

Notes on the quarterly report – 30 Sep 2005

**PART A : EXPLANATORY NOTES AS PER FINANCIAL REPORTING STANDARD (“FRS”) 134 :
INTERIM FINANCIAL REPORTING**

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standard (“FRS”) 134 : Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements of Guan Chong Berhad (“GCB” or the “Company”) and its subsidiary companies (“Group”) for the financial year ended 31 December 2004. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group.

The accounting policies and methods of computation adopted by the Group in these interim financial statements are consistent with those previously adopted in the preparation of the financial statements of the Group.

A2. Auditors’ report on preceding annual financial statements

The audited financial statements of the preceding financial year were not subjected to any qualification.

A3. Seasonal or cyclical factors

The cocoa processing industry is, to a certain extent, subject to the seasonal pattern of the consumption of cocoa-based products within a year.

A4. Unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows

There were no items of unusual nature and amounts affecting assets, liabilities, equity, net income or cash flows during the current quarter under review.

A5. Material changes in estimates

There was no material changes in estimates of amounts reported that will have a material effect during the current quarter under review.

A6. Issuances and repayment of debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter under review.

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A7. Dividends proposed, declared or paid

A first interim tax-exempt dividend of 5.2% or 1.3 cent per share amounting to RM3,120,000 in respect of current financial year was declared by the Company on 15 June 2005 and subsequently paid on 18 July 2005.

A second interim tax-exempt dividend of 8.0% or 2.0 cent per share amounting to RM4,800,000 in respect of the current financial year was declared by the Company on 28 October 2005. The second interim dividend payment date is on 1 December 2005.

A8. Segmental information

Segmental analysis by industry and geographical segments are not presented as the Group is principally involved in a single industry relating to processing of cocoa and producing cocoa-derived food ingredients and all of its operations are located in Malaysia.

A9. Valuation of property, plant and equipment

The property, plant and equipment of the Group are stated at cost less accumulated depreciation and impairment losses, if any. No revaluation of property, plant and equipment was undertaken during the current quarter under review.

A10. Material events subsequent to the end of the current quarter

Subsequent to the balance sheet date;

- i) The Company entered into a Sales and Purchases Agreement to purchase a piece of land measuring 5.0 acres at PLO 725 Zone 12 in Pasir Gudang Industrial Area for a total cash consideration of RM 2,692,734.
- ii) The litigation case against the Minister of Human Resource in respect of the National Food Industry Union's claim has been dismissed by the High Court on 11 Oct 2005. As a consequence, the subsidiary company, Guan Chong Cocoa Manufacturer Sdn. Bhd. shall accord recognition to the National Food Industry Union.

A11. Changes in the composition of the Group

There were no changes in the composition of the Group during the current quarter under review.

A12. Contingent liabilities

At 14 November 2005 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report), the Board of Directors of GCB are not aware of any material contingent liabilities incurred by the Group which, upon becoming enforceable, may have a material impact on the financial position of the Group.

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A13. Commitments

(a) Lease commitments

At the end of the current quarter, the Group has the following outstanding land lease rental commitments:-

	Group
	RM'000
Authorised and contracted for	<u>2,870</u>

(b) Capital commitments

At the end of the current quarter, capital expenditure contracted but not provided for of the Group are as follows :-

	Group
	RM'000
Authorised and contracted for :	
Property, plant and equipment	<u>981</u>

A14. Significant related party transactions

(a) Related party relationship

SMC Food 21 Pte. Ltd. – An affiliated company or a company in which certain directors of Enrich Mix Sdn. Bhd., Mr. Cheng Liang Chye and Mr. Cheng Liang Kheng have financial interest.

(b) Related party transactions

	Current Quarter Ended	Current Year To-Date
	30 Sep 2005	Ended
	<u>Group</u>	30 Sep 2005
	RM'000	<u>Group</u>
		RM'000
SMC Food 21 Pte. Ltd.		
- Sales of goods	<u>79</u>	<u>2,871</u>

The above transactions have been entered into in the normal course of business and have been undertaken on agreed terms and prices that are not materially different from those obtainable in transactions with its unrelated parties.

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**PART B : ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF
BURSA MALAYSIA SECURITIES BERHAD**

B1. Review of performance

The Group achieved revenue of RM105.15 million for current quarter ended 30 September 2005 and profit before tax of RM5.18 million for the current quarter under review. There were no material factors affecting the earnings and/or revenue of the Company and the Group for the current quarter under review. No comparison is made with the corresponding period in the previous financial year as this is the fourth set of consolidated quarterly report released by the Group.

B2. Variation of results against preceding quarter

Compared with the preceding quarter, the Group's revenue has increased by 2.75% from RM102.34 million to RM105.15 million. However, cost of goods sold increased by 3.58% from RM93.70 million to RM97.05 million, gross profit margin therefore decreased from 8.45% to 7.70%. Profit after tax and minority interest increased slightly from RM4.56 million to RM4.61 million.

B3. Commentary of prospects

Barring any unforeseen circumstances, the Board of Directors of GCB opine that the Group will be able to achieve its forecasted financial results for the financial year ending 31 December 2005 (as set out in GCB's prospectus dated 22 March 2005).

B4. Variance of actual and profit estimate

The Group has not provided any quarterly profit forecast and therefore no variance information is available for presentation. The analysis on the variance on profit forecast will only be applicable when the Group announces the results for the final quarter of the financial year ending 31 December 2005.

B5. Tax expense

	Current Quarter Ended	Current Year To-Date
	30 Sep 2005	Ended
	<u>Group</u>	30 Sep 2005
	RM'000	<u>Group</u>
		RM'000
Income tax expense :		
Current period estimate	353	1,201
Deferred tax expense :	151	377
	504	1,578

The effective tax rate of the Group for the current quarter under review was lower than the statutory tax rate attributed to the availability of tax incentives in certain subsidiary companies.

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**PART B : ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF
BURSA MALAYSIA SECURITIES BERHAD – (cont'd)**

B6. Unquoted investments and/or properties

The Group has not disposed of any unquoted investments and/or properties during the current quarter under review.

B7. Quoted and marketable investments

There was no purchase or disposal of quoted and marketable securities during the current quarter under review.

B8. Status of corporate proposals

(a) Status of corporate proposals

There were no corporate proposals announced but not completed as at 14 November 2005.

(b) Status of utilisation of proceeds

The status of utilisation of the proceeds raised from Rights Issue and Public Issue at the end of the current quarter is as follows:

Description	As Approved RM'000	Utilised RM'000
(a) Part finance of expansion programme		
- Capital expenditure in 2004	14,814	14,814
- Capital expenditure in 2005	6,000	2,074
(b) Acquisition of equipment for research and development	1,000	[^] 431
(c) Repayment of bank borrowings	1,428	1,428
(d) Working capital	13,770	13,770
(e) Listing expenses	1,500	* 1,882
TOTAL	38,512	34,399

Notes :

[^] As at 30 Sept 2005 RM0.431 million has been utilized. The remaining fund will be utilized during the 4th quarter in 2005.

* This amount of listing expenses of RM1.882 million has been set off against the share premium and the difference of RM0.382 million from the original estimated amount of RM1.500 million had been paid using internally generated fund.

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**PART B : ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF
BURSA MALAYSIA SECURITIES BERHAD – (cont'd)**

B9. Group borrowings

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

	<u>Group</u> RM'000
Short term borrowings	94,879
Long term borrowings	938
Total Borrowings	<u>95,817</u>

B10. Off balance sheet financial instruments

The Group entered into forward foreign exchange contracts to limit the exposure to potential changes in foreign currency exchange rates with respect to the Group's estimated foreign currency denominated receipts and payments.

Total off balance sheet forward foreign exchange sales and purchases contracts outstanding as at 15 November 2005 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) in Ringgit equivalent were RM46.487 million and RM0.477 million respectively. The maturity period of these contracts ranged from November 2005 to April 2006.

There is minimal credit risk because these contracts were entered into with reputable banks. All gains and losses arising from forward foreign exchange contracts are dealt with through the Income Statement upon maturity.

B11. Material litigation

The Group does not have any material litigation at the date of this announcement save as those disclosed in the prospectus dated 22 March 2005. The followings are their respective status update:

i) The current status of the litigation case against the Minister of Human Resource is disclosed under A10.

ii) On the litigation case against Allianz General Insurance Bhd (Allianz) and Malaysian Assurance Alliance Bhd. (MAA), one of the subsidiaries, Guan Chong Cocoa Manufacturer Sdn. Bhd. has agreed with Allianz on the settlement out of Court for a compensation of RM300,000. The claim has been fully settled by Allianz during the current quarter under review. As at to date, the matter against MAA is still pending for hearing.

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**PART B : ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF
BURSA MALAYSIA SECURITIES BERHAD – (cont'd)**

B12. Earnings per share

(a) Basic earnings per share

The basic earnings per share for the current quarter under review and cumulative year to-date are computed as follows:-

	<u>Group</u> <u>Current Quarter</u> <u>Ended</u> <u>30 Sep 2005</u>	<u>Current Year-</u> <u>To-Date Ended</u> <u>30 Sep 2005</u>
Profit after tax and minority interest (RM'000)	4,610	13,978
Weighted average number of ordinary shares in issue ('000)	240,000	214,783
Basic earnings per share (sen)	1.92	6.51

(b) Diluted earnings per share

The diluted earnings per share is not disclosed as the unissued ordinary shares granted to employees pursuant to the Company's Employees Share Option Scheme ('ESOS') have no dilutive effect since the exercise price is above the average market value of the Company's shares.

The Company does not have any convertible financial instruments at the end of the current quarter under review except for ESOS.

BY ORDER OF THE BOARD

Tay Hoe Lian
Managing Director

Dated: 21.11.2005