

Notes on the quarterly report – 31 December 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 second interim tax-exempt dividend of 8.0% or 2.0 sen per share amounting to RM4,800,000 in respect of the current financial year was declared by the Company on 28 October 2005 and subsequently paid on 1 December 2005.

The Board proposed a final tax-exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000 in respect of the financial year ended 31 December 2005. This dividend is subject to the approval of shareholders at the forthcoming Annual General Meeting of the Company and has not been included as liability in the financial statements.

A8. Segmental information

The segmental information is not prepared as the Group is principally involved in manufacturing and trading of cocoa-derived food ingredients which is predominantly carried out 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) Guan Chong Cocoa Manufacturer Sdn. Bhd. ("GCC"), a wholly owned subsidiary of GCB, had on 10 February 2006 entered into a Membership Purchase Agreement for GCC or its assignee(s) to acquire 49% of William H. Wurster's membership interest held in Carlyle Cocoa Co., LLC a limited liability company formed under the laws of the State of Delaware, United States of America for a total cash purchase consideration of US\$ 1,016,750 (One Million Sixteen Thousand Seven Hundred Fifty United States Dollars).

The investment will enable the Group to further penetrate and enlarge the cocoa powder market in U.S.A. which is one of the largest cocoa markets in the world.

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 21 February 2006 (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>2,797</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>4,977</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
	31 Dec 2005	Ended
	Group	31 Dec 2005
	RM'000	Group
		RM'000
SMC Food 21 Pte. Ltd.		
- Sales of goods	1,151	4,022
- Purchases of goods	<u>2,469</u>	<u>3,328</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 RM102.00 million for current quarter ended 31 December 2005 and profit before tax of RM4.36 million for the current quarter under review. No comparison is made with the corresponding period in the previous financial year as the first set of interim reporting for the Group was for the financial period ended 31 March 2005.

B2. Variation of results against preceding quarter

Compared with the preceding quarter, the Group's revenue has decreased slightly by 3.00% from RM105.15 million to RM102.00 million whilst profit before tax has decreased to RM4.36 million as compared with preceding quarter of RM5.18 million mainly due to higher staff costs in the form of year-end bonus.

The Group's profit after tax and minority interest decreased substantially from RM4.61 million to RM3.06 million mainly due to higher staff costs and tax expense for the current quarter.

B3. Commentary of prospects

Recognising the market challenges ahead, The Group has initiated various management initiatives and strategies with the aim of improving its competitiveness and long term profitability. In relation to investments and other relevant capital expenditures, initial costs are expected to impact on the current year net profit before the benefits in the form of lower operating cost (production efficiency), higher market share and higher yield on investments are realised over the near future.

Apart from the above and barring any unforeseen circumstances, the Board of Directors of GCB expects that the Group's financial performance for the financial year 2006 to be satisfactory.

B4. Variance of actual and profit estimate

For the financial year ended 31 December 2005, the Group achieved revenue of RM412.70 million and profit before tax of RM20.06 million as compared to the forecasted consolidated revenue and profit before tax of RM394.69 million and RM20.44 million respectively. However, the Group recorded a profit after tax and minority interest of RM17.037 million which is 6.64% below the full year forecast net profit of RM18.249 million as stated in the prospectus dated 22 March 2005. This is mainly due to higher tax expense of RM2.84 million for the current financial year as compared to the forecasted tax expense of RM1.74 million. The deferred tax effect of the capital expenditure has resulted in a higher effective tax rate.

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

B5. Tax expense

	Current Quarter Ended	Current Year To-Date
	31 Dec 2005	Ended
	Group	31 Dec 2005
	RM'000	Group
		RM'000
Income tax expense :		
Current period estimate	225	1,426
Deferred tax expense :	1,036	1,413
	<u>1,261</u>	<u>2,839</u>

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.

B6. Unquoted investments and/or properties

The Group did not acquire or dispose 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 21 February 2006.

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

(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	#2,849
(b) Acquisition of equipment for research and development	1,000	^543
(c) Repayment of bank borrowings	1,428	1,428
(d) Working capital	13,770	^14,227
(e) Listing expenses	1,500	* 1,500
TOTAL	38,512	35,361

Notes :

The Board of Directors of GCB via a resolution dated 01 June 2005 has approved for the RM1.051 million intended for the purchase of the cocoa butter deodorizing plant to be reallocated for the purchase of the grinding and ancilliary equipment.

^ As at 31 Dec 2005 RM0.543 million has been utilized. The Board of Directors of GCB via a resolution dated 21 February 2006 has approved for the reallocation of the unutilized proceeds of RM0.457 million to working capital.

* 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.

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	77,115
Long term borrowings	852
Total Borrowings	77,967

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

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 contracts outstanding as at 21 February 2006 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) in Ringgit equivalent was RM113.885 million. The maturity period of these contracts ranges from 1 to 3 months.

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 except for the cargo insurance claims against Malaysian Assurance Alliance Berhad ("MAA") by Guan Chong Cocoa Manufacturer Sdn. Bhd., a wholly owned subsidiary of GCB, for the damaged suffered on a shipment of bagged cocoa shipped on the vessel "Pratiwi" from Pantolon, Palu Indonesia to Pasir Gudang, Johore sometime in July 2001. The vessel "Pratiwi" caught fire en route and a substantial portion of the cargo was damaged. As at to date, the matter is still pending for hearing.

B12. Earnings per share

(a) Basic earnings per share

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

	Group	
	Current Quarter	Current Year-
	Ended	To-Date Ended
	<u>31 Dec 2005</u>	<u>31 Dec 2005</u>
Profit after tax and minority interest (RM'000)	3,059	17,037
Weighted average number of ordinary shares in issue ('000)	240,000	215,090
Basic earnings per share (sen)	1.27	7.92

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**PART B : ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF
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(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 for the current quarter and current year.

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: 24.02.2006