

Notes on the quarterly report – 30 June 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 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

In addition to the above, the Group has also taken the option of early adoption of the following new and revised FRS, which is effective for financial period commencing on or after 1 October 2006.

- FRS 117 Leases
- FRS 124 Related Party Disclosures

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:

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

(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 RM3.443 millions was derecognised with a corresponding increase in retained profits.

(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 reported 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)	-	-

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A4. Auditors' report on preceding annual financial statements

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

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

The Company did not make any dividend payment during the current quarter.

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 30 June 2006 that has not been reflected in this quarterly report.

A13. Changes in the composition of the Group

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

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A14. Contingent liabilities

At 22 August 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 2,454
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(b) Capital commitments

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

Authorised and contracted for : Property, plant and equipment	RM'000 5,401
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A16. Significant related party transactions

(a) Related party relationship

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

Cheng Yew Heng Candy Factory Pte. Ltd. – A company in which certain directors of Enrich Mix Sdn. Bhd., Mr. Cheng Liang Chye and Mr. Cheng Liang Kheng have financial interest.

Carlyle Cocoa Company, LLC – Associated company of the Group

(b) Related party transactions

	Current Quarter Ended 30 Jun 2006 RM'000	Current Year To-Date Ended 30 Jun 2006 RM'000
SMC Food 21 Pte. Ltd.		
- Sales of goods	812	1,475
- Purchases of goods	817	1,312
Cheng Yew Heng Candy Factory Pte. Ltd.		
- Purchases of goods	351	351
Carlyle Cocoa Company, LLC		
- Sales of goods	130	130

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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's revenue for the current financial period ended 30 June 2006 of RM179.77 million is lower than the revenue in the prior corresponding financial period ended 30 June 2005 of RM205.55 million. The decrease of 12.54% in turnover is mainly due to lower selling price of its cocoa products. The profit before tax for the period ended 30 June 2006 amounting to RM9.65 million is also lower than the profit before tax of RM10.52 million for the previous corresponding financial period as a result of the lower turnover of its cocoa products.

The Group's revenue for the current quarter ended 30 June 2006 decreased by 13.38% to RM88.65 million from RM102.34 million in the quarter ended 30 June 2005 as a result of the lower selling price of its cocoa products. There is no material change in the profit before tax as compared with the preceding year corresponding quarter ended 30 June 2005.

B2. Comment on material change in profit before tax

The Group recorded a profit before tax of RM5.17 million for the current quarter as compared to a profit before tax of RM4.48 million in the preceding quarter mainly due to higher gross profit margin.

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.

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	
	30 Jun 2006 RM'000	30 Jun 2005 RM'000	30 Jun 2006 RM'000	30 Jun 2005 RM'000
Income tax expense:				
Current period estimate	340	409	857	848
Deferred tax expense	195	120	238	226
	<u>535</u>	<u>529</u>	<u>1095</u>	<u>1074</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 30 Jun 2006 RM' 000	Current Year To-Date Ended 30 Jun 2006 RM' 000
Purchase consideration	-	5
Sale proceeds	-	5
Gain on disposal	-	-

B8. Corporate proposals

(a) Status of corporate proposals

There were no corporate proposals announced but not completed as at 22 August 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	#3,116
(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	35,628

Notes :

The Board of Directors of GCB via a resolution dated 01 June 2005 has approved for the RM1.05 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, only RM0.54 million out of RM1.00 million has been utilised. The Board of Directors of GCB via a resolution dated 21 February 2006 has approved for the reallocation of the unutilised proceeds of RM0.46 million to working capital.

* This amount of listing expenses of RM1.88 million has been set off against the share premium and the difference of RM0.38 million from the original estimated amount of RM1.50 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	76,524
Long term borrowings	675
Total Borrowings	77,199

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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 22 August 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 RM112.621 million. The maturity period of these contracts ranges from 1 to 5 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 March 2006, the marine cargo insurance claim made by Guan Chong Cocoa Manufacturer Sdn. Bhd. ("GCC"), a wholly-owned subsidiary company of GCB against Malaysian Assurance Alliance Berhad ("MAA") in respect of the damages suffered on a shipment of bagged cocoa shipped on the vessel "Pratiwi" from Pantolon, Palu Indonesia to Pasir Gudang, Johore sometime in July 2001 was dismissed by the High Court on 15 May 2006..

However, GCC had file an appeal notice to the Court of Appeal on 9 June 2006. As at to date, the matter is still pending for hearing.

B12. Dividend declared or recommended

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 was approved by the shareholders during the Annual General Meeting held on 20 June 2006 and subsequently paid on 20 July 2006.

A first interim tax exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000 in respect of financial year ending 31 December 2006 was declared on 25 May 2006 and subsequently paid on 20 July 2006.

On 28 August 2006, the Board declared a second interim tax exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000 in respect of financial year ending 31 December 2006 to shareholders registered in the Record of Depositors at close of business on 18 September 2006 and will be paid on 28 September 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	
	30 Jun 2006	30 Jun 2005	30 Jun 2006	30 Jun 2005
Net Profit (RM'000)	4,459	4,564	8,411	9,368
Weighted average number of ordinary shares in issue ('000)	240,000	238,154	240,000	201,966
Basic earnings per share (sen)	1.86	1.92	3.50	4.64

(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: 28.08.2006