

Notes on the quarterly report – 30 September 2009

**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 subsidiaries (“Group”) for the financial year ended 31 December 2008. 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 2008.

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 2008.

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 2008.

As at 30 September 2009, the following new Financial Reporting Standards (“FRSs”), amendments to FRSs and Issues Committee (“IC”) Interpretations have been issued but not yet effective, and therefore have not been applied by the Group and the Company:

	Effective for financial periods beginning on or after
FRS 8 : Operating Segments	1 July 2009
FRS 4 : Insurance Contracts	1 January 2010
FRS 7 : Financial Instruments : Disclosures	1 January 2010
FRS 101 : Presentation of Financial Statements	1 January 2010
FRS 123 : Borrowing Costs	1 January 2010
FRS 139 : Financial Instruments : Recognition and Measurement	1 January 2010
Amendments to FRS 1 : First-time Adoption of Financial Reporting Standards And FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2 : Share-based Payment – Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 132 : Financial Instruments: Presentation	1 January 2010
Amendments to FRS 139 : Financial Instruments: Recognition and Measurement, FRS7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
Amendments to FRS contained in the document entitled “Improvements to FRS (2009)”	1 January 2010
IC Interpretation 9 : Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10 : Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11 : FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13 : Customer Loyalty Programmes	1 January 2010
IC Interpretation 14 : FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010

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The Group and the Company plans to apply the above applicable FRSs and/or IC Interpretations when effective.

The possible impacts of applying FRS 7 and FRS 139 on the financial statements upon their initial application are not disclosed by virtue of the exemptions given in the respective standards.

The initial application of the above applicable FRSs and/or IC 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.

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 second interim tax-exempt dividend of 3.0% or 0.75 sen per share amounting to RM1,800,000 in respect of financial year ended 31 December 2009 was paid on 29 September 2009.

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.

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

There was no material events subsequent to the current quarter ended 30 September 2009 that have not been reflected in this quarterly report.

A12. Changes in the composition of the Group

On 3 July 2009, GCB acquired 15,000 ordinary shares of RM1.00 each of GCB Marketing Sdn Bhd (“GCBM”) and 75,000 ordinary shares of RM1.00 each in GCB Foods Sdn Bhd (“GCBF”), representing 3% of the issued and paid-up capital of GCBM and GCBF respectively for a purchase consideration of RM1.00 each.

On 27 August 2009, GCB acquired 15,000 ordinary shares of RM1.00 each of GCB Marketing Sdn Bhd (“GCBM”) and 75,000 ordinary shares of RM1.00 each in GCB Foods Sdn Bhd (“GCBF”), representing 3% of the issued and paid-up capital of GCBM and GCBF respectively for a total purchase consideration of RM25,000.

As a result, GCBM and GCBF became a 100% subsidiaries of GCB.

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 30 September 2009 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 utilised by its subsidiaries amounting to approximately RM245,542,000 as of the end of the financial period.

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 <u>1,609</u>
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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 <u>1,213</u>
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A15. Significant related party transactions

(a) Related party relationship

SMC Food 21 Pte. Ltd. – A company in which certain directors of a subsidiary. have financial interest.

Carlyle Cocoa Company, LLC – An associated company of GCB

(b) Related party transactions

	Current Quarter Ended 30 September 2009 RM'000	Current Year To-Date Ended 30 September 2009 RM'000
SMC Food 21 Pte. Ltd.		
- Sale of goods	2,125	4,823
- Purchase of goods	-	2,807
Carlyle Cocoa Company, LLC		
- Sale of goods	546	4,344
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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 September 2009 of RM162.31 million is lower than the revenue in the previous corresponding financial period ended 30 September 2008 of RM210.03 million. The decrease of 22.72% in turnover is mainly due to lower sales volume of cocoa products. The profit before tax for the period ended 30 September 2009 increased by 131.80% to RM7.41 million from the profit before tax of RM3.20 million for the previous corresponding financial period. This is mainly attributed by lower foreign exchange loss incurred in current financial period as compared to previous corresponding financial period.

B2. Comment on material change in profit before tax

The Group recorded a profit before tax of RM7.41 million for the current quarter as compared to a profit before tax of RM3.04 million in the preceding quarter. The profit before tax increased substantially mainly due to higher unrealized loss on foreign exchange incurred in preceding quarter.

B3. Commentary of prospects

The outlook for the coming financial year appears even more challenging as a result of the effects of the global financial crisis and recession in many developed and developing countries.

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	
	30-Sep-09 RM'000	30-Sep-08 RM'000	30-Sep-09 RM'000	30-Sep-08 RM'000
Income tax expense:				
Current period estimate	939	794	2,981	1,316
Deferred tax	1,076	662	177	956
	<u>2,015</u>	<u>1,456</u>	<u>3,158</u>	<u>2,272</u>

The effective tax rate of the Group for the current quarter is higher than the statutory tax rate due principally to the non-allowable expenses incurred by the Group.

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 the date of this report.

B9. Borrowings

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

	RM'000
Short-term borrowings	223,876
Long-term borrowings	22,199
Total Borrowings	246,075

B10. Off balance sheet financial instruments

- (a) 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 19 November 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 RM247.786 million. The maturity period of these contracts is range from 1 to 5 months.

All gains and losses arising from forward foreign exchange contracts are dealt with through the Income Statement upon maturity.

- (b) Structured foreign exchange contracts entered into by the Group and outstanding as at 19 November 2009 are as follows:

Description	Notional Amount	Effective Period
USD/RM Target Redemption Forward	USD37.40 million	November 2009 to March 2011

The above contracts were entered into as hedges for USD sales and purchases denominated in foreign currencies and to limit the exposure to potential changes in foreign exchange rates with respect to subsidiaries' foreign currencies denominated estimated receipts.

B11. Material litigation

As disclosed during the previous quarter ended 30 June 2009, 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 both High Court on 15 May 2006 and Court of Appeal on 12 October 2009.

B12. Dividend declared or recommended

On 25 November 2009, the Board declared the third interim tax-exempt dividend of 6.0% or 1.5 sen per share amounting to RM3,600,000 in respect of financial year ending 31 December 2009 to shareholders registered in the Record of Depositors at close of business on 16 December 2009 and subsequently will be paid on 28 December 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

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-Sep-09	30-Sep-08	30-Sep-09	30-Sep-08
Net profit attributable to ordinary equity holders of the Company (RM'000)	5,157	1,693	7,780	7,299
Weighted average number of ordinary shares in issue ('000)	240,000	240,000	240,000	240,000
Basic earnings per share (sen)	2.15	0.71	3.24	3.04

BY ORDER OF THE BOARD

Tay Hoe Lian
Managing Director
Dated: 25.11.2009