,037	244,481	3,788	3,764
	273,887,372	294,903,313	132,500,109	115,318,223

- (g) The ageing analysis of the Group's trade receivables is as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Neither past due nor impaired	194,259,028	167,682,902	313,072	325,072
Past due, not impaired				
1 to 30 days	16,826,028	110,958,819	-	-
31 to 60 days	5,706,136	2,260,513	-	-
More than 61 days	16,437,801	3,972,979	-	-
	38,969,965	117,192,311	-	-
Past due and impaired	9,917,545	1,161,141	-	-
	243,147,190	286,036,354	313,072	325,072

# NOTES TO THE FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES (CONT'D)

- (g) The ageing analysis of the Group's trade receivables is as follows: (cont'd)

### Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired related to customers with good track records with the Group. Based on past experience, the Board believes that no allowance for impairment is necessary in respect of those balances.

None of the trade receivables of the Group that are neither past due nor impaired have been renegotiated during the financial year.

### Receivables that are past due but not impaired

Trade receivables that are past due but not impaired relate to customers for whom there is no objective evidence that the receivables are not fully recoverable. No impairment has been made on these amounts as the Group is closely monitoring these receivables and is confident of their eventual recovery.

### Receivables that are past due and impaired

Trade and other receivables that are past due and impaired at the end of the reporting period and the reconciliation of movements in allowance for impairment accounts is as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
<b>Trade receivables</b>				
At 1 January	1,161,141	973,517	265,072	265,072
Charge for the year	9,225,002	301,045	–	–
Disposals of subsidiaries	(468,598)	–	–	–
Reversal	–	(113,421)	–	–
At 31 December	9,917,545	1,161,141	265,072	265,072
<b>Other receivables</b>				
As at 1 January	–	–	7,987,116	7,817,116
Disposals of subsidiaries	–	–	(631,156)	–
As at 31 December	–	–	7,355,960	7,817,116

- (h) Information on financial risks of trade and other receivables is disclosed in Note 39 to the financial statements:

# NOTES TO THE FINANCIAL STATEMENTS

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

	Contract/ Notional amount RM	Assets RM	Liabilities RM
<b>2016</b>			
<b>Group</b>			
Commodity futures contracts	107,754,577	8,017,572	(31,802,425)
Commodity option contracts	1,804,121	2,059,007	(3,729,562)
Foreign currency forward contracts	25,937,399	1,111,688	–
Foreign currency option contracts	3,306,631	11,874	–
Interest rate swap	–	–	(20,622)
	138,802,728	11,200,141	(35,552,609)
<b>2015</b>			
<b>Group</b>			
Commodity futures contracts	(29,262,521)	8,460,406	(6,569,184)
Commodity option contracts	78,077,125	4,166,348	(6,461,906)
Foreign currency forward contracts	(5,502,456)	158,766	(39,778)
Foreign currency option contracts	1,580,759	54,115	–
Interest rate swap	–	–	(134,692)
	44,892,907	12,839,635	(13,205,560)

(a) Commodity futures and option contracts

The Group uses commodity futures contracts and commodity options contracts to manage open sales and purchase commitments and movements in cocoa bean prices in the respective commodity markets. These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with fair value changes exposure.

(b) Foreign currency forward and option contracts

The Group uses forward currency contracts and forward currency option contracts to hedge the Group's sales and purchases denominated in foreign currencies for which firm commitments existed at the reporting period. The forward currency contracts have maturity dates that coincide with the expected occurrence of these transactions. The fair value of these components has been determined based on the difference between the contracted rate and the forward exchange rate as applicable to a contract of similar amount and maturity profile at the end of the reporting period.

(c) Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a certain proportion of those borrowings from floating rates to fixed rates. The interest rate swap contract allows the Company to swap floating interest for borrowings equal to 3.0% + LIBOR per annum (2015: 3.0% + LIBOR per annum), pays a fixed rate of interest of 4.05% - 4.10% (2015: 4.05% - 4.10%) and matures on 17 July 2018 and 1 March 2019.



# NOTES TO THE FINANCIAL STATEMENTS

## 15. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

- (d) During the financial year, the Group recognised a total fair value loss of RM22,108,093 (2015: fair value gain of RM1,542,440) arising from fair value changes of derivative financial instruments. The fair value changes are attributable to changes in foreign exchange spot and forward rates. The method and assumptions applied in determining the fair value of derivatives are disclosed in Note 38 to the financial statements.
- (e) The currency exposure profile of derivative financial instruments is as follows:

	2016 RM	Group 2015 RM
<b>Derivative financial assets</b>		
British Pound	3,288,476	6,837,820
United States Dollar	7,911,665	6,001,815
	11,200,141	12,839,635
<b>Derivative financial liabilities</b>		
British Pound	25,890,460	1,827,373
United States Dollar	9,662,149	11,340,826
Others	–	37,361
	35,552,609	13,205,560

## 16. CASH AND BANK BALANCES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Cash and bank balances	47,307,748	26,027,870	1,125,903	29,693
Deposits with license bank	15,338,135	2,582,164	–	–
	62,645,883	28,610,034	1,125,903	29,693

- (a) The deposits with licensed banks of the Group have maturity period of ranging from overnight to twelve months (2015: overnight to twelve months).
- (b) As at the end of reporting period, the deposits placed with licensed banks of the Group amounting to RM14,212,119 (2015: RM1,025,774) has been charged to financial institution as security for credit facilities granted to the Group as disclosed in Note 20 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 16. CASH AND BANK BALANCES (CONT'D)

(c) The currency exposure profile of cash and bank balances are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
United States Dollar	22,790,921	18,447,116	–	–
Indonesian Rupiah	15,533,179	5,089,910	–	–
Singapore Dollar	14,861,303	677,886	–	–
Ringgit Malaysia	8,793,484	3,537,450	1,125,903	29,693
British Pound	622,790	793,664	–	–
Euro	40,325	42,475	–	–
Others	3,881	21,533	–	–
	62,645,883	28,610,034	1,125,903	29,693

(d) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Cash and bank balances	47,307,748	26,027,870	1,125,903	29,693
Deposits with licensed banks	15,338,135	2,582,164	–	–
Bank overdrafts (Note 20)	–	(853,658)	–	–
	62,645,883	27,756,376	1,125,903	29,693
Less: Deposits pledged to licensed banks	(14,212,119)	(1,025,774)	–	–
	48,433,764	26,730,602	1,125,903	29,693

(e) Information on financial risks of cash and bank balances is disclosed in Note 39 to the financial statements.

## 17. SHARE CAPITAL

	Number of shares	Group and Company	
		2016 RM	2015 RM
<b>Authorised:</b>			
Ordinary shares of RM0.25 each	800,000,000	200,000,000	800,000,000
<b>Issued and fully paid</b>			
At beginning of financial year	478,514,289	119,628,572	478,514,289
Issued during the financial year:			
- pursuant to exercise of warrant	1,644,163	411,041	–
Issued and fully paid	480,158,452	120,039,613	478,514,289

# NOTES TO THE FINANCIAL STATEMENTS

## 17. SHARE CAPITAL (CONT'D)

- (a) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one (1) vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.
- (b) During the financial year, the Company increased its issued and paid-up capital ordinary share capital from RM119,682,572 to RM120,039,613 by way of issuance of 1,644,163 ordinary shares of RM 0.25 each pursuant to the exercise of Warrants 2011/2016 at an exercise price of RM1.34 each.
- (c) The warrants entitle the registered holders, at any time within a period of 5 years commencing from the date of issue, 17 February 2011 to 16 February 2016 ("Exercised Period"), to subscribe for 1 new ordinary share of RM 0.25 each in the Company at an exercise price of RM 1.34 per ordinary share for every warrant held.

## 18. TREASURY SHARES

	Group and Company			
	2016		2015	
	Number of shares	RM	Number of shares	RM
<b>Ordinary shares of RM0.25 each</b>				
As at 1 January/ 31 December	2,240,700	5,194,748	2,240,700	5,194,748

The shareholders of the Company have approved the Company's plan to repurchase up to 10% of the issued and paid-up share capital of the Company ('Share Buy Back'). The Directors of the Company are committed to enhance the value of the Company to its shareholders and believe that the Share Buy Back can be applied in the best interests of the Company and its shareholders.

Treasury shares were held by the Company in accordance with Section 67A (3B) of the Companies Act, 1965 in Malaysia. None of the treasury shares were resold or cancelled during those financial years.

## 19. RESERVES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Foreign currency translation reserve	60,752,470	50,309,488	–	–
Retained earnings	246,844,260	211,686,479	33,947,756	38,848,449
Share premium	307,596,730	261,995,967	33,947,756	38,848,449
	1,792,138	–	1,792,138	–
	309,388,868	261,995,967	35,739,894	38,848,449

# NOTES TO THE FINANCIAL STATEMENTS

## 19. RESERVES (CONT'D)

- (a) The movements in each category of reserves are disclosed in the statements of changes in equity.
- (b) The natures of each category of reserves are as follows:
- (i) Foreign currency translation reserve

The foreign currency translation reserve is used to record foreign currency exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the presentation currency of the Group. It is also used to record the exchange differences arising from monetary items, which form part of the net investment of the Group in foreign operations, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

- (ii) Share premium

Share premium arose from the allotment of the ordinary shares at premium net of share issue expense and bonus issues.

## 20. BORROWINGS

	2016 RM	Group 2015 RM
<b>Short term borrowings</b>		
Secured:		
Bank overdrafts (Note 16)	–	853,658
Bankers' acceptances	–	6,700,000
Hire purchases (Note 21)	190,790	426,423
Revolving credit	45,962,800	75,169,827
Term loans	70,224,633	52,857,436
Trade loans	539,340,244	565,189,728
	655,718,467	701,197,072
<b>Long term borrowings</b>		
Secured:		
Hire purchase (Note 21)	131,665	393,941
Term loans	54,431,311	128,034,094
	54,562,976	128,428,035
<b>Total borrowings</b>		
Bank overdrafts	–	853,658
Bankers' acceptances	–	6,700,000
Hire purchases (Note 21)	322,455	820,364
Revolving credit	45,962,800	75,169,827
Term loans	124,655,944	180,891,530
Trade loans	539,340,244	565,189,728
	710,281,443	829,625,107

# NOTES TO THE FINANCIAL STATEMENTS

## 20. BORROWINGS (CONT'D)

- (a) The borrowings of the Group are secured by:
- (i) Corporate guarantee from the Company;
  - (ii) A legal charges over certain properties (Note 7(c) and Note 9(b)), and investment properties (Note 8 (d)) of the Group;
  - (iii) A legal charge over a subsidiary's inventories with a carrying amount of RM62,254,717 (2015:RM8,273,753) as disclosed in the Note 13(c) to the financial statements;
  - (iv) Deposits pledged with a licensed bank of the Group (Note 16 (b)); and
  - (v) Negative pledge by certain subsidiaries.
- (b) The currency exposure profile of borrowings are as follows:

	2016 RM	Group 2015 RM
Ringgit Malaysia	2,322,455	29,145,888
Singapore Dollar	–	122,288
United States Dollar	707,958,988	800,356,931
	<hr/> 710,281,443	<hr/> 829,625,107

- (c) Information on financial risks of borrowings and the remaining maturity is disclosed in Note 39 to the financial statements.

## 21. HIRE PURCHASES LIABILITIES

	2016 RM	Group 2015 RM
<b>Future minimum hire purchase payments:</b>		
- not later than one (1) year	201,164	456,695
- later than one (1) year and not later than five (5) years	134,138	410,903
Total minimum hire purchase payments	335,302	867,598
Less: Future finance charges	(12,847)	(47,234)
Present value of hire purchase payments	<hr/> 322,455	<hr/> 820,364
<b>Repayable as follows:</b>		
Current liabilities:		
- not later than one (1) year	190,790	426,423
Non-current liabilities:		
- later than one (1) year but not later than five (5) years	131,665	393,941
	<hr/> 322,455	<hr/> 820,364

Information on financial risks of borrowings and the remaining maturity is disclosed in Note 39 to the financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## 22. DEFERRED TAX LIABILITIES

- (a) The deferred tax assets and liabilities are made up of the following:

	2016 RM	Group 2015 RM
Balance as at 1 January	18,491,780	14,788,132
Disposals of subsidiaries (Note 35)	(14,000)	(315,000)
Effect of changes in tax rates	–	(369,000)
Recognised in profit or loss (Note 27)	(1,819,799)	2,377,985
Recognised in other comprehensive income	(82,905)	57,044
Translation differences	803,330	1,343,619
Under provision of deferred tax expense in prior years (Note 27)	2,959,004	609,000
<b>Balance as at 31 December</b>	<b>20,337,410</b>	<b>18,491,780</b>
Presented after appropriate offsetting		
Deferred tax liabilities, net	20,348,952	18,519,644
Deferred tax assets, net	(11,542)	(27,864)
<b>At 31 December</b>	<b>20,337,410</b>	<b>18,491,780</b>

- (b) The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

### Deferred tax liabilities of the Group

	Excess of capital allowances over depreciation RM	Other temporary differences RM	Total RM
Balance as at 1 January 2016	27,835,848	(9,316,204)	18,519,644
Disposals of subsidiaries	(522,000)	506,000	(14,000)
Recognised in profit or loss	758,764	363,128	1,121,892
Recognised in other comprehensive income	–	(81,823)	(81,823)
Translation differences	815,304	(12,065)	803,239
<b>Balance as at 31 December 2016</b>	<b>28,889,916</b>	<b>(8,540,964)</b>	<b>20,348,952</b>
Balance as at 1 January 2015	23,491,624	(8,649,587)	14,842,037
Disposals of subsidiaries	(297,000)	(18,000)	(315,000)
Recognised in profit or loss	2,379,660	216,454	2,596,114
Recognised in other comprehensive income	–	45,950	45,950
Translation differences	2,261,564	(911,021)	1,350,543
<b>Balance as at 31 December 2015</b>	<b>27,835,848</b>	<b>(9,316,204)</b>	<b>18,519,644</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 22. DEFERRED TAX LIABILITIES (CONT'D)

- (b) The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows: (Cont'd)

### Deferred tax assets of the Group

	Unused tax losses RM	Other temporary differences RM	Total RM
Balance as at 1 January 2016	(11,373)	(16,491)	(27,864)
Recognised in profit or loss	10,977	6,336	17,313
Recognised in other comprehensive income	–	(1,082)	(1,082)
Translation differences	396	(305)	91
<hr/>			
Balance as at 31 December 2016	–	(11,542)	(11,542)
<hr/>			
Balance as at 1 January 2015	(38,308)	(15,597)	(53,905)
Recognised in profit or loss	32,450	(348)	32,102
Recognised in other comprehensive income	–	863	863
Translation differences	(5,515)	(1,409)	(6,924)
<hr/>			
Balance as at 31 December 2015	(11,373)	(16,491)	(27,864)

- (c) The amount of temporary differences for which no deferred tax asset has been recognised in the statement of financial position are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Unused tax losses	7,432,415	3,419,642	4,940,499	429,915
Unabsorbed capital allowances	5,308,854	5,298,516	–	–
<hr/>				
	12,741,269	8,718,158	4,940,499	429,915

Deferred tax assets of certain subsidiaries have not been recognised in respect of these items as it is not probable that taxable profits of certain subsidiaries would be available against which the deductible temporary differences could be utilised. The deductible temporary differences do not expire under the current tax legislation

## 23. RETIREMENT BENEFITS OBLIGATIONS

- (a) Certain foreign subsidiaries of the Group operate an unfunded defined benefits retirement plan required under the Labour Laws of that country in which they operate. The Group is required to pay their employees termination, appreciation and compensation benefits in case of employment dismissal based on the employees' number of years of services provided.

# NOTES TO THE FINANCIAL STATEMENTS

## 23. RETIREMENT BENEFITS OBLIGATIONS (CONT'D)

(b) Under the plan, all of the eligible permanent employees of the certain foreign subsidiaries of the Group are entitled to retirement benefits based on last drawn final salary and length of service attainment of the retirement age of 55.

(c) The amounts recognised in the statements of financial position are determined as follows:

<b>Group</b>	<b>2016 RM</b>	<b>2015 RM</b>
Present value of defined benefit obligations	1,458,892	750,775
<hr/>		
Analysed as follows:		
Non-current liabilities	1,458,892	750,775

(d) The following table sets out the reconciliation of defined benefit plan:

<b>Group</b>	<b>2016 RM</b>	<b>2015 RM</b>
Balance as at 1 January	750,775	474,076
Current service costs	204,342	107,097
Interest costs	70,137	57,237
Foreign exchange differences	19,362	6,796
Included in profit or loss	293,841	171,130
Remeasurement:		
Effects of experience adjustment	292,882	(174,889)
Effects of changes in financial assumptions	38,719	(16,426)
Foreign exchange differences	85,116	296,884
	416,717	105,569
Benefits paid	(2,441)	-
<hr/>		
Balance as at 31 December	1,458,892	750,775

(e) The principal actuarial assumptions used were as follows:

	<b>2016</b>	<b>Group 2015</b>
Retirement age	55 years	55 years
Discount rate	8.48% - 8.50%	9.17% - 9.19%
Expected rate of salary increases	8.00%	8.00%



# NOTES TO THE FINANCIAL STATEMENTS

## 23. RETIREMENT BENEFITS OBLIGATIONS (CONT'D)

- (f) The following table demonstrates the sensitivity analysis of the Group if the significant actuarial assumptions at the end of each reporting period changed by ten (10) basis points with all other variables held constant:

	<b>Group 2016</b>	
	<b>Increase RM</b>	<b>Decrease RM</b>
<b>Discount rate</b>		
Present value of defined benefit obligation	1,227,945	(1,451,493)
Current service cost	181,882	(225,457)
<hr/>		
<b>Salary increment rate</b>		
Present value of defined benefit obligation	1,254,877	(1,009,656)
Current service cost	194,528	(149,833)

## 24. TRADE AND OTHER PAYABLES

	<b>Group</b>		<b>Company</b>	
	<b>2016 RM</b>	<b>2015 RM</b>	<b>2016 RM</b>	<b>2015 RM</b>
<b>Trade payables</b>	257,954,670	288,566,661	-	-
<b>Other payables</b>				
Other payables	16,644,952	75,738,045	-	2
Accruals	14,902,720	13,005,052	80,200	85,122
Deposits received	1,147,683	54,828	-	-
Provision for cargo loss	-	1,961,171	-	-
Amount owing to Directors	186,646	178,684	-	-
Amount owing to holding company	10,584,765	-	10,584,765	-
Amount owing to subsidiaries	-	-	31,718,043	32,543,804
	43,466,766	90,937,780	42,383,008	32,628,928
	301,421,436	379,504,441	42,383,008	32,628,928

- (a) Trade payables are non-interest bearing and the normal trade terms granted to the Group range from 30 days to 60 days (2015: 30 days to 60 days).
- (b) Amounts owing to Directors, holding company and subsidiaries represent non-trade balances which is unsecured, interest free and repayable on demand in cash and cash equivalents

# NOTES TO THE FINANCIAL STATEMENTS

## 24. TRADE AND OTHER PAYABLES (CONT'D)

(c) The currency exposure profile of trade and other payables are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
United States Dollar	182,975,975	264,350,608	–	–
British Pound	81,105,266	80,346,698	–	–
Ringgit Malaysia	27,560,478	24,824,715	42,383,008	32,628,928
Singapore Dollar	4,929,777	4,667,712	–	–
Indonesian Rupiah	4,074,396	4,375,720	–	–
Euro	775,544	938,988	–	–
	301,421,436	379,504,441	42,383,008	32,628,928

## 25. REVENUE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Management fee	–	4,000	–	24,000
Sale of goods	2,315,865,809	2,380,664,753	–	–
	2,315,865,809	2,380,668,753	–	24,000

## 26. PROFIT BEFORE TAX

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax is arrived at after charging:				
Auditors' remuneration:				
- current	294,663	351,317	52,700	62,000
- under provision in prior years	85,950	12,214	–	2,500
- other services	–	40,000	–	35,000
Amortisation of:				
- leasehold land	667,627	707,241	–	–
- warehouse	259,191	259,191	–	–
Bad debts written off	26,375	27,268	–	–
Deposit written off	–	220,364	–	–
Depreciation of:				
- property, plant and equipment (Note 7)	25,059,731	26,225,622	–	–
- investment properties (Note 8)	1,005,285	231,186	–	–

# NOTES TO THE FINANCIAL STATEMENTS

## 26. PROFIT BEFORE TAX (CONT'D)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax is arrived at after charging: (Cont'd)				
Directors' remuneration paid and payable to Directors:				
- Directors' fees				
- paid and payable for the Director of the Company	450,000	1,397,313	-	-
- paid and payable for the Director of the subsidiaries	-	399,542	-	-
- other emoluments				
- paid and payable for the Director of the Company	5,995,354	5,066,659	-	-
- paid and payable for the Director of the subsidiaries	1,199,696	1,013,767	-	-
Non-executive Director's remuneration	145,500	111,300	145,500	111,300
Fair value unrealised loss on derivatives	25,307,223	4,352,426	-	-
Impairment loss on trade and other receivables (Note 14)	9,225,002	301,045	-	-
Inventories written down (Note 13)	1,774,180	13,994,806	-	-
Increase in the defined benefits obligation	293,841	171,130	-	-
Interest expense:				
- bank overdraft	58,172	77,666	-	-
- banker's acceptance	-	338,196	-	-
- hire purchases	23,729	46,180	-	-
- term loans	5,742,335	6,334,250	-	-
- trade loans	11,558,156	9,660,953	-	-
- revolving credit	1,103,920	158,481	-	-
Loss on disposals of:				
- property, plant and equipment	36,391	19,947	-	-
- subsidiaries (Note 35)	-	-	950,750	-
Loss on foreign exchange:				
- realised	-	68,506,600	-	-
- unrealised	12,738,479	-	-	-
Provision for cargo loss	-	1,961,171	-	-
Property, plant and equipment written off	-	16,228	-	-
Rental of:				
- factory	1,041,526	981,793	-	-
- forklift/crane/container	55,373	52,118	-	-
- hostel	163,823	234,240	-	-
- outlet	-	96,000	-	-
- warehouse	2,264,720	4,366,910	-	-
Share of loss of associates	317,494	3,976	-	-
Sub-lease rental	123,738	123,738	-	-
Sundry receivable written off	-	1,674,468	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## 26. PROFIT BEFORE TAX (CONT'D)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax is arrived at after charging: (Cont'd)				
And crediting:				
Fair value gain on derivatives				
- realised	(24,734,551)	(5,047,062)	-	-
- unrealised	(3,199,130)	(5,894,866)	-	-
Gain on disposals of subsidiaries (Note 35)	(7,013,836)	(1,857,064)	-	(4,429,466)
Gain on washout of sale and purchase contracts	(19,687,709)	-	-	-
Insurance claim	(738,919)	(462,285)	-	-
Interest income	(1,163,500)	(510,131)	-	-
Management fee	(21,000)	(2,000)	-	-
Reversal of:				
- impairment loss on receivables (Note 14)	-	(113,421)	-	-
- impairment loss on subsidiary	-	-	(2,975,001)	-
- inventories write down	-	(4,199)	-	-
- provision for cargo loss	(1,961,171)	-	-	-
- provision for rework	(285,849)	-	-	-
Gain on foreign exchange				
- realised	(4,260,952)	-	-	(10,117,580)
- unrealised	-	(3,837,313)	(7,062,885)	(8,325,257)
Warehouse rental income	(4,142,506)	(2,928,406)	-	-

## 27. TAX EXPENSE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current tax expense				
- Malaysia income tax	983,006	927,800	-	-
- Foreign income tax	5,075,666	63,248	-	-
	6,058,672	991,048	-	-
(Over)/under provision in prior year				
- Malaysia income tax	(163)	1,986,604	-	-
- Foreign income tax	2,249,121	8,358,728	-	-
	2,248,958	10,345,332	-	-
	8,307,630	11,336,380	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## 27. TAX EXPENSE (CONT'D)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Deferred tax (Note 22)				
- origination and reversal of temporary differences	(1,819,799)	2,377,985	-	-
- under provision in prior years	2,959,004	609,000	-	-
- effect of change in corporate income tax rate from 25% to 24%	-	(369,000)	-	-
	1,139,205	2,617,985	-	-
Withholding tax	-	41,737	-	-
<b>Total tax expenses</b>	<b>9,446,835</b>	<b>13,996,102</b>	<b>-</b>	<b>-</b>

- (a) The Malaysian income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated taxable profit for the fiscal year. Tax expense for other taxation authorities are calculated at the rates prevailing in those respective jurisdictions.
- (b) The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate of the Group and of the Company are as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit before tax	52,208,126	36,372,564	2,268,076	22,356,324
Tax expense at the applicable tax rate of 24% (2015: 25%)	12,529,950	9,093,000	544,338	5,589,000
Tax effects in respect of:				
Different tax rate in foreign subsidiaries	(2,195,611)	(1,878,316)	-	-
Non-taxable income	(6,468,956)	(3,810,398)	(1,695,092)	(5,718,000)
Non-deductible expenses	825,082	832,752	68,214	50,000
Double deduction relief	(560,632)	(209,000)	-	-
Tax effect of change in corporate income tax rate from 25% to 24%	-	(369,000)	-	-
Tax incentives	(856,507)	-	-	-
Deferred tax assets not recognised during the financial year	1,082,540	1,422,175	1,082,540	79,000
Utilisation of deferred tax assets previously not recognised	(116,993)	(2,081,180)	-	-
Withholding tax	-	41,737	-	-
	4,238,873	3,041,770	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## 27. TAX EXPENSE (CONT'D)

- (b) The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rate of the Group and of the Company are as follows: (Cont'd)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Under provision in prior years				
- income tax	2,248,958	10,345,332	-	-
- deferred tax	2,959,004	609,000	-	-
	9,446,835	13,996,102	-	-

- (c) Tax on each component of other comprehensive income is as follows:

2016	Group and Company		
	Before tax RM	Tax effect RM	After tax RM
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation	10,442,982	-	10,442,982
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of post-employment benefit obligation	(331,601)	-	(331,601)
Related income tax expenses	-	82,905	82,905
	10,111,381	82,905	10,194,286
<b>2015</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation	33,079,738	-	33,079,738
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of post-employment benefit obligation	217,943	-	217,943
Related income tax expenses	-	(46,813)	(46,813)
	33,297,681	(46,813)	33,250,868

# NOTES TO THE FINANCIAL STATEMENTS

## 28. EARNINGS PER ORDINARY SHARE

### (a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing profit for the financial year attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	2016 RM	Group	2015 RM
Profit attributable to equity holders of the parent ('RM')	42,575,246		22,757,052
Weighted average number of ordinary shares in issue	477,735,571		476,273,589
Basic earnings per ordinary share (sen)	8.91		4.78

### (b) Diluted

The diluted earnings per ordinary share for the financial years 2016 and 2015 are the same as the basic earnings per ordinary share since there are no dilutive potential ordinary shares.

## 29. DIVIDEND

	2016 RM	Group	2015 RM
<b>Dividend on ordinary shares declared and paid</b>			
First interim single tier dividend of 1.5 sen per ordinary share, paid on 4 January 2017	7,168,769		-

## 30. EMPLOYEE BENEFITS

	2016 RM	Group	2015 RM
Salaries, wages and bonuses	37,272,536		31,827,207
Defined benefit plan	1,951,810		2,184,737
Social security contribution	248,608		181,108
Other benefits	2,199,815		2,598,514
	41,672,769		36,791,566

Included in the employee benefits of the Group are Directors' remuneration amounting to RM7,195,050 (2015: RM6,080,426).

# NOTES TO THE FINANCIAL STATEMENTS

## 31. DIRECTORS' REMUNERATION

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Executive Director's remuneration:				
- Fees	450,000	1,796,855	-	-
- Other emoluments	7,195,050	6,080,426	-	-
Total Executive Directors' remuneration (excluding benefits-in-kind)	7,645,050	7,877,281	-	-
Estimated money value of benefits-in-kind	75,202	81,817	-	-
Total Executive Directors' remuneration including benefits-in-kind	7,720,252	7,959,098	-	-
Non- Executive Director's remuneration:				
- Fees	117,000	91,800	117,000	91,800
- Other emoluments	28,500	19,500	28,500	19,500
Total Non-Executive Directors' remuneration	145,500	111,300	145,500	111,300
Total Directors' remuneration including benefit-in-kind	7,865,752	8,070,398	145,500	111,300

## 32. CAPITAL COMMITMENTS

	Group	
	2016 RM	2015 RM
Capital expenditure in respect of purchase of property, plant and equipment:		
Contracted but not provided for	2,056,466	3,325,000

## 33. CONTINGENT LIABILITIES

	Group and Company	
	2016 RM	2015 RM
<b>Corporate guarantees – unsecured</b>		
Issued to banks for banking facilities granted to subsidiaries		
- limit of guarantee	1,485,093,000	1,440,818,000
- amount utilised	(784,496,898)	(849,662,761)

The Directors are of the view that the chances of the financial institutions to call upon the corporate guarantees are remote. Accordingly, the fair values of the above corporate guarantees given to subsidiaries for banking facilities are negligible.



# NOTES TO THE FINANCIAL STATEMENTS

## 34. OPERATING LEASE AGREEMENTS

### (a) The Group as lessee

The Group had entered into non-cancellable lease agreements hostel and factory and outlet and warehouse, resulting in future rental commitments.

The future minimum lease payment payable under the above non-cancellable operating leases and other non-cancellable operating leases of the Group contracted for as at the end of reporting period but recognised as payables, are as follows:

	2016 RM	Group 2015 RM
Not later than one (1) year	403,473	1,910,340
Later than one (1) year and not later than five (5) years	300,000	967,500
Later than five (5) years	–	–
	703,473	2,877,840

### (b) The Group as lessors

The Group had entered into non-cancellable lease agreements on warehouse with third parties.

The future minimum lease payment receivable under the above non-cancellable operating leases as at the end of the reporting period but recognised as receivables, are as follows:

	2016 RM	Group 2015 RM
Not later than one (1) year	3,053,118	3,855,216
Later than one (1) year and not later than five (5) years	3,629,099	7,200,888
Later than five (5) years	–	–
	6,682,217	11,056,104

### (c) Sub-lease rental commitments

The Group has the following outstanding sub-lease rental commitments which are not taken up in the financial statements:

	2016 RM	Group 2015 RM
Not later than one (1) year	123,738	123,738
Later than one (1) year and not later than five (5) years	494,952	494,952
Later than five (5) years	123,738	247,476
	742,428	866,166

# NOTES TO THE FINANCIAL STATEMENTS

## 35. DISPOSALS OF SUBSIDIARIES

- (a) On 29 July 2016, the Company had disposed 70% of equity interest in GCB Specialty Chocolates Sdn. Bhd. ("GCBSC"), representing 12,950,000 ordinary shares of RM1.00 each for a total cash consideration of RM11,849,250. Upon the completion on 29 July 2016, GCBSC is no longer a subsidiary of the Company while become an associate of the Company. The financial effects of the disposal at the date of disposal are summarised below:

	<b>Group 2016 RM</b>	<b>Company 2016 RM</b>
Investment in subsidiary	–	12,950,000
Property, plant and equipment	54,340,751	–
Prepaid lease payments	1,484,983	–
Intangible assets	3	–
Inventories	9,562,135	–
Trade and other receivables	10,857,501	–
Cash and bank balances	2,007,059	–
Trade and other payables	(32,409,265)	–
Borrowings	(37,227,112)	–
Bank overdraft	(343,607)	–
Deferred tax liabilities	(14,000)	–
Derivative financial liabilities	(29,317)	–
Non-controlling interest	(616,896)	–
Carrying amount of net assets disposed of	7,612,235	12,950,000
Less: Remeasurement of remaining stake in associate	(2,283,670)	–
Less: Gain /(loss) on disposal of subsidiary	6,520,685	(1,100,750)
Consideration received	11,849,250	11,849,250
Less: Cash and bank balances of subsidiary disposed of	(1,663,452)	–
Net cash inflow from disposal of subsidiary	10,185,798	11,849,250

- (b) On 30 June 2016, the Company had disposed 100% of equity interest in GCM Marketing Sdn. Bhd. ("GCBM"), representing 3,000,000 ordinary share of RM1.00 each for a total cash consideration of RM150,000. Upon the completion on 30 June 2016, GCBM is no longer a subsidiary of the Company. The financial effects of the disposal at the date of disposal are summarised below:

	<b>Group 2016 RM</b>	<b>Company 2016 RM</b>
Investment in subsidiary	–	–
Property, plant and equipment	8,962	–
Inventories	98,784	–
Trade and other receivables	46,851	–
Cash and bank balances	235,338	–
Trade and other payables	(733,086)	–
Carrying amount of net assets disposed of	(343,151)	–
Less: Gain /(loss) on disposal of subsidiary	493,151	150,000
Consideration received	150,000	150,000
Less: Cash and bank balances of subsidiary disposed of	(235,338)	–
Net cash (outflow)/inflow from disposal of subsidiary	(85,338)	150,000

# NOTES TO THE FINANCIAL STATEMENTS

## 35. DISPOSALS OF SUBSIDIARIES (CONT'D)

- (c) On 9 October 2015, the Company has entered into a share sale agreement with SMC Food 21 Pte. Ltd. ("SMC") and SMC Food21 (Malaysia) Sdn. Bhd. ("SMCM") to dispose of the entire equity interest in Enrich Mix Sdn. Bhd. ("EM"), representing 510,000 ordinary shares (51%) of RM 1.00 each in EM to SMCM for a consideration of RM 4,986,128 to be satisfied by way of issuance of 4,986,128 new ordinary shares of RM 1.00 each in SMCM. Upon completion on 9 November 2015, EM is no longer a subsidiary of the Company and SMCM becomes an associate of the Company. The financial effects of the disposal at the date of disposal are summarised below:

	<b>Group 2016 RM</b>	<b>Company 2016 RM</b>
Investment in subsidiary	–	556,662
Property, plant and equipment	1,600,401	–
Inventories	14,602,954	–
Trade and other receivables	15,407,104	–
Cash and bank balances	135,634	–
Trade and other payables	(24,735,234)	–
Borrowings	(560,439)	–
Deferred tax liabilities	(315,000)	–
Non-controlling interest	(3,006,356)	–
Carrying amount of net assets disposed of	3,129,064	556,662
Less: Gain on disposal of subsidiary	1,857,064	4,429,466
Consideration received by the way of share swap	4,986,128	4,986,128
Less: Cash and bank balances of subsidiary disposed of	(135,634)	–
Net cash outflow from disposal of subsidiary	(135,634)	–

## 36. RELATED PARTY DISCLOSURES

- (a) Identities of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties could be individuals or other parties.

The Company has related party relationships with its direct, indirect subsidiaries, associates and ultimate holding company. In addition, the Company also has related party relationships with the following parties:

### **Identities related parties      Relationship with the Group**

Enrich Mix Sdn. Bhd.	A related party by virtue of the directorship of certain Directors of the Company, Hia Cheng and Tay Hoe Lian.
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# NOTES TO THE FINANCIAL STATEMENTS

## 36. RELATED PARTY DISCLOSURES (CONT'D)

- (b) In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on mutually agreed terms:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Transaction with subsidiaries				
- Management fee income	-	-	-	(20,000)
Related parties				
- Sale of goods	-	(2,159,050)	-	-
- Commission paid	-	13,653	-	-
Associate companies				
- Sale of goods	(13,679,313)	(3,171,599)	-	-
- Management fee income	(25,000)	(6,000)	-	(4,000)
- Purchase of goods	11,914	-	-	-
- Rental income	-	(324,000)	-	-

Material balances with related parties at the end of reporting period are disclosed in Note 14 and Note 24 to the financial statements. These transactions have been established under negotiated terms between the parties.

- (c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) and any other members of key management personnel of the Group and the Company.

	Group	
	2016 RM	2015 RM
Short term employee benefits	8,140,873	7,097,216
Contribution to defined contribution plan	419,887	342,310
	8,560,760	7,439,526
Fees	450,000	1,796,855
	9,010,760	9,236,381
Included in the total key management personnel compensation are:		
Directors' remuneration	7,195,050	6,080,426

# NOTES TO THE FINANCIAL STATEMENTS

## 37. OPERATING SEGMENTS

Guan Chong Berhad and its subsidiaries are principally engaged in investment holding, manufacturing, distributing and trading in compound chocolates, chocolate confectionery products and cakes.

Guan Chong Berhad has arrived at three (3) reportable segments that are Malaysia, Singapore and Indonesia as a result of the business expanding activities carried out in the financial year 2011.

Other operating segments that do not constitute reportable segments comprise operations related to investment holding and provision of management services.

The accounting policies of operating segments are the same as those described in the summary of significant accounting policies.

Inter-segment revenue is priced along the same lines as sales to external customers and conditions and is eliminated on the consolidated financial statements. These policies have been applied constantly throughout the current and previous financial years.

The respective subsidiaries' chief operating decision maker monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit or loss before tax, interest, depreciation and amortisation.

### **Segment assets**

The amounts provided to the chief operating decision maker with respect to total assets are based on all assets allocated to each reportable segment other than deferred income tax assets and tax recoverable.

### **Segment liabilities**

The amounts provided to the chief operating decision maker with respect to total liabilities are based on all liabilities allocated to each reportable segment other than income tax liabilities and borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

## 37. OPERATING SEGMENTS (CONT'D)

The following tables provide an analysis of the Group's revenue, results, assets, liabilities and other information by geographical segments:

2016	Malaysia RM	Singapore RM	Indonesia RM	Others RM	Eliminations RM	Consolidated RM
<b>Revenue</b>						
Total external revenue	922,975,619	1,251,705,658	93,719,770	47,464,762	–	2,315,865,809
Inter-segment revenue	572,887,497	1,889,567,136	795,540,658	–	(3,257,995,291)	–
<b>Total revenue</b>	<b>1,495,863,116</b>	<b>3,141,272,794</b>	<b>889,260,428</b>	<b>47,464,762</b>	<b>(3,257,995,291)</b>	<b>2,315,865,809</b>
<b>Segment results</b>						
	30,587,849	43,844,081	20,323,456	4,088,198	(2,512,596)	96,330,988
Interest income						1,163,500
Finance cost						(18,553,719)
Depreciation and amortisation						(26,732,643)
<b>Segment profit before tax</b>						<b>52,208,126</b>
Tax expense						(9,446,835)
<b>Profit for the financial year</b>						<b>42,761,291</b>
<b>Segment assets</b>						
Current tax assets	803,733,964	922,107,763	333,771,808	269,728,466	(836,298,973)	1,493,043,028
						242,495
<b>Total assets</b>						<b>1,493,285,523</b>
<b>Segment liabilities</b>						
Deferred tax liabilities	714,809,803	710,301,742	253,351,946	120,595,420	(1,460,625,974)	338,432,937
Borrowings						20,337,410
						710,281,443
<b>Total liabilities</b>						<b>1,069,051,790</b>
<b>Other information:</b>						
Capital expenditure	1,621,773	1,978,019	1,553,628	–	–	5,153,420
Depreciation and amortisation	10,926,032	381,851	14,937,110	487,650	–	26,732,643
Non-cash expenses/ (income) (other than depreciation and amortisation)	18,613,651	(20,190,252)	464,689	(7,062,885)	–	(8,174,597)

# NOTES TO THE FINANCIAL STATEMENTS

## 37. OPERATING SEGMENTS (CONT'D)

The following tables provide an analysis of the Group's revenue, results, assets, liabilities and other information by geographical segments: (Cont'd)

2015	Malaysia RM	Singapore RM	Indonesia RM	Others RM	Eliminations RM	Consolidated RM
<b>Revenue</b>						
Total external revenue	907,186,675	1,394,135,459	45,088,301	34,258,318	–	2,380,668,753
Inter-segment revenue	622,800,342	2,161,629,024	1,185,478,999	–	(3,969,908,365)	–
<b>Total revenue</b>	<b>1,529,987,017</b>	<b>3,555,764,483</b>	<b>1,230,567,300</b>	<b>34,258,318</b>	<b>(3,969,908,365)</b>	<b>2,380,668,753</b>
<b>Segment results</b>						
Interest income						510,131
Finance cost						(16,615,726)
Depreciation and amortisation						(27,164,049)
<b>Segment profit before tax</b>						<b>36,372,564</b>
Tax expense						(13,996,102)
<b>Profit for the financial year</b>						<b>22,376,462</b>
<b>Segment assets</b>						
Current tax assets	840,872,044	955,851,719	571,294,692	225,989,530	(984,602,706)	1,609,405,279
<b>Total assets</b>						<b>9,033,026</b>
<b>Segment liabilities</b>						
Deferred tax liabilities	751,514,720	781,069,885	490,616,167	73,177,456	(1,702,917,452)	393,460,776
Borrowings						18,491,780
<b>Total liabilities</b>						<b>829,625,107</b>
<b>Other information:</b>						
Capital expenditure	3,361,136	472,728	2,788,112	54,869	17,395	6,694,240
Depreciation and amortisation	11,957,207	334,966	14,335,287	536,589	–	27,164,049
Non-cash expenses/ (income) (other than depreciation and amortisation)	12,731,970	1,894,833	3,640,137	(4,427,599)	2,572,402	16,411,743

# NOTES TO THE FINANCIAL STATEMENTS

## 37. OPERATING SEGMENTS (CONT'D)

- (a) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	2016 RM	2015 RM
<b>Revenue</b>		
Total revenue for reportable segments	5,573,861,100	6,350,577,118
Inter-segment revenue	(3,257,995,291)	(3,969,908,365)
Revenue from external customers	2,315,865,809	2,380,668,753
<b>Profit for the financial year</b>		
Total profit or loss for reportable segments	52,208,126	36,372,564
Tax expense	(9,446,835)	(13,996,102)
Profit for the financial year of the Group from continuing operations per consolidated statement of profit or loss and other comprehensive income	42,761,291	22,376,462
<b>Assets and liabilities</b>		
Total assets for reportable segments	1,493,043,028	1,609,405,279
Tax assets	242,495	9,033,026
Assets of the Group per consolidated statement of financial position	1,493,285,523	1,618,438,305
Total liabilities for reportable segments	338,432,937	393,460,776
Tax liabilities	20,337,410	18,491,780
Borrowings	710,281,443	829,625,107
Liabilities of the Group per consolidated statement of financial position	1,069,051,790	1,241,577,663

- (b) Major customers

The following are major customers with revenue equal to or more than 10% of Group's total revenue:

	Revenue		Segment
	2016 RM	2015 RM	
Customer A	227,231,366	434,148,881	Malaysia and Singapore
Customer B	375,312,578	–	Singapore
Customer C	283,759,361	472,453,075	Singapore



# NOTES TO THE FINANCIAL STATEMENTS

## 38. FINANCIAL INSTRUMENTS

### (a) Capital management

The Group manages its capital to ensure that entities within the Group would be able to maintain an optimal capital structure so as to support its businesses and maximise shareholders' value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio that complies with debt covenants and regulatory, if any. The debt-to-equity ratio is calculated as net debt divided by total equity. The Group includes within net debt, loans and borrowings from financial institutions less cash and cash equivalents. Capital includes equity attributable to the owners of the parent and non-controlling interest.

As it is common in the cocoa industry for manufacturers or processors to carry cocoa beans inventory that are sufficient to mitigate the impact of seasonality and varieties of crops, and normally the bean inventory is financed through trade finance facilities. The interest cost of this is recouped and imputed through cocoa product pricing. In order to reflect better Group's gearing position, the net debt is adjusted to exclude trade finance facilities which are used to finance cocoa bean or raw material. There was no change in the Group's approach to capital management during the reporting period.

The debt-to-equity ratio of the Group at the end of the reporting period was as follows:

	2016 RM	Group 2015 RM
Borrowings (Note 20)	710,281,443	829,625,107
Less: Cash and bank balances (Note 16)	(62,645,883)	(28,610,034)
Net debt	647,635,560	801,015,073
Total equity	424,233,733	376,429,791
Debt-to-equity ratio	1.53	2.13

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity (total equity attributable to owners of the Company) more than 25% of the issued and paid-up share capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

# NOTES TO THE FINANCIAL STATEMENTS

## 38. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial instruments

Categories of financial instruments

Group	2016 RM	2015 RM
<b>Financial assets</b>		
<b>Fair value through profit or loss</b>		
Derivative financial asset	11,200,141	12,839,635
<b>Loans and receivables</b>		
Trade and other receivables excluding deposits and prepayments	272,728,963	293,598,828
Cash and bank balances	62,645,883	28,610,034
	335,374,846	322,208,862
	346,574,987	335,048,497
<b>Financial liabilities</b>		
<b>Fair value through profit or loss</b>		
Derivative financial liabilities	35,552,609	13,205,560
<b>Other financial liabilities</b>		
Trade and other payables	301,421,436	379,504,441
Borrowings	710,281,443	829,625,107
	1,011,702,879	1,209,129,548
	1,047,255,488	1,222,335,108
<b>Company</b>		
<b>Financial assets</b>		
<b>Loans and receivables</b>		
Other receivables	40,110,822	58,123,984
Cash and bank balances	1,125,903	29,693
	41,236,725	58,153,677
<b>Financial liabilities</b>		
<b>Other financial liabilities</b>		
Trade and other payables	42,383,008	32,628,928

# NOTES TO THE FINANCIAL STATEMENTS

## 38. FINANCIAL INSTRUMENTS (CONT'D)

### (c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

- (i) Financial instruments that are not carried at fair value and whose carrying amounts are at reasonable approximation of fair value.

The carrying amounts of financial assets and financial liabilities, such as trade and other receivables and trade and other payables, are reasonable approximation of fair value, due to their short-term nature or that they are floating rate instruments that are re priced to market interest rates on or near the end of the reporting period.

The carrying amounts of the current position of borrowings are reasonable approximation of fair values due to the insignificant impact of discounting.

- (ii) Hire purchase creditors

The fair value of hire purchase creditors is estimated by discounting expected future cash flows at market incremental lending rate for similar types of instruments available to the Group at the end of the reporting period.

- (iii) Derivatives

The fair values of commodity futures contracts are determined based on the quoted closing price on the relevant commodity markets at the end of the reporting period.

The fair value of a forward foreign exchange contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and the forward exchange rate as at the end of each reporting period applied to a contract of similar amount and maturity profile.

The fair value of the interest rate swap contracts is the amount that would be payable or receivable upon termination of the position at the end of each reporting period, and is calculated as the difference between the present value of the estimated future cash flows at the contracted rate compared to that calculated at the spot rate as at the end of each reporting period.

### (d) Fair value hierarchy

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- (i) The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest.
- (ii) Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For other borrowings, the market rate of interest is determined by reference to similar borrowing arrangements.

Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE FINANCIAL STATEMENTS

## 38. FINANCIAL INSTRUMENTS (CONT'D)

### (d) Fair value hierarchy (Cont'd)

The following tables set out the financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

2016 Group	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value RM	Carrying amount RM
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
<b>Financial assets</b>								
<b>Fair value through profit or loss</b>								
Derivative financial assets								
- Commodity futures contracts	8,017,572	-	-	-	-	-	8,017,572	8,017,572
- Commodity option contracts	2,059,007	-	-	-	-	-	2,059,007	2,059,007
- Foreign currency forward contracts	-	1,111,688	-	-	-	-	1,111,688	1,111,688
- Foreign currency option contracts	-	11,874	-	-	-	-	11,874	11,874
	10,076,579	1,123,562	-	-	-	-	11,200,141	11,200,141
<b>Financial liabilities</b>								
<b>Fair value through profit or loss</b>								
Derivative financial liabilities								
- Commodity futures contracts	31,802,425	-	-	-	-	-	31,802,425	31,802,425
- Commodity option contracts	3,729,562	-	-	-	-	-	3,729,562	3,729,562
- Interest rate swap	-	20,622	-	-	-	-	20,622	20,622
<b>Other financial liabilities</b>								
Hire purchases	-	-	-	-	322,455	-	322,455	322,455
Term loans	-	-	-	-	124,655,944	-	124,655,944	124,655,944
	35,531,987	20,622	-	-	124,978,399	-	160,531,008	160,531,008

# NOTES TO THE FINANCIAL STATEMENTS

## 38. FINANCIAL INSTRUMENTS (CONT'D)

(d) Fair value hierarchy (Cont'd)

The following tables set out the financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position (Cont'd).

2015 Group	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value RM	Carrying amount RM
	Level 1 RM	Level 2 RM	Level 3 RM	Level 1 RM	Level 2 RM	Level 3 RM		
<b>Financial assets</b>								
<b>Fair value through profit or loss</b>								
Derivative financial assets								
- Commodity futures contracts	8,460,406	-	-	-	-	-	8,460,406	8,460,406
- Commodity option contracts	4,166,348	-	-	-	-	-	4,166,348	4,166,348
- Foreign currency forward contracts	-	158,766	-	-	-	-	158,766	158,766
- Foreign currency option contracts	-	54,115	-	-	-	-	54,115	54,115
	12,626,754	212,881	-	-	-	-	12,839,635	12,839,635
<b>Financial liabilities</b>								
<b>Fair value through profit or loss</b>								
Derivative financial liabilities								
- Commodity futures contracts	6,569,184	-	-	-	-	-	6,569,184	6,569,184
- Commodity option contracts	6,461,906	-	-	-	-	-	6,461,906	6,461,906
- Foreign currency forward contracts	-	39,778	-	-	-	-	39,778	39,778
- Interest rate swap	-	134,692	-	-	-	-	134,692	134,692
	13,031,090	174,470	-	-	-	-	181,711,894	194,917,454
<b>Other financial liabilities</b>								
Hire purchases	-	-	-	-	820,364	-	820,364	820,364
Term loans	-	-	-	-	180,891,530	-	180,891,530	180,891,530
	13,031,090	174,470	-	-	181,711,894	-	194,917,454	194,917,454



# NOTES TO THE FINANCIAL STATEMENTS

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management objective is to optimise value creation for its shareholders whilst minimising the potential adverse impact arising from fluctuations in foreign currency exchange, interest rates and unpredictably of the financial markets.

The Group operates within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors. Financial risk management is carried out through risk review, internal control systems and adherence to the Group financial risk management policies. The Group is exposed mainly to credit risk, foreign currency risk, interest rate, commodity price risk as well as liquidity and cash flow risk. Information on the management of the related exposures is detailed below.

(i) Credit risk

Cash deposits and trade receivables could give rise to credit risk which requires the loss to be recognised if a counter party fails to perform as contracted. The counter parties are major international institutions and reputable multinational organisations. It is the policy of the Group to monitor the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

The Group's primary exposure to credit risk arises through its trade and other receivables. The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period 30 days to 120 days (2015: 30 days to 120 days). Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables via a credit control officer to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade and other receivables as appropriate. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified (where applicable). Impairment is estimated by management based on prior experience and the current economic environment.

The Company provides financial guarantee to financial institutions for credit facilities granted to certain subsidiaries. The Company monitors the results of these subsidiaries regularly and repayments made by the subsidiaries.

### Exposure to credit risk

At the end of each reporting period, the maximum exposure of the Group and of the Company to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position after deducting any allowance for impairment losses (where applicable).

In addition, the Company's maximum exposure to credit risk also includes corporate guarantees provided to its subsidiaries as disclosed in Note 33 to the financial statements. At the end of the reporting period, there was no indication that any subsidiary would default on repayment.

Information regarding credit exposure for trade and other receivables is disclosed in Note 14 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(i) Credit risk (Cont'd)

Credit risk concentration profile

The Group's major concentration of credit risk relates to the amount owing by two (2) customers which constituted approximately 21% of its trade receivables at the end of the reporting period.

The Group determines concentration of credit risk by monitoring the country and industry sector profiles of its trade receivables (including amount owing by related parties and associate) on an ongoing basis. The credit risk concentration profile of the trade receivables of the Group at the end of each reporting period are as follows:

	2016 RM	Group 2016 % of total	2015 RM	Group 2015 % of total
<b>By Country</b>				
Brazil	10,906,258	4.7%	11,147,906	3.9%
China	13,536,798	5.8%	11,617,239	4.1%
Germany	692,307	0.3%	69,943,037	24.5%
India	4,292,958	1.8%	3,435,286	1.2%
Japan	39,154,464	16.8%	24,072,161	8.5%
Malaysia	34,690,548	14.9%	12,859,041	4.5%
Russia	24,008,974	10.3%	14,356,984	5.0%
Singapore	20,906,056	9.0%	8,143,319	2.9%
Spain	1,044,341	0.4%	5,345,141	1.9%
United Kingdom	10,989,002	4.7%	48,055,789	16.9%
United States	18,121,160	7.8%	25,131,431	8.8%
Other countries	54,886,779	23.5%	50,767,879	17.8%
	233,229,645	100.0%	284,875,213	100.0%

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 14 to the financial statements. Bank balances, deposits and derivatives that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default. The Directors believe that the possibility of non-performance by the financial institutions is remote on the basis of its financial strength.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily Singapore Dollar ("SGD"), United States Dollar ("USD"), EURO ("EUR"), Great Britain Pound ("GBP"), and Indonesian Rupiah ("RUPIAH"). Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. On occasion, the Group enters into forward currency contracts to hedge against its foreign currency risk. The Group also holds cash and bank balances denominated in foreign currencies for working capital purposes.

The majority of the Group transactional currency risk arises from its foreign currency based forward sales and purchase of commodity items, contracted along the cocoa bean price chain. These non-financial forward contracts denominated in foreign currency are exposed to economic risk due to currency fluctuations and accounted as financial instruments with fair value impact to its financial statements. These forward contracts on fulfillment at maturity will result in book receivables or payables in foreign currency.

The Group entity's currency exposure and corresponding foreign currency contract are mark-to-market and fair value quarterly for operational hedge effectiveness testing and for management reporting and oversight. Monthly long-short positions on foreign currencies and foreign currency derivatives are also produced for timely control and intervention.

#### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity analysis of the Group to a reasonably possible change in Singapore Dollar ('SGD'), United States Dollar ('USD') and EURO ('EUR'), Great Britain Pound ("GBP"), and Indonesian Rupiah ("RUPIAH") exchange rate against the respective functional currencies of the Group entities, with all other variables held constant:

		<b>Group</b>	
		<b>2016</b>	<b>2015</b>
		<b>RM</b>	<b>RM</b>
<b>Profit after tax</b>			
SGD/RM	- strengthen by 5% (2015: 5%)	386,200	(136,200)
	- weaken by 5% (2015: 5%)	(386,200)	136,200
USD/RM	- strengthen by 5% (2015: 5%)	(27,197,600)	(33,202,600)
	- weaken by 5% (2015: 5%)	27,197,600	33,202,600
EUR/RM	- strengthen by 5% (2015: 5%)	(21,300)	(34,100)
	- weaken by 5% (2015: 5%)	21,300	34,100
GBP/RM	- strengthen by 5% (2015: 5%)	(592,200)	1,152,300
	- weaken by 5% (2015: 5%)	592,200	(1,152,300)
RUPIAH /RM	- strengthen by 5% (2015: 5%)	884,100	332,200
	- weaken by 5% (2015: 5%)	(884,100)	(332,200)



# NOTES TO THE FINANCIAL STATEMENTS

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments would fluctuate because of changes in market interest rates. The Group's exposures to market risk of changes in interest rates relates primarily to the Group's interest-earnings deposits placed with licensed banks and interest bearing borrowings on fixed and floating rates. There is no formal hedging policy with respect to interest rate exposure.

The following table sets out the carrying amounts and the weighted average effective interest rates as at the end of reporting period and remaining maturities of the Group's financial instruments that are exposed to interest rate risk:

Group	Note	Weighted average effective interest rate %	Within 1 year RM	1 - 5 years RM	More than 5 years RM	Total RM
<b>As at 31 December 2016</b>						
<b>Fixed rates</b>						
Deposits with						
licensed banks	16	3.82	15,338,135	–	–	15,338,135
Hire purchase creditors	21	4.62	(190,790)	(131,665)	–	(322,455)
<b>Floating rates</b>						
Term loans	20	2.53	(70,224,633)	(49,191,035)	(5,240,276)	(124,655,944)
Trade loans	20	1.84	(539,340,244)	–	–	(539,340,244)
Revolving credits	20	3.41	(45,962,800)	–	–	(45,962,800)
<b>As at 31 December 2015</b>						
<b>Fixed rates</b>						
Deposits with						
licensed banks	16	2.78	2,582,164	–	–	2,582,164
Hire purchase creditors	21	4.39	(426,423)	(393,941)	–	(820,364)
<b>Floating rates</b>						
Bankers' acceptance	20	4.90	(6,700,000)	–	–	(6,700,000)
Bank overdrafts	20	7.90	(853,658)	–	–	(853,658)
Term loans	20	2.63	(52,857,436)	(113,818,597)	(14,215,497)	(180,891,530)
Trade loans	20	1.36	(565,189,728)	–	–	(565,189,728)
Revolving credits	20	3.91	(75,169,827)	–	–	(75,169,827)

# NOTES TO THE FINANCIAL STATEMENTS

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (iii) Interest rate risk (Cont'd)

#### Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity analysis of the Group and of the Company if interest rates at the end of reporting period changed by 100 basis points with all other variables held constant.

	2016 RM	Group 2015 RM
<b>Profit after tax</b>		
- Increase by 1% (2015: 1%)	(5,282,000)	(6,203,000)
- Decrease by 1% (2015: 1%)	5,282,000	6,203,000

The Group's exposure to the interest rate risk is lower in 2016 than in 2015 due to the decrease in outstanding borrowings during the financial year. The assumed movement in basis points for interest rate sensitivity analysis is based on current observable market environment.

### (iv) Commodity price risk

The manufacturing of the Group's cocoa-derived food ingredients products require raw materials such as cocoa beans. The Group seeks to protect itself from the volatility of cocoa bean price risk through the use of commodity futures contracts in a cost effective manner.

The value of the Group's open sale and purchase commitments and inventory of raw materials changes continuously in line with cocoa bean price movements in the respective commodity markets.

The Group uses commodity futures manage its price risk and exposure by having policies and procedures governing its limits on volume and tenure, mark-to-market losses and on approval. The Group's marketing and trading operations are centralised and long-short positions are monitored closely.

#### Sensitivity analysis for commodity price risk

The following table demonstrates the sensitivity analysis of the Group and of the Company if commodity price index at the end of reporting period changed by 100 basis points with all other variables held constant.

	2016 RM	Group 2015 RM
<b>Profit after tax</b>		
- Increase by 1% (2015: 1%)	(839,739)	(4,285,342)
- Decrease by 1% (2015: 1%)	839,739	4,285,342

# NOTES TO THE FINANCIAL STATEMENTS

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (v) Liquidity and cash flow risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group would encounter difficulty in meeting its financial obligations when due.

The Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the liabilities of the Group and of the Company's liabilities at the end of each reporting period based on contractual undiscounted repayment obligations.

As at 31 December 2016	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
<b>Group Financial liabilities</b>				
Trade and other payables	301,421,436	–	–	301,421,436
Borrowings	660,354,042	51,122,531	5,395,482	716,872,055
Derivative financial liabilities	35,552,609	–	–	35,552,609
	997,328,087	51,122,531	5,395,482	1,053,846,100
<b>Company Financial liabilities</b>				
Trade and other payables	42,383,008	–	–	42,383,008
<b>As at 31 December 2015</b>				
<b>Group Financial liabilities</b>				
Trade and other payables	379,504,441	–	–	379,504,441
Borrowings	702,963,185	117,646,156	15,173,376	835,782,717
Derivative financial liabilities	13,205,560	–	–	13,205,560
	1,095,673,186	117,646,156	15,173,376	1,228,492,718
<b>Company Financial liabilities</b>				
Trade and other payables	32,628,928	–	–	32,628,928

# NOTES TO THE FINANCIAL STATEMENTS

## 40. SUPPLEMENTARY INFORMATION ON THE DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

The retained earnings as at the end of the reporting period may be analysed as follows:

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Total retained earnings:				
- Realised	295,722,761	238,117,839	26,884,871	30,523,192
- Unrealised	(33,075,889)	(14,654,467)	7,062,885	8,325,257
	262,646,872	223,463,372	33,947,756	38,848,449
Total share of loss from associates				
- Realised	(317,494)	(3,976)	-	-
Less: Consolidation adjustments	(15,485,118)	(11,772,917)	-	-
Total retained earnings	246,844,260	211,686,479	33,947,756	38,848,449

# LIST OF PROPERTIES

Owner / Location	Tenure / Term of lease	Approximate Land Area (sq m)	Approximate Age of building	Existing Use	Date of Acquisition	Net book Values @ 31 December 2016
<b>Malaysia</b>						
PLO273 Jalan Timah 2, 81700 Pasir Gudang, Johor	60 years (expiring on 8 May 2043)	7,976	26 years (Main factory and office) 20 years (second factory) 13 years (extension to second factory)	Industrial premises / factory consists of GCC main office, production area for GCC and temporary warehouse	7 December 1989	6,883,130
No. 49 Jalan 10/9, Perjiranan 10, Pasir Gudang, Johor	99 years (expiring on 6 May 2082)	143	33 years	Hostel	28 July 1994	58,314
PLO725, Jalan Keluli 9, 81700 Pasir Gudang, Johor	60 years (expiring on 17 February 2068)	27,523	10 years	Factory / warehouse	9 January 2006	18,800,098
Lot 4-0104(P) Mukim of Plentong, Johor	Freehold	3,502	N/A	Industrial land	1 July 2013	2,032,207
Lot 4-0114 Mukim of Plentong, Johor	Freehold	5,507	N/A	Industrial land	1 July 2013	3,197,812
Lot 4-0115 Mukim of Plentong, Johor	Freehold	4,073	N/A	Industrial land	1 July 2013	2,364,104
Lot 4-0116 Mukim of Plentong, Johor	Freehold	4,073	N/A	Industrial land	1 July 2013	2,364,104
Lot 4-0117 Mukim of Plentong, Johor	Freehold	4,073	N/A	Industrial land	1 July 2013	2,364,104
Lot 4-0118 Mukim of Plentong, Johor	Freehold	4,073	N/A	Industrial land	1 July 2013	2,364,104
Lot 4-0119 Mukim of Plentong, Johor	Freehold	4,073	N/A	Industrial land	1 July 2013	2,364,104
Lot 4-0120 Mukim of Plentong, Johor	Freehold	5,565	N/A	Industrial land	1 July 2013	3,230,950
Lot D30 & D31, Distripark B, Pelepas Free Zone, Johor	13 years (expiring on 23 March 2025)	16,107	6 years	Rental	2 July 2014	18,919,264

# LIST OF PROPERTIES

Owner / Location	Tenure / Term of lease	Approximate Land Area (sq m)	Approximate Age of building	Existing Use	Date of Acquisition	Net book Values @ 31 December 2016
<b>Singapore</b>						
The Cascadia 943 Bukit Timah Road #05-47 Singapore 589659	Freehold	111	7 years	Residential	17 January 2011	4,888,977
1 Commonwealth Lane #08-04 One Commonwealth Singapore 149544	30 years (expiring on 28 February 2038)	111	9 years	Office	19 January 2011	2,037,438
<b>Indonesia</b>						
Komplek Tunas Industrial Estate Type 7 No. A-F, Batam, Indonesia	30 years (expiring on 24 August 2030)	33,181	7 years	Industrial premises / Factory consists of PT Asia main office, production area for PT Asia	21 June 2010	47,478,364
Komplek Tunas Industrial Estate Type 6 No. 7-G, Batam, Indonesia	Leasehold (expiring on 24 August 2030)	6,985	11 years	Industrial premises and warehouse	17 March 2011	5,817,897
Komplek Tunas Industrial Estate Type 6 No. 6-D, Batam, Indonesia	Leasehold (expiring on 24 August 2030)	1,257	11 years	Industrial premises and warehouse	17 March 2011	1,057,534
Komplek Perumahan Diamond Palace Blok B No. 26, Batam, Indonesia	Leasehold (expiring on 13 August 2030)	170	12 years	Hostel	23 September 2011	535,875
Komplek Perumahan Purimas Residence Blok B3 No. 11, Batam, Indonesia	Leasehold (expiring on 28 May 2030)	132	11 years	Hostel	6 May 2011	192,577
Komplek Perumahan Purimas Residence Blok B3 No. 15, Batam, Indonesia	Leasehold (expiring on 28 May 2030)	132	11 years	Hostel	6 May 2011	192,577

# LIST OF PROPERTIES

Owner / Location	Tenure / Term of lease	Approximate Land Area (sq m)	Approximate Age of building	Existing Use	Date of Acquisition	Net book Values @ 31 December 2016
Komplek Perumahan Purimas Residence Blok B5 No. 23, Batam, Indonesia	Leasehold (expiring on 28 May 2030)	132	13 years	Hostel	6 May 2011	192,577
Kawasan Industri Kelurahan IV, Batam Centre, Indonesia	Leasehold (expiring on 8 August 2031)	30,000	4 year	Industrial premises / Factory consists of PT Asia main office, production area for PT Asia	10 January 2012	42,066,535
Komplek. Tunas Industrial Estate Type 6 No. 6-C, Batam, Indonesia	Leasehold (expiring on 24 August 2030)	942	11 years	Industrial premises and warehouse	8 June 2012	1,027,723
Kawasan Daan Mogot Arcadia, G15 No.5, Jl Raya Daan Mogot KM21, Batu Ceper, Jakarta, Indonesia.	Leasehold (expiring on 4 August 2035)	864	4 year	Industrial premises	2 October 2012	3,249,885
Palu warehouse Jalan Trans Sulaiwesi, Taipa, Palu-Sulaiwesi Tengah 94352.	Leasehold (expiring on 21 January 2027)	15,551	10 years	Warehouse	13 December 2013	7,723,414
Makassar Warehouse Jl. Kima 10 Kav A/5-a Makassar 90241	Leasehold (expiring on 29 October 2028)	10,890	18 years	Warehouse	10 December 2013	5,380,971
Komplek Villa Bukit Indah Blok H3 No.1, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	174	1 year	Hostel	29 December 2015	627,606
Komplek Villa Bukit Indah Blok H3 No.2, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.3, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780

# LIST OF PROPERTIES

Owner / Location	Tenure / Term of lease	Approximate Land Area (sq m)	Approximate Age of building	Existing Use	Date of Acquisition	Net book Values @ 31 December 2016
Komplek Villa Bukit Indah Blok H3 No.3A, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.5, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.6, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.9, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.10, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.11, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.12, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.12A, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	112	1 year	Hostel	29 December 2015	405,780
Komplek Villa Bukit Indah Blok H3 No.12B, Batam, Indonesia	Leasehold (expiring on 03 October 2031)	174	1 year	Hostel	29 December 2015	627,601



# OTHER COMPLIANCE INFORMATION

## 1. UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

There were no proceeds raised from corporate proposals during the financial year.

## 2. AUDIT AND NON-AUDIT FEES

The fees payable to the external auditors, Messrs BDO in relation to the audit and non-audit services rendered to the Company and its subsidiaries for the financial year ended 31 December 2016 are as follows :

	COMPANY RM	GROUP RM
Audit fees	52,700	219,860
Non audit fees	-	-

## 3. MATERIAL CONTRACTS

There were no material contracts entered into by the Group involving the interest of Directors and major shareholders, either still subsisting at the end of the financial year under review or entered into since the end of the previous financial year.

# ANALYSIS OF SHAREHOLDINGS

## As at 03 April 2017

Issued and Fully Paid Up Share Capital	RM120,039,613.00 (including treasury shares)
	RM119,479,438.00 (excluding treasury shares)
Voting Right	One vote per ordinary share
Number of Shareholders	3,202

### DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares held *	% of Issued Share Capital
Less than 100 shares	87	2.72	4,789	Neg
100 to 1,000 shares	299	9.34	157,552	0.03
1,001 to 10,000 shares	1,781	55.62	9,404,812	1.97
10,001 to 100,000 shares	888	27.73	27,747,417	5.81
100,001 to less than 5% of issued shares	145	4.53	160,342,714	33.55
5% and above of issued shares	2	0.06	280,260,468	58.64
<b>TOTAL</b>	<b>3,202</b>	<b>100.00</b>	<b>477,917,752</b>	<b>100.00</b>

Notes:

Neg – Negligible

\* – Excluding 2,240,700 shares held as treasury shares

### LIST OF SUBSTANTIAL SHAREHOLDERS

Name	Direct	No. of Shares held		%*
		Indirect	%*	
Guan Chong Resources Sdn. Bhd.	251,180,469	52.56	–	–
Misi Galakan Sdn. Bhd.	29,079,999	6.08	–	–

### DIRECTORS' SHAREHOLDINGS

Name	Direct	No. of Shares held		%*
		Indirect	%*	
YBhg Dato Dr Mohamad Musa Bin Md Jamil	105,999	0.02	29,079,999 <sup>(1)</sup>	6.08
Tay Hoe Lian	12,865,791	2.69	251,480,469 <sup>(2)</sup>	52.62
Tay How Sik @ Tay How Sick	6,239,548	1.31	60,000 <sup>(3)</sup>	0.01
Hia Cheng	8,748,179	1.83	9,631,799 <sup>(4)</sup>	2.02
YBhg Datuk Tay Puay Chuan	60,000	0.01	–	–
Tan Ah Lai	–	–	–	–

# ANALYSIS OF SHAREHOLDINGS

## As at 03 April 2017

### HOLDING COMPANY – GUAN CHONG RESOURCES SDN. BHD.

Name	Direct	No. of ordinary shares held		%
		%	Indirect	
Tay Hoe Lian	28,373	28.37	2,375 <sup>(5)</sup>	2.38
Tay How Sik @ Tay How Sick	13,934	13.93	–	–
Hia Cheng	5,000	5.00	–	–

Other than as disclosed above, the Directors of the Company did not have any other interest in the shares of the Company and its related corporations as at the date of the Analysis of Shareholdings.

By virtue of his interest in the shares of Guan Chong Resources Sdn. Bhd., Mr Tay Hoe Lian is also deemed to have an interest in the shares of all the subsidiaries to the extent that Guan Chong Resources Sdn. Bhd. has an interest.

#### Notes:

\* Excluding 2,240,700 shares held as treasury shares.

- (1) Deemed interest by virtue of his substantial shareholding in Misi Galakan Sdn. Bhd.
- (2) Deemed interest by virtue of his substantial shareholding in Guan Chong Resources Sdn. Bhd. and his spouse, Yap Kim Hong's shareholding in the Company
- (3) Deemed interest by virtue of his daughter, Tay Jing Ye's shareholding in the Company
- (4) Deemed interest by virtue of his spouse, Wong Saow Lai's shareholding in the Company
- (5) Deemed interest by virtue of his spouse, Yap Kim Hong's shareholding in Guan Chong Resources Sdn. Bhd.

### THIRTY (30) LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares held	%*
1.	Guan Chong Resources Sdn. Bhd.	251,180,469	52.56
2.	Misi Galakan Sdn. Bhd.	29,079,999	6.08
3.	Syarikat PJ Enterprise Sdn. Bhd.	22,941,399	4.80
4.	Tay Hoe Lian	10,565,792	2.21
5.	Hia Cheng	8,748,179	1.83
6.	Wong Saow Lai	8,641,799	1.81
7.	Tay Hoe Chin	7,289,763	1.53
8.	Lee Peck Lin	7,054,648	1.48
9.	Tay How Sik @ Tay How Sick	5,889,849	1.23
10.	Tay How Yeh	5,278,745	1.10
11.	Lim Yock @ Lim Kiak	5,209,838	1.09
12.	CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB Bank for Tay Hock Soon (MY1055)	5,200,000	1.09
13.	Oung Chee Seng	4,685,349	0.98
14.	Tan Hui Yang	4,557,548	0.95
15.	Tay How Seng	4,463,637	0.93
16.	T & T Family Sdn. Bhd.	4,347,729	0.91
17.	Tan Bak Keng @ Tang Ka Guek	3,744,024	0.78
18.	Chuah Chai Pore	3,499,249	0.73
19.	Chan Lee Yin	3,031,198	0.63
20.	Ngiam Ping-Shin	2,872,899	0.60

# ANALYSIS OF SHAREHOLDINGS

As at 03 April 2017

## THIRTY (30) LARGEST SHAREHOLDERS (CONT'D)

No.	Name of Shareholders	No. of Shares held	%*
21.	Lim Hwee Chen	2,174,099	0.45
22.	Tay Lee Goh	1,754,458	0.37
23.	Tay Lie Siang	1,709,459	0.36
24.	Tay Lee Lin	1,684,259	0.35
25.	Tay Lee Shein	1,609,460	0.34
26.	Ong Kim Hoi	1,250,000	0.26
27.	CIMSEC Nominees (Tempatan) Sdn. Bhd. CIMB Bank for Tay Hoe Lian (M52075)	1,000,000	0.21
28.	Wong Saow Lai	990,000	0.21
29.	Tay Hoe Lian	799,999	0.17
30.	Lembaga Tabung Haji	731,250	0.15

Note:

\* - Excluding 2,240,700 shares held as treasury shares.

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Thirteenth Annual General Meeting of GUAN CHONG BERHAD (“GCB” or “the Company”) will be held at Sri Ledang, 1st Hall, 2nd Floor, Mutiara Hotel, Jalan Dato Sulaiman, Taman Century, K.B. No. 779, 80990 Johor Bahru, Johor on Tuesday, 30 May 2017 at 11.00 a.m. for the following purposes:

## AGENDA

### *As Ordinary Business*

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Directors’ and Auditors’ Reports thereon. (Please refer to Note A).
2. To approve the payment of Directors’ fees for the financial year ended 31 December 2016. **Ordinary Resolution 1**
3. To re-elect the following Directors who retire in accordance with Article 81 of the Company’s Articles of Association:
  - i) Tay Hoe Lian **Ordinary Resolution 2**
  - ii) YBhg Dato Dr Mohamad Musa Bin Md Jamil **Ordinary Resolution 3**
4. To re-appoint Messrs BDO as Auditors of the Company and to authorize the Directors to fix their remuneration. **Ordinary Resolution 4**

### *As Special Business*

To consider and if thought fit, to pass the following resolutions with or without any modifications as resolutions :-

5. **Authority to Directors to allot and issue shares pursuant to Section 75 of the Companies Act, 2016** **Ordinary Resolution 5**

“THAT subject always to the Companies Act 2016 (“the Act”), the Articles of Association of the Company and the approvals of Bursa Malaysia Securities Berhad and other relevant governmental or regulatory bodies, where such approvals are necessary, the Directors be and are hereby empowered, pursuant to Section 75 of the Act, to issue shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed ten percent (10%) of the issued share capital of the Company for the time being and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”



## NOTICE OF ANNUAL GENERAL MEETING

6. **Proposed renewal of and new shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("RRPT")** **Ordinary Resolution 6**

"THAT pursuant to paragraph 10.09 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), approval be and is hereby given for the renewal of and new shareholders' mandate for the GCB Group to enter into and to give effect to specified RRPT and with the related parties as stated in Section 4.3 of the Circular to Shareholders dated 28 April 2017, which are necessary for its day-to-day operations, to be entered into by the GCB Group on the basis that these transactions are or to be entered into on terms which are not more favorable to the Related Parties involved than generally available to the public and are not detrimental to the minority shareholders of the Company ("Proposed Shareholders' Mandate");

THAT the Proposed Shareholders' Mandate is subject to annual renewal. In this respect, any authority conferred by the Proposed Shareholders' Mandate shall only continue to be in force until:-

- (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which the Proposed Shareholders' Mandate has been passed, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
- (b) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 340(2) of the Companies Act 2016 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting,

whichever is the earlier;

AND THAT the Directors of the Company and/or any of them be and are hereby authorized to complete and do all such acts and things (including executing such documents as may be required) to give effect to the Proposed Shareholders' Mandate."

# NOTICE OF ANNUAL GENERAL MEETING

**7. Proposed renewal of authority for the Company to purchase its own ordinary shares up to ten percent (10%) of its issued and paid-up capital** **Ordinary Resolution 7**

"THAT, subject to the Companies Act 2016 ("the Act"), rules, regulations and orders made pursuant to the Act, provisions of the Company's Memorandum and Articles of Association and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant authority, the Company be and is hereby given full authority, to seek shareholders' approval for the renewal of authority for the Company to purchase and/or such amount of ordinary shares in the Company ("Shares") through Bursa Securities upon such terms and conditions as the Directors may deem fit in the interest of the Company provided that:

- (i) the aggregate number of Shares so purchased and/or held pursuant to this ordinary resolution ("Purchased Shares") does not exceed ten percent (10%) of the total issued and paid-up capital of the Company; and
- (ii) the maximum amount of funds to be allocated for the Purchased Shares shall not exceed the aggregate of the retained profits and/or share premium of the Company";

THAT the Directors be and are hereby authorised to decide at their discretion either to retain the Purchased Shares as treasury shares (as defined in Section 127 of the Act) and/or to cancel the Purchased Shares and/or to retain the Purchased Shares as treasury shares for distribution as share dividends to the shareholders of the Company and/or be resold through Bursa Securities in accordance with the relevant rules of Bursa Securities and/or cancelled subsequently and/or to retain part of the Purchased Shares as treasury shares and/or cancel the remainder and to deal with the Purchased Shares in such other manner as may be permitted by the Act, rules, regulations, guidelines, requirements and/or orders of Bursa Securities and any other relevant authorities for the time being in force;

AND THAT such approval and authorisation shall only continue to be in force until:-

- (i) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which such resolution was passed at which time it shall lapse unless by ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which the next AGM after that date is required by law to be held; or
- (iii) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting;

whichever occurs first;

AND FURTHER THAT the Directors of the Company be authorised to do all such acts and things (including, without limitation executing all such documents as may be required) as they may consider expedient or necessary to give full effect to this mandate."

# NOTICE OF ANNUAL GENERAL MEETING

## 8. Proposed retention of Independent Directors

THAT approval be and is hereby given to the following Directors who have served as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years, to continue to act as Independent Non-Executive Directors of the Company in accordance with the Malaysian Code on Corporate Governance 2012:

(i) YBhg Datuk Tay Puay Chuan

**Ordinary Resolution 8**

(ii) Tan Ah Lai

**Ordinary Resolution 9**

## 9. To transact any other business for which due notice shall have been given in accordance with the Companies Act 2016.

By order of the Board,

PANG KAH MAN (MIA 18831)  
Secretary

Muar, Johor  
28 April 2017

### Notes:

- (A) This Agenda item is meant for discussion only as the provision of Section 340(1)(a) of the Companies Act 2016 does not require a formal approval of the shareholders and hence, is not put forward for voting.
1. Only depositors whose names appear in the Record of Depositors as at 23 May 2017 shall be regarded as members and be entitled to attend, speak and vote at the Meeting.
  2. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company.
  3. Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
  4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. If the appointor is a corporation, the proxy form must be executed under its common seal or under the hand of an officer or attorney duly authorised. In the event the member(s) duly executes the proxy form but does not name any proxy, such member(s) shall be deemed to have appointed the Chairman of the meeting as his/their proxy, provided always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member(s).
  5. To be valid, the proxy form duly completed must be deposited at the registered office of the Company situated at No. 7 (1st Floor) Jalan Pesta 1/1, Taman Tun Dr. Ismail 1, Jalan Bakri 84000 Muar, Johor not less than twenty-four (24) hours before the time for holding the meeting as Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad requires all resolutions set out in the Notice of Thirteenth Annual General Meeting to be put to vote by poll.



# NOTICE OF ANNUAL GENERAL MEETING

**(B) Explanatory Note Under Special Business :**

**6. Ordinary Resolution no. 5**

**Authority to Directors to allot and issue shares pursuant to Section 75 of the Companies Act 2016**

- (a) The proposed Ordinary Resolution no. 5, if passed, will empower the Directors of the Company, from the date of the forthcoming Annual General Meeting ("AGM") to allot and issue shares in the Company up to an amount not exceeding ten percent (10%) of the issued capital of the Company for the time being for such purposes as they may deem fit and in the interest of the Company. This authority, unless revoked or varied at a general meeting will expire at the conclusion of the next AGM of the Company.
- (b) The mandate now sought is a renewal from the previous mandate obtained at the last AGM held on 30 May 2016 which will expire at the conclusion of the forthcoming AGM.
- (c) The authority will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

**7. Ordinary Resolution no. 6**

**Proposed renewal of and new shareholders' mandate for recurrent related party transactions of a revenue or trading nature ("RRPT") ("Proposed Shareholders' Mandate")**

The proposed Ordinary Resolution no. 6, if passed, will approve RRPT which are necessary for the Group's day-to-day operations that to be entered into by the Company and its subsidiaries with the respective related parties from the forthcoming Annual General Meeting ("AGM") to the next AGM; subject to the transactions are entered into on terms which are not more favorable to the related parties involved than generally available to the public and are not detrimental to the minority shareholders of the Company. Further details on the Proposed Shareholders' Mandate are provided in the Circular to Shareholders dated 28 April 2017.

**8. Ordinary Resolution no. 7**

**Proposed renewal of authority for the Company to purchase its own ordinary shares up to ten percent (10%) of its issued and paid-up capital ("Proposed Shares Buy-Back Authority")**

The proposed Ordinary Resolution no. 7, if passed, will empower the Directors to purchase shares in the Company up to an amount not exceeding ten percent (10%) of the issued and paid-up share capital of the Company as they consider would be in the interest of the Company. Further details on the Proposed Share Buy-Back Authority are provided in the Circular to Shareholders dated 28 April 2017.



## NOTICE OF ANNUAL GENERAL MEETING

### 9. Ordinary Resolution no. 8 Proposed Retention of Independent Directors

The Board has assessed the independence of the Directors, YBhg Datuk Tay Puay Chuan and Tan Ah Lai whom have served as Independent Non-Executive Directors of the Company for a cumulative term of more than nine (9) years, and recommended them to continue to act as Independent Non-Executive Directors of the Company based on the following justifications:

- i) They fulfilled the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and thus, they would be able to function as check and balance, provide a broader view and bring an element of objectivity to the Board;
- ii) During their tenure in office, they have not developed, established or maintained any significant relationship which would impair their independence as Independent Directors with the Executive Directors and major shareholders other than normal engagements and interactions on a professional level consistent and expected of them to carry out their duties as Independent Non-Executive Directors and Chairman or member of the Board's Committees;
- iii) During their tenure in office, they have never transacted or entered into any transactions with, nor provided any services to the Company and its subsidiaries, within the scope and meaning as set forth under Paragraph 5 of Practice Note 13 of Listing Requirements;
- iv) They are currently not sitting on the board of any other public and/or private companies having the same nature of business as that of the Company and its subsidiaries;
- v) During their tenure in office as Independent Non- Executive Directors in the Company, they have not been offered or granted any options by the Company. Other than Director's fees and allowances paid which have been an industry norm and within acceptable market rates, duly disclosed in this Annual Report, no other incentives or benefits of whatsoever nature had been paid to them by the Company;
- vi) Their vast experience and legal and accounting background enabled them to provide the Board with a diverse set of experience, expertise and independent judgment; and
- vii) They have performed their duties diligently and in the best interest of the Company and provide a broader view, independent and balanced assessment of proposals from the management.

## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

### DETAILS OF INDIVIDUALS WHO ARE STANDING FOR ELECTION AS DIRECTORS

No individual is seeking election as a Director at the Thirteenth Annual General Meeting of the Company.

# PROXY FORM

No of shares held	
-------------------	--

I/We, .....

of .....

being a member/members of GUAN CHONG BERHAD, hereby appoint .....

.....

of .....

or failing him/her, .....

of .....

as my/our proxy to vote for me/us on my/our behalf at the Thirteenth Annual General Meeting of the Company to be held at Sri Ledang, 1st Hall, 2nd Floor, Mutiara Hotel, Jalan Dato Sulaiman, Taman Century, KB No. 779, 80990 Johor Bahru, Johor on Tuesday, 30 May 2017 at 11:00 a.m and at any adjournment thereof in respect of my/our shareholding in the manner indicated below :-

No.	Ordinary Resolution	For	Against
1	Approval of Directors' Fees for the financial year ended 31 December 2016		
2	Re-election of Tay Hoe Lian as Director		
3	Re-election of YBhg Dato Dr Mohamad Musa Bin Md Jamil as Director		
4	Re-appointment of Messrs BDO as Auditors		
5	Authority for Directors to issue shares pursuant to Section 75 of the Companies Act, 2016		
6	Proposed Renewal of and New Shareholders' Mandate		
7	Proposed Renewal of Share Buy-Back Authority		
8	Retention of YBhg Datuk Tay Puay Chuan as Independent Director		
9	Retention of Tan Ah Lai as Independent Director		

[Please indicate with a "x" in the spaces provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific instructions, your proxy will vote or abstain as he/she thinks fit]

For appointment of two proxies, percentage of shareholdings to be represented by the proxies :

Proxy	No of Shares	Percentage
1		
2		
Total		100%

.....  
Signature of Shareholder or Common Seal

Dated this ..... day of ..... 2017

**Notes :**

- Only depositors whose names appear in the Record of Depositors as at 23 May 2017 shall be regarded as members and be entitled to attend, speak and vote at the Meeting.
- A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy may but need not be a member of the Company.
- Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
- Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. If the appointor is a corporation, the proxy form must be executed under its common seal or under the hand of an officer or attorney duly authorised. In the event the member(s) duly executes the proxy form but does not name any proxy, such member(s) shall be deemed to have appointed the Chairman of the meeting as his/their proxy, provided always that the rest of the proxy form, other than the particulars of the proxy have been duly completed by the member(s).
- To be valid, the proxy form duly completed must be deposited at the registered office of the Company situated at No. 7 (1st Floor) Jalan Pesta 1/1, Taman Tun Dr. Ismail 1, Jalan Bakri 84000 Muar, Johor not less than twenty-four (24) hours before the time for holding the meeting as Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad requires all resolutions set out in the Notice of Thirteenth Annual General Meeting to be put to vote by poll.



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AFFIX  
STAMP

The Company Secretary

**Guan Chong Berhad** (646226-K)  
No. 7 (1<sup>st</sup> Floor), Jalan Pesta 1/1  
Taman Tun Dr Ismail 1, Jalan Bakri  
84000 Muar  
Johor Darul Takzim

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**GUAN CHONG BERHAD**

(646226-K)

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Kawasan Perindustrian Pasir Gudang,  
81700 Pasir Gudang, Johor  
Tel : 07-254 8888  
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Email : info@guanchong.com

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