

Notes on the quarterly report – 31 December 2008

**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 2007. 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 2007.

Save for the changes in accounting policies as set out in Note A2, the accounting policies and presentation adopted for the interim financial statements are consistent with those adopted for the audited financial statements for the year ended 31 December 2007.

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 2007 except for the adoption of the followings new/revised Financial Reporting Standards (“FRSs”) effective for the financial periods beginning on or after 1 July 2007:

Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
IC Interpretation 8	Scope of FRS 2 Share-based Payments

The Group has not adopted FRS 139 Financial Instruments: Recognition and Measurement, which is effective for the financial period beginning on or after 1 January 2010. This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. By virtue of the exemption in paragraph 103AB of FRS 139, the impact on the financial statement upon adoption of this Standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

The initial application of the above FRSs, amendments to FRSs and Interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

A3. Auditors’ report on preceding annual financial statements

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

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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

A first interim tax-exempt dividend of 2.0% or 0.5 sen per share amounting to RM1,200,000 in respect of financial year ended 31 December 2008 was paid on 29 December 2008.

A9. Segmental information

The segmental information is not prepared as the Group is principally involved in manufacturing and trading of cocoa-derived food ingredients and cocoa related products 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 2008 that are 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 December 2008

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A13. Contingent liabilities

Save for the corporate guarantee granted by GCB in favour of financial institutions for credit facilities granted to its subsidiaries, neither GCB nor its subsidiaries have any contingent liabilities as at 31 December 2008 which, upon becoming enforceable, may have a material effect on the financial position of GCB or its subsidiaries. Accordingly, the Company is contingent liable to the extent of the credit facilities utilized by its subsidiaries amounting to approximately RM187,545,000 as of the end of the financial year.

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 1,732
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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'000 338
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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.

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..

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A15. Significant related party transactions – (cont'd)

(b) Related party transactions

	Current Quarter Ended 31 December 2008 RM'000	Current Year To-Date Ended 31 December 2008 RM'000
SMC Food 21 Pte. Ltd.		
- Sale of goods	1,278	8,050
- Purchase of goods	2,177	6,528
Carlyle Cocoa Company, LLC		
- Sale of goods	1,445	5,148
Guan Chong Properties Sdn. Bhd.		
- Rental charges	4	14
Ian Cin Sdn. Bhd.		
- Transportation charges	10	62

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 2008 of RM150.31 million is higher than the revenue in the previous corresponding financial period ended 31 December 2007 of RM147.70 million. The increase of 1.77% in turnover is mainly due to higher market price of cocoa products. The Group recorded a profit before tax of RM0.12 million for the period ended 31 December 2008. As compared to the profit before tax of RM3.20 million for the previous corresponding financial period, the Group's result for the current quarter was impacted mainly by the higher raw material cost caused the decline in margin.

B2. Comment on material change in profit before tax

The Group recorded a profit before tax of RM0.12 million for the current quarter as compared to a profit before tax of RM3.20 million in the preceding quarter. The lower profit before tax was attributed to higher staff costs in the form of year-end bonus as compared to preceding quarter.

B3. Commentary of prospects

The global economic crisis is expected to dampen consumer spending, thus trigger de-stocking activity by all manufacturers across the world. These include chocolate manufacturers in US and Europe, which are the major end users for cocoa products.

We acknowledge the weakening outlook going forward and the potential impact to the financials in the coming quarters. In this regard, the management team has initiated necessary action plans to counter the impact. The Group expects the outlook for 2009 to be challenging.

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-08 RM'000	31-Dec-07 RM'000	31-Dec-08 RM'000	31-Dec-07 RM'000
Income tax expense:				
Current period estimate	(643)	382	673	1,212
Deferred tax	360	642	1,316	2,099
	<u>(283)</u>	<u>1,024</u>	<u>1,989</u>	<u>3,311</u>

The income tax provision for the current quarter under review is mainly due to overprovision of tax expenses in previous quarters and effect of utilization of capital allowances.

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

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

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

B8. Corporate proposals

There were no corporate proposals announced but not completed as at 23 February 2009.

B9. Borrowings

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

Short-term borrowings	RM'000 175,524
Long-term borrowings	12,884
Total Borrowings	188,408

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 February 2009 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report) in Ringgit equivalent was RM35.081 million. The maturity period of these contracts is approximately 1 month.

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 2008, 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

On 18 February 2009, the Board declared the first interim tax-exempt dividend of 2.0% or 0.5 sen per share amounting to RM1,200,000 in respect of financial year ending 31 December 2009 to shareholders registered in the Record of Depositors at close of business on 6 March 2009 and will be paid on 16 March 2009.

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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-Dec-08	31-Dec-07	31-Dec-08	31-Dec-07
Net profit attributable to ordinary equity holders of the Company (RM'000)	185	2,046	7,484	14,212
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Basic earnings per share (sen)	0.08	0.85	3.12	5.92

(b) Diluted earnings per share

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 current quarter under review as the scheme of ESOS had been terminated with effect from 26 June 2008.

The Company does not have any convertible financial instruments at the end of the current quarter under review.

BY ORDER OF THE BOARD

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Tay Hoe Lian
Managing Director
Dated: 26.2.2009