ANNEXURE 3
Questions & Answers (Q&A) Session

Question No. 1 from Mr Gor Ching Ruey (Proxy)

(a) What is Schokinag's industrial chocolate's current utilization rate?

Answer:

Due to the seasonal in demand, we are unable to run full capacity for the whole year. Although the capacity is 90,000mt but the achievable capacity is between 75,000mt to 80,000mt per year. In Q2 and early July, due to low season and hence our utilization in this period is normally over 60%. The remaining months we achieve quite high capacity especially between August to November, we are running close to full capacity. For current year, we expect to run more than 70,000mt.

(b) Based on your management estimation, when will Ivory Coast's new plant commence its production?

Answer:

The construction progress at our plant in Ivory Coast is slightly delayed due to the inconvenience caused by movement restrictions and is now expected to be commissioned in Q2 2022.

(c) Please elaborate more regarding the Living Income Differential (LID) levy. Is there any impact to company's profit?

Answer:

Côte d'Ivoire and Ghana implemented a "Living Income Differential" ("LID") policy whereby purchasers are required to pay USD $400 per MT on top of the cocoa bean price in order to reform the way global cocoa are priced to ease farmers' poverty. This will result in higher costs for raw materials sourced from Côte d'Ivoire and Ghana.

The extra bean cost resulting from LID is absorbed by our customers as they still have to continue buying from us in order to fulfil the demand. In addition, since Ghana and Ivory Coast represent about 60% of cocoa bean supply in the world, we price LID into the prices of cocoa butter, liquor, cake and/or powder we offer, depending on the market situation at a particular time, as we earn by processing margin per MT and volume basic in the long term.

However, the long-term impact of LID remains uncertain. We continue to monitor the situation and act accordingly.

(d) How about the progress of new procurement land in UK? When the plant can start to commencement production? And how about the capacity?

Answer:

The acquisition of UK factory site was completed in October 2020, we plan to convert the site into industrial chocolate and value-added facility with the following capacity:

Facilities	Mt / per annum
Industrial chocolate	16,000
Liquor melting	12,000
Butter melting and deodorising	25,000

We are in the process of obtaining planning approval for the chocolate and value-added facilities in the UK. Construction is expected to begin in September 2021 and the chocolate factory is expected to be commissioned by the end of Q2 2022, whereas value-added facility by Q2 2023.

Question No.2 from Mr Khor Gao Wei (Shareholder)

(a) As a shareholder, I would like to participate and support own company's sales. Any plans for GCB to have own OBM instead of just offering private label and establishing e-commerce store?

Answer:

Our cocoa products produced currently are branded under the name of FAVORICH, whereas industrial chocolate manufactured in Germany are branded under the name of SCHOKINAG. We do not have any plans to offer own OEM products to end consumer as our focus at the moment is to concentrate on our expansion in Ivory Coast and Europe, which is to expand our grinding capacity while diverse into industrial chocolate and providing value-added service.

(b) Is there any privatization or takeover offer?

Answer:

Currently, there are no plans for privatisation nor have we received any takeover offers. We intend to keep GCB as a public-listed company to enhance the GCB brand name, and allow easier access to raise funds for future growth.

(c) How does GCB hedge against rising of cocoa bean price which will dilute the profits of GCB?

Answer:

The group's strategy in mitigating price volatility of cocoa bean price can be divided into 2 sections: (i) buying beans and selling products, and (ii) bean purchasing strategy.

Firstly, due to the nature of the industry, butter is sold in ratio through forward contracts for up to 1 and 1.5 year, whereas powder is sold much prompt at market outright prices, mostly between 3 to 6 months. Butter currently represents about 60% of our revenue this year while cake/powder represents more than 30% of our revenue, with a remaining small percentage of revenue in cocoa liquor. Once we fix the bean prices, we hedge the bean costs to forward sales of cocoa ingredients based on the proportion of revenue. Since at least 60% of our sales are for cocoa butter and powder which are sold as combined ratio, the back-to-back sale and purchase mechanism allows for hedging of revenue against the price volatility of cocoa beans. Therefore, we are able to pass on the higher raw material cost to our cocoa ingredient customers.

With regards to bean purchasing strategy, we closely monitor the fluctuations in the prices of cocoa bean. We always keep about 4 months of buffer bean stock at the warehouses and we also divert our bean sourcing from one origin county to another if cocoa bean prices from a particular country are not competitive anymore. Furthermore, the establishment of our plant in Ivory Coast will bring us closer to the bean origin region, enabling a better control on the prices of cocoa beans.

(d) Will GCB introduce new product in order to improve its market share and profit?

Answer: Our product mix consists of four main types of cocoa ingredients – cocoa liquor, cocoa butter, cocoa cake and cocoa powder. Further downstream products will be industrial chocolate and we are also offering value-added service such as liquor melting, butter melting and deodorising and cake grinding.

In the near to medium term, the group will be focusing on developing new products and expanding its product range in Europe, especially in the UK and Germany, since Europe is the largest cocoa and chocolate consuming region in the world. As part of our new product development, we have been doing a lot more product matching, offering customers a full range of products including cocoa butter, cocoa liquor, cocoa powder and chocolate.

We are also developing gourmet lines at our facilities in the UK and Germany, which we are currently outsourcing to third parties. It makes sense for us to have our own gourmet lines in order to tap into the gourmet market with higher margins. By being involved in different parts of the cocoa industry, from bean origin to bean processing, and from industrial chocolate to gourmet chocolate manufacturing, we are able to offer a wider range of products to our customers and truly penetrate the market.

Question No.3 from Ms Cheong Pek Fong (Shareholder)

(a) What is the management's plan or strategy on the gearing position of the company?

Answer:

We have set an internal target of maintaining the Group’s gearing ratio at below 1.0. However, due to our investment plan in Ivory Coast and Europe in the near term, our gearing may exceed 1.0 in a short period of time but we would still keep it within 1.5.

Question No.4 from Mr Chong Chen Wai (Shareholder)

(a) Do the management see the improvement of the cocoa demand, on the market open back in the Europe & USA?

Answer:

Travel restrictions is being slowly lifted among European countries with the recent drop in COVID-19 infection rates and vaccinations rise in major chocolate consuming countries, hence, the Group expects the economy and demand of chocolate likely to recover in the last quarter of 2021.

Question No.5 from Mr Hiu Chee Keong (Shareholder)

(a) With the recent MCO3.0 and FMCO, how do you think will affect GCB's profit and revenue?

Answer:

Movement restrictions have not had a significant impact on the group because our facilities are allowed to continue operate since we belong to the essential food business sector. As our operation is heavily automated, we do not encounter issue meeting the minimum workforce requirement while keep our operation running at optimal capacity. We continue to implement strict SOPs including mandatory mask requirement, social distancing, worker shifts, work from home practice and others in order to avoid COVID-19 cases on site to keep our facilities running. The work from home practice is working very well for the office employees and our operation is able to run normally.