

**Notes on the quarterly report – 31 March 2007**

**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 2006. 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 2006.

**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 adopted in the preparation of the financial statements of the Group for the financial year ended 31 December 2006.

**A3. Auditors’ report on preceding annual financial statements**

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

**A4. 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.

**A5. 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.

**A6. 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.

**A7. 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.

**A8. Dividends paid**

There was no dividend payment during the current financial period-to-date.

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**A9. 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.

**A10. 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.

**A11. Material events subsequent to the end of the current quarter**

There was no material events subsequent to the current quarter ended 31 March 2007 that has not been reflected in this quarterly report.

**A12. Changes in the composition of the Group**

There were no changes in the composition of the Group for the current quarter ended 31 March 2007.

**A13. Contingent liabilities**

At 14 May 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.

**A14. 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> 2,002
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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>	<b>RM'000</b>
Property, plant and equipment	9,970

**Notes on the quarterly report – 31 March 2007**

**A15. 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.

**SMC Food (Thailand) Limited Company**– 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 Properties Sdn. Bhd.** – A related company of GCB.

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

**(b) Related party transactions**

	<b>Current Quarter Ended 31 Mar 2007 RM'000</b>	<b>Current Year To-Date Ended 31 Mar 2007 RM'000</b>
<b>SMC Food 21 Pte. Ltd.</b>		
- Sale of goods	3,624	3,624
- Purchase of goods	3,182	3,182
<b>SMC Food (Thailand) Limited Company</b>		
- Purchase of goods	235	235
<b>Carlyle Cocoa Company, LLC</b>		
- Sale of goods	201	201
<b>Guan Chong Properties Sdn. Bhd.</b>		
- Rental charges	4	4
<b>Ian Cin Sdn. Bhd.</b>		
- Transportation charges	9	9

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 March 2007**

**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 31 March 2007 of RM105.54 million is higher than the revenue in the previous corresponding financial year ended 31 March 2006 of RM91.11 million. The increase of 15.84% in turnover is mainly due to higher cocoa market price. The profit before tax for the period ended 31 March 2007 amounting to RM5.54 million is higher than the profit before tax of RM4.48 million for the previous corresponding financial period as a result of higher gross profit margin achieved. This is principally attributable to higher sales volume of cocoa products.

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

The Group recorded a profit before tax of RM5.54 million for the current quarter as compared to a profit before tax of RM6.45 million in the preceding quarter. The profit before tax decreased substantially as the effect of change in accounting estimate i.e. the reduction of depreciation charge for the whole financial year 2006 was taken up in the previous quarter. The Group revised the estimated useful lives of certain property, plant and equipment to be in compliance with FRS 116. The revisions were accounted for during the previous quarter as the change in accounting estimates and therefore the depreciation charges for previous quarter and previous financial year ended 31 December 2006 have been reduced by RM1.44 million.

**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 Mar 2007 RM'000	31 Mar 2006 RM'000	31 Mar 2007 RM'000	31 Mar 2006 RM'000
Income tax expense:				
Current period estimate	453	517	453	517
Deferred tax expense	202	43	202	43
	<u>655</u>	<u>560</u>	<u>655</u>	<u>560</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.

**Notes on the quarterly report – 31 March 2007**

**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**

There were no acquisitions or disposals of quoted securities for the current quarter and the financial period-to-date.

**B8. Corporate proposals**

**(a) Status of corporate proposals**

As disclosed for the previous quarter ended 31 December 2006, Guan Chong Trading Sdn. Bhd. ("GCT"), a wholly-owned subsidiary company of GCB had entered into sale and purchase agreements dated 30 November 2006 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.

However, GCT was in a midst of obtaining the approvals of all the relevant authorities for the transfer of the properties above. As at to date, the matter is still pending for approval.

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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	#6,000
(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>38,512</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 97,948
Long-term borrowings	1,308
<b>Total Borrowings</b>	<b>99,256</b>

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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 14 May 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 RM72.013 million. The maturity period of these contracts ranges from 1 to 4 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 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**

The Board proposes a final tax exempt dividend of 5.2% or 1.3 sen per share in respect of financial year ended 31 December 2006 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 2007 to shareholders whose names appear in the Record of Depositors on 12 July 2007.

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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 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Net profit attributable to ordinary equity holders of the Company (RM'000)	5,003	3,952	5,003	3,952
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Basic earnings per share (sen)	2.08	1.65	2.08	1.65

**(b) Diluted earnings per share**

	Current Quarter Ended		Current Year To-Date Ended	
	31 Mar 2007	31 Mar 2006	31 Mar 2007	31 Mar 2006
Net profit attributable to ordinary equity holders of the Company (RM'000)	5,003	3,952	5,003	3,952
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Effect of Employees Share Options Scheme	3,166	-	3,166	-
	<u>243,166</u>	<u>240,000</u>	<u>243,166</u>	<u>240,000</u>
Diluted earnings per share (sen)	2.06	*1.65	2.06	*1.65

\* There is no dilutive effect of the unissued ordinary shares granted to employees pursuant to the Company's Employees Share Option Scheme ('ESOS') for the preceding year corresponding quarter since the exercise price is above the average market value of the Company's shares for the preceding 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: 18.05.2007