

Notes on the quarterly report – 31 March 2006

**PART A : EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD 134 (“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 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 2005. 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 since the year ended 31 December 2005.

A2. Changes in Accounting Policies

The significant 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 except for the adoption of the following new and revised Financial Reporting Standards (“FRS”) issued by Malaysian Accounting Standards Board (“MASB”) that are effective for the financial period beginning 1 January 2006.

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets

The adoption of FRS 2, 5, 102, 108, 110, 121, 127, 128, 132, 133 and 136 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new and revised FRSs and prior year adjustment are as per below:

(a) FRS 3: Business Combinations

Under FRS 3, the Group's reserve on consolidation which represents the excess of the fair value of the net assets of the subsidiary companies over the acquisition cost at the date of acquisitions, is now recognised immediately in the income statement. Prior to 1 January 2006, the reserve on consolidation is credited to capital reserves as permanent item. In accordance with the transitional provisions of FRS 3, the reserve on consolidation as at 1 January 2006 of RM3,442,682 was derecognised with a corresponding increase in retained profits.

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A2. Changes in Accounting Policies – (Cont'd)

(b) FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. Minority interests are now presented within total equity in the consolidated balance sheet and as an allocation from net profit for the period in consolidated income statement. The movement of minority interest is now presented in the consolidated statement of changes in equity.

The presentation of the comparative financial statements of the Group has been restated to conform with the current period's presentation.

(c) FRS 116: Property, plant and equipment

In accordance with FRS 116, the asset's residual values, useful lives and depreciation methods will be assessed at each financial year end and adjusted if necessary. If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

(d) FRS 117: Leases

The adoption of the revised FRS 117 has resulted in retrospective change in the accounting policy relating to the classification of leasehold land. The up-front payments made for the leasehold land represents lease rental paid in advance and are amortised on a straight-line basis over the lease period. Prior to 1 January 2006, leasehold land was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses, if any.

With the adoption of the revised FRS 117, the unamortised amount of leasehold land is retained as the surrogate carrying amount of lease rental paid in advance as allowed by the transitional provisions of FRS 117. The reclassification of leasehold land as lease rental paid in advance has been accounted for retrospectively.

A3. Comparatives

The comparative amounts have been restated following the adoption of the new and revised FRSs:

	Previously stated RM' 000	FRS 3 (Note 2(a)) RM' 000	FRS 117 (Note 2(d)) RM' 000	Restated RM' 000
Balance Sheet At 31 December 2005				
Property, plant and equipment	62,013	-	(249)	61,764
Lease rental paid in advance	1,609	-	249	1,858
Retained profit	9,111	3,443	-	12,554
Reserve on consolidation	3,443	(3,443)	-	-

A4. Auditors' report on preceding annual financial statements

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

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A5. 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.

A6. 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.

A7. 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.

A8. 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.

A9. Dividends paid

There was no dividend paid during the current quarter under review.

A10. 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.

A11. 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.

A12. Material events subsequent to the end of the current quarter

There was no material event subsequent to the current quarter ended 31 March 2006 that has not been reflected in this quarterly report.

A13. Changes in the composition of the Group

Acquisition of an associate

On 10 February 2006, the Group through a wholly-owned subsidiary company, GCB America, Inc. acquired 49% of membership interest in Carlyle Cocoa Co., LLC, a limited liability company formed under the laws of the State of Delaware, United States of America.

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A14. Contingent liabilities

At 19 May 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.

A15. Commitments

(a) Lease commitments

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

Authorised and contracted for	RM'000 2,564
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(b) Capital commitments

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

Authorised and contracted for :	RM'000
Property, plant and equipment	3,461

A16. 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 Mar 2006	Ended
	RM'000	31 Mar 2006
		RM'000
SMC Food 21 Pte. Ltd.		
- Sales of goods	663	663
- Purchases of goods	495	495

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 registered a turnover of RM91.11 million for current quarter ended 31 March 2006 and profit before tax of RM4.48 million for the current quarter under review. As we compared the current quarter with the corresponding period in the previous financial year, the turnover decreased by 11.72% from RM103.21 million to RM91.11 million mainly due to lower selling price of cocoa products. The profit before tax decreased substantially by 16.39% from RM5.36 million to RM4.48 million as a results from the lower selling price of cocoa products .

B2. Comment on material change in profit before tax

There is no material change in the profit before tax for the quarter reported on as compared with the immediate preceding quarter.

B3. Commentary of prospects

The Board of Directors is optimistic about the performance of GCB in the current financial year. We believe GCB is well-positioned for growth as many initiatives to improve our competitiveness and profitability have been systematically carried out by the management team.

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. Profit forecast or profit guarantee

There were no profit forecast or profit guarantee issued by the Group.

B5. Tax expense

	Current Quarter Ended		Current Year To-Date Ended	
	31 Mar 2006 RM'000	31 Mar 2005 RM'000	31 Mar 2006 RM'000	31 Mar 2005 RM'000
Income tax expense:				
Current period estimate	517	439	517	439
Deferred tax expense	43	106	43	106
	<u>560</u>	<u>545</u>	<u>560</u>	<u>545</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.

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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 did not acquire or dispose of any unquoted investments and/or properties during the current quarter under review.

B7. Quoted securities

Details of purchase and disposal of quoted securities are as follow:

	Current Quarter Ended 31 Mar 2006 RM' 000	Current Year To-Date Ended 31 Mar 2006 RM' 000
Purchase consideration	-	-
Sale proceeds	5	5
Gain on disposal	-	-

Details of investment in quoted securities:

	As at 31 Mar 2006 RM' 000
At cost	-
At book value	-
At market value	-

B8. Corporate proposals

(a) Status of corporate proposals

There were no corporate proposals announced but not completed as at 19 May 2006.

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

B8. Corporate proposals – (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	#2,853
(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	35,365

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 ancillary 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. Borrowings

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

Short term borrowings	RM'000 84,311
Long term borrowings	826
Total Borrowings	85,137

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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 19 May 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 RM141.248 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

As disclosed during the previous quarter ended 31 December 2005, Guan Chong Cocoa Manufacturer Sdn. Bhd. ("GCC"), a wholly-owned subsidiary company of GCB had made a cargo insurance claims against Malaysian Assurance Alliance Berhad ("MAA") in respect of 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. However, the claim was dismissed by the High Court on 15 May 2006.

B12. Dividend declared or recommended

The Board proposes a final tax exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000 in respect of financial year ended 31 December 2005 subject to the approval of the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in the financial statements. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the second quarter. The final dividend will be paid on 20 July 2006 to shareholders whose names appear in the Record of Depositors on 12 July 2006.

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

B13. 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:-

	Current Quarter Ended		Current Year To-Date Ended	
	31 Mar 2006	31 Mar 2005	31 Mar 2006	31 Mar 2005
Net Profit (RM'000)	3,952	4,804	3,952	4,804
Weighted average number of ordinary shares in issue ('000)	240,000	216,000	240,000	216,000
Basic earnings per share (sen)	1.65	2.22	1.65	2.22

(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: 23.05.2006