

**Notes on the quarterly report – 31 December 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.

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**A8. Dividends paid**

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 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 ended 31 December 2007 was paid on 20 July 2007.

A second interim dividend of 5.5% less income tax of 27% equivalent to 1.004 sen per share amounting to RM2,409,000 in respect of financial year ended 31 December 2007 was paid on 24 December 2007.

**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 December 2007 that are not been reflected in this quarterly report.

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

**Acquisition of a Subsidiary**

On 5 December 2007, GCB subscribed 2 ordinary shares of RM 1.00 each of GCB Oversea Holdings Sdn Bhd ("GCB Oversea") at par for cash. As a result, GCB Oversea became a 100% subsidiary company of GCB to undertake the investment holding activities.

**A13. Contingent liabilities**

At 22 February 2008 (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**  
**1,856**

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**A14. Commitments – (cont'd)**

**(b) Capital commitments**

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

	<b>RM'000</b>
<b>Authorised and contracted for :</b>	
Property, plant and equipment	<u>602</u>

**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 Dec 2007 RM'000</b>	<b>Current Year To-Date Ended 31 Dec 2007 RM'000</b>
<b>SMC Food 21 Pte. Ltd.</b>		
- Sale of goods	1,990	9,535
- Purchase of goods	1,193	6,810
<b>SMC Food (Thailand) Limited Company</b>		
- Purchase of goods	-	235
<b>Carlyle Cocoa Company, LLC</b>		
- Sale of goods	1,674	4,503
<b>Guan Chong Properties Sdn. Bhd.</b>		
- Rental charges	4	14
<b>Ian Cin Sdn. Bhd.</b>		
- Transportation charges	27	90

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 31 December 2007 of RM464.11 million is higher than the revenue in the previous corresponding financial period ended 31 December 2006 of RM379.78 million. The increase of 22.21% in turnover is mainly due to higher sales volume of cocoa products. The profit before tax for the period ended 31 December 2007 decreased by 15.88% to RM17.59 million from the profit before tax of RM20.91 million for the previous corresponding financial period as a result of lower gross profit margin.

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

The Group recorded a profit before tax of RM3.02 million for the current quarter as compared to a profit before tax of RM5.07 million in the preceding quarter. The profit before tax decreased substantially is mainly due to higher staff costs in the form of year-end bonus as compared to preceding quarter.

**B3. Commentary of prospects**

The Board of Directors is optimistic about the performance of GCB in the future 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 2008 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	
	31-Dec-07	31-Dec-06	31-Dec-07	31-Dec-06
	RM'000	RM'000	RM'000	RM'000
Income tax expense:				
Current period estimate	94	85	924	1,435
Deferred tax	457	1,118	1,914	1,644
	<u>551</u>	<u>1,203</u>	<u>2,838</u>	<u>3,079</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.

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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**

There were no corporate proposals announced but not completed as at 22 February 2008.

**B9. Borrowings**

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

	<b>RM'000</b>
Short-term borrowings	133,644
Long-term borrowings	11,806
<b>Total Borrowings</b>	<b>145,450</b>

**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 February 2008 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) in Ringgit equivalent was RM81.450 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.

**B11. Material litigation**

As disclosed during the previous quarter ended 30 September 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.

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

**B12. Dividend declared or recommended**

On 19 November 2007, the Board declared a second interim dividend of 5.5% less income tax equivalent to 1.004 sen per share amounting to RM2,409,000 in respect of financial year ended 31 December 2007 to shareholders registered in the Record of Depositors at close of business on 10 December 2007 and was paid on 24 December 2007.

The Board proposes a final tax-exempt dividend of 2.0% or 0.5 sen per share amounting to RM1,200,000 in respect of the financial year ended 31 December 2007. 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.

**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-Dec-07	31-Dec-06	31-Dec-07	31-Dec-06
Net profit attributable to ordinary equity holders of the Company (RM'000)	2,473	4,905	14,639	17,561
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Basic earnings per share (sen)	1.03	2.04	6.10	7.32

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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	
	31-Dec-07	31-Dec-06	31-Dec-07	31-Dec-06
Net profit attributable to ordinary equity holders of the Company (RM'000)	2,473	4,905	14,639	17,561
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Effect of Employees Share Options Scheme	2,040	-	2,040	-
	<u>242,040</u>	<u>240,000</u>	<u>242,040</u>	<u>240,000</u>
Diluted earnings per share (sen)	1.02	*2.04	6.05	*7.32

\* 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: 28.02.2008