

**Notes on the quarterly report – 31 December 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 FRSs , which are effective for financial period commencing on or after 1 October 2006.

- FRS 117 Leases
- FRS 124 Related Party Disclosures

The adoption of FRS 5, 102, 108, 110, 121, 124, 127, 128, 132, 133 and 136 does not have significant financial impact on the Group. The principal effect of the change in accounting estimate resulting from the adoption of FRS 116 is disclosed in Note A7. 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 2: Share-based Payment**

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the directors and employees of the Group, the Employees' Share Options Scheme ("ESOS"). Prior to 1 January 2006, no compensation expense was recognised in profit or loss for share options granted. With the adoption of FRS 2, the compensation expense relating to share options is recognised in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognised as compensation expense is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. The fair value of the share option is computed using a black-scholes model.

Under the transitional provisions of FRS 2, this FRS must be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. The application is retrospective and accordingly, the comparative amounts as at 31 December 2005 are restated and the opening balance of retained profits as at 1 January 2006 has been adjusted. The financial impact to the Group arising from this change in accounting policy is disclosed in note A3.

**(b) 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.

**(c) 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.

**(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.

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**A3. Comparatives**

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

	Previously reported RM' 000	FRS 2 (Note 2(a)) RM' 000	FRS 117 (Note 2(d)) RM' 000	Restated RM' 000
<b>Balance Sheet At 31 December 2005</b>				
Property, plant and equipment	62,013	-	(249)	61,764
Lease rental paid in advance	1,609	-	249	1,858
Retained profit	9,111	(37)	-	9,074
Other reserve	-	37	-	37
<b>Income Statement For the financial year ended 31 December 2005</b>				
Operating expenses	(11,519)	(37)	-	(11,556)
Profit before tax	20,056	(37)	-	20,019
Profit for the period	17,217	(37)	-	17,180

**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**

The revised FRS 116: Property, plant and equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. The Group revised the estimated useful lives of certain plant and machineries from 12 years to 20 years with effect from 1 January 2006. The revisions were accounted for during the current quarter as a change in accounting estimates and therefore the depreciation charges for the current quarter and the current financial year ended 31 December 2006 have been reduced by RM 1,443,128.

There were no other changes in estimates that have had a material effect in the current quarter results.

**Notes on the quarterly report – 31 December 2006**

**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**

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 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 ended 31 December 2006 was paid on 20 July 2006.

A second interim tax-exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000 in respect of financial year ended 31 December 2006 was paid on 28 September 2006.

Dividend paid on 22 December 2006 were declared on 21 November 2006, in respect of financial year ended 31 December 2006 being third interim tax-exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000.

**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 events subsequent to the current quarter ended 31 December 2006 that has not been reflected in this quarterly report.

**A13. Changes in the composition of the Group**

**Acquisition of a Subsidiary**

On 9 October 2006, GCB acquired 90% of the issued and paid up capital comprising 90 ordinary shares of RM 1.00 each in GCB Foods Sdn. Bhd. ("GCB Foods"). On 5 December 2006, GCB subscribed 469,910 new ordinary shares of RM 1.00 each of GCB Foods at par. As a result, GCB Foods became a 94% subsidiary company of GCB to undertake the manufacturing, marketing and promotion of cocoa related products.

**Notes on the quarterly report – 31 December 2006**

**A14. Contingent liabilities**

At 21 February 2007 (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	<b>RM'000</b> 2,235
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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 :-

<b>Authorised and contracted for :</b> Property, plant and equipment	<b>RM'000</b> 8,286
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**A16. Significant related party transactions**

**(a) Related party relationship**

**Enrich Mix Sdn. Bhd** – A subsidiary company of GCB.

**SMC Food 21 Pte. Ltd.** – A company in which certain directors of Enrich Mix Sdn. Bhd. have financial interest.

**Cheng Yew Heng Candy Factory Pte. Ltd.** – A company in which certain directors of Enrich Mix Sdn. Bhd. have financial interest.

**Carlyle Cocoa Company, LLC** – An associated company of GCB

**Guan Chong Resources Sdn. Bhd.** – The ultimate holding company of GCB.

**Guan Chong Properties Sdn. Bhd.** – A related company of GCB.

**Ian Cin Sdn. Bhd.** – A related company of GCB..

**Notes on the quarterly report – 31 December 2006**

**(b) Related party transactions**

	<b>Current Quarter Ended 31 Dec 2006 RM'000</b>	<b>Current Year To-Date Ended 31 Dec 2006 RM'000</b>
<b>SMC Food 21 Pte. Ltd.</b>		
- Sales of goods	803	2,965
- Purchases of goods	-	1,645
<b>Cheng Yew Heng Candy Factory Pte. Ltd.</b>		
- Purchases of goods	-	698
<b>Carlyle Cocoa Company, LLC</b>		
- Sales of goods	611	787
<b>Guan Chong Properties Sdn. Bhd.</b>		
- Rental charges	1	1
<b>Ian Cin Sdn. Bhd.</b>		
- Transportation charges	55	55

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.

**Notes on the quarterly report – 31 December 2006**

**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 year ended 31 December 2006 of RM379.79 million is lower than the revenue in the previous corresponding financial year ended 31 December 2005 of RM412.70 million. The decrease of 7.97% in turnover is mainly due to lower cocoa market price. The profit before tax for the period ended 31 December 2006 amounting to RM21.14 million is higher than the profit before tax of RM20.02 million for the previous corresponding financial period as a result of the revision estimated useful lives of certain plant and machineries from 12 years to 20 years.

The Group's revenue for the current quarter ended 31 December 2006 increased by 6.43% to RM108.56 million from RM102.00 million in the quarter ended 31 December 2005 as a result of the higher sales volume of its cocoa products. The profit before tax increased substantially by 49.31% from RM4.32 million to RM6.45 million as compared with the preceding year corresponding quarter ended 31 December 2005 in view of higher gross profit margin achieved. This is principally attributable to higher sales volume and relatively lower depreciation charges of plant and machinery.

During the current quarter, the Group revised the estimated useful lives of certain property, plant and equipment to be in compliance with FRS 116. This has also resulted in the increase in profit before tax for the current quarter and financial year as disclosed in Note A7.

**B2. Comment on material change in profit before tax**

The Group recorded a profit before tax of RM6.45 million for the current quarter as compared to a profit before tax of RM5.05 million in the preceding quarter in view of higher gross profit margin achieved. This is principally attributable to higher sales volume and relatively lower depreciation charges of plant and machinery.

**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 2007 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 Dec 2006 RM'000	31 Dec 2005 RM'000	31 Dec 2006 RM'000	31 Dec 2005 RM'000
Income tax expense:				
Current period estimate	217	225	1,567	1,426
Deferred tax expense	1,127	1,036	1,653	1,413
	<u>1,344</u>	<u>1,261</u>	<u>3,220</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.

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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 save as disclosed in Note B8(a).

**B7. Quoted securities**

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

	<b>Current Quarter Ended 31 Dec 2006 RM' 000</b>	<b>Current Year To-Date Ended 31 Dec 2006 RM' 000</b>
Purchase consideration	-	5
Sale proceeds	-	5
Gain on disposal	-	-
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**B8. Corporate proposals**

**(a) Status of corporate proposals**

On 30 November 2006, Guan Chong Trading Sdn. Bhd. ("GCT"), a wholly-owned subsidiary company of GCB had entered into sale and purchase agreements with Koko Malaysia Sdn. Bhd. (Receiver and Manager appointed) ("KMSB") to acquire a piece of freehold industrial land measuring approximately 4.0469 hectares held under HS(D) 11035, Lot No. PT 1157, Mukim Teluk Bharu, Hilir Perak, Perak together with a factory building erected thereon and the plant and machinery; and a piece of freehold land measuring approximately 1.113 hectares held under Parent Lot No. 4541, Mukim Teluk Bharu, Hilir Perak, Perak together with 5 units of bungalow house for a total cash consideration of RM 6.9 millions. A deposit of RM 4.3 millions has been paid and included in other receivables as at year end. The remaining balance of purchase consideration is disclosed in capital commitment in Note A15(b).



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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	#5,653
(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
<b>TOTAL</b>	<b>38,512</b>	<b>38,165</b>

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	RM'000 104,004
Long-term borrowings	1,353
<b>Total Borrowings</b>	<b>105,357</b>

**Notes on the quarterly report – 31 December 2006**

**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 2007 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) in Ringgit equivalent was RM50.617 million. The maturity period of these contracts ranges from 1 to 6 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 30 September 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**

On 21 November 2006, the Board declared a third interim tax-exempt dividend of 4% or 1.0 sen per share amounting to RM2,400,000 in respect of the financial year ending 31 December 2006 to shareholders registered in the Record of Depositors at close of business on 13 December 2006 and was paid on 22 December 2006.

The Board proposes a final tax-exempt dividend of 5.2% or 1.3 sen per share amounting to RM3,120,000 in respect of the financial year ended 31 December 2006. 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.

**Notes on the quarterly report – 31 December 2006**

**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:-

	<b>Current Quarter Ended</b>		<b>Current Year To-Date Ended</b>	
	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>	<b>31 Dec 2006</b>	<b>31 Dec 2005</b>
Net Profit (RM'000)	4,998	3,022	17,654	17,000
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	221,139
Basic earnings per share (sen)	2.08	1.26	7.36	7.69

**(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

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Tay Hoe Lian  
Managing Director

Dated: 26.02.2007