

Notes on the quarterly report – 30 June 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

On 20 July 2007, GCB subscribed 94,000 new ordinary shares of RM 1.00 each of GCB Marketing Sdn Bhd (“GCBM”) at par for cash. As a result, GCBM became a 94% subsidiary company of GCB to undertake the marketing and promotion activities of chocolate related products and confectioneries.

A12. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter ended 30 June 2007.

A13. Contingent liabilities

At 23 August 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	RM'000 1,893
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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 :	RM'000
Property, plant and equipment	5,830

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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

	Current Quarter Ended 30 Jun 2007 RM'000	Current Year To-Date Ended 30 Jun 2007 RM'000
SMC Food 21 Pte. Ltd.		
- Sale of goods	2,697	6,321
- Purchase of goods	977	4,158
SMC Food (Thailand) Limited Company		
- Purchase of goods	-	235
Carlyle Cocoa Company, LLC		
- Sale of goods	961	1,162
Guan Chong Properties Sdn. Bhd.		
- Rental charges	2	6
Ian Cin Sdn. Bhd.		
- Transportation charges	25	34
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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 2007 of RM206.35 million is higher than the revenue in the previous corresponding financial period ended 30 June 2006 of RM179.77 million. The increase of 14.79% in turnover is mainly due to higher sales volume of cocoa products. The profit before tax for the period ended 30 June 2007 amounting to RM9.50 million is lower than the profit before tax of RM9.65 million for the previous corresponding financial period as a result of 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 2006.

B2. Comment on material change in profit before tax

The Group recorded a profit before tax of RM3.96 million for the current quarter as compared to a profit before tax of RM5.54 million in the preceding quarter. The profit before tax decreased substantially mainly due to lower selling price of its cocoa products. As a result, gross profit margin also decreased from 8.69% to 8.39%.

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 profits forecast or profit guarantee issued by the Group.

B5. Tax expense

	Current Quarter Ended		Current Year To-Date Ended	
	30 Jun 2007	30 Jun 2006	30 Jun 2007	30 Jun 2006
	RM'000	RM'000	RM'000	RM'000
Income tax expense:				
Current period estimate	352	340	805	857
Deferred tax	(158)	195	44	238
	<u>194</u>	<u>535</u>	<u>849</u>	<u>1,095</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 save as disclosed in Note B8(a).

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

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 March 2007, 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 million.

However, the transfer of ownership of the properties was rejected by Pejabat Tanah Dan Galian, Perak via its letter dated 30 July 2007 despite the appeal made. Pursuant to the non-fulfillment of the condition precedent as set out in the agreements, the whole of earnest deposit and part payment of the purchase price of RM 4.29 million had been refunded by the vendor on 15 August 2007.

(b) Status of utilisation of proceeds

The proceeds raised from Rights Issue and Public Issue had been fully utilised as reported in previous quarter.

B9. Borrowings

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

	RM’000
Short-term borrowings	95,534
Long-term borrowings	13,791
Total Borrowings	109,325

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 23 August 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 RM57.054 million. The maturity period of these contracts ranges from 1 to 2 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.

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

B11. Material litigation

As disclosed during the previous quarter ended 31 March 2007, 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 filed 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 5.2% or 1.3 sen per share amounting to RM3,120,000 in respect of financial year ended 31 December 2006 was approved by the shareholders during the Annual General Meeting held on 22 June 2007 and subsequently paid on 20 July 2007.

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 2007 was declared on 1 June 2007 and subsequently paid on 20 July 2007.

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 2007	30 Jun 2006	30 Jun 2007	30 Jun 2006
Net profit attributable to ordinary equity holders of the Company (RM'000)	3,499	4,459	8,503	8,411
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Basic earnings per share (sen)	1.46	1.86	3.54	3.50

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

B13. Earnings per share – (cont'd)

(b) Diluted earnings per share

	Current Quarter Ended		Current Year To-Date Ended	
	30 Jun 2007	30 Jun 2006	30 Jun 2007	30 Jun 2006
Net profit attributable to ordinary equity holders of the Company (RM'000)	3,499	4,459	8,503	8,411
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Effect of Employees Share Options Scheme	3,160	-	3,160	-
	<u>243,160</u>	<u>240,000</u>	<u>243,160</u>	<u>240,000</u>
Diluted earnings per share (sen)	1.44	*1.86	3.50	*3.50

* 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: 29.08.2007