**GUAN CHONG BERHAD**
Eighteenth Annual General Meeting
Monday, 30 May 2022

**ANNEXURE 3**

Questions & Answers (Q&A) Session

Question No. 1 from Mr Lau Chuan Hooi (Shareholder)

(a) What is the company's future Outlook?

Answer: In terms of cocoa demand, we expect short-term growth in demand to be back on track at the pre-COVID level as countries gradually reopen their borders for international travel and consumers are practicing revenged spending after prolonged lockdown and restrictions. This phenomenon is indeed supported by the grinding figures forecasted by CRA, which increase by 2.15% from 4,972 million MT (2021/22) to 5,079 million MT (2022/23), based on the latest CRA report dated on 27 June 2022.

Indeed we observe encouraging sales as logistic rates are dropping which prompt customers to secure more shipments. However, mid-term demand for cocoa may be slightly affected due to global inflation, Russia/Ukraine conflict and a widespread concern about a possible recession which will restrict consumer spending. In the meantime, we are actively executing our expansion plans in Ivory Coast and the UK, which will complement our presence in Malaysia, Indonesia and Germany and help to overcome some ongoing challenges.

Question No.2 from Mr Teh Peng Tin (Proxy)

(a) How much does the company spend on this virtual AGM?

Answer: We have spent RM13,000 on this virtual AGM.

(b) May I know when the company going to reward shareholder with bonus issue?

Answer: There are no plans for corporate exercise at this juncture, as we are focusing on our expansion plans and financial performance. However, we will consider on a corporate exercise in the future.

Question No.3 from Ms Lee Ya Yun (Shareholder)

(a) According to the cash flow statement, GCB paid RM36m as dividend in FY2021 which is 80% higher than the previous year (RM20m in FY2020) when you recorded 30% lower in PAT in FY2021 compared with FY2020. What is the rationale behind as the interest expenses recorded in FY2021 at RM33m is even lower than the dividend.

Answer: The RM36 million is the actual dividend paid in FY 2021, which includes portion of dividend declared in FY 2020. The dividend declared for FY 2021 is RM 41 million which represents 26% of our PAT in FY 2021 and is in line with our policy of distributing 25% of our annual net profits as dividends to shareholders. The exact dividend payout ratio from year to year is subject to various factors including but not limited to the financial performance, cash flow requirements, availability of distributable reserves and tax credits, future operating conditions, as well as future expansion, capital expenditure and investment plans of GCB.

(b) Do you have any planning to venture into manufacturing of end products such as chocolate bars and chocolate related snacks? Is Schokinag's products considered as end products?

Answer: We do not have plan to venture into the manufacturing of consumer products, at least in the near future. Schokinag's products are not considered end products as it manufactures industrial chocolate, including a full range of chocolates and chocolate couvertures in liquid and solid forms, coming in various sizes, shapes and packaging types, for chocolate manufacturers in Europe.

(c) With the weakening of RM, how do you address its impact on the earnings?

Answer: The weakening of RM would not pose a significant issue to our business since we are a export-oriented business. We mainly export our products to Europe and the US and generate sales proceeds in EUR, GBP and USD. In fact, weakening of RM is beneficial to our Malaysian operations in the long term as processing cost at our manufacturing facilities in Malaysia is cheaper in dollar term and we receive more RM when converting sales proceeds into RM.

<u>Question No.4 from Mr Goh Fei Chieh (Shareholder)</u>

(a) When Our Ivory Coast new plant could start commencement operation? and initial production capacity?

Answer: Ivory Coast is targeted to commence operations in August 2022 with 60,000 MT initial annual capacity.

(b) How bad the energy cost would affect our German and UK's bottom line?

Answer: Energy cost in Germany increases by more than 2 times since last year. In order to keep the processing costs within budget, we have locked in majority of our energy requirements this year with energy suppliers in Germany and partially for the coming 3 years. We continue to monitor energy cost proactively and extend the coverage if needed. As a result of energy cost increase, in Q1 2022 our industrial chocolate processing cost per MT in Germany increase slightly over 10%, eroding our bottom-line.

Even though we have not started our operations in the UK, we understand that the rising energy cost in the UK will also eat into our margins if not managed properly. We plan to install solar panels at the UK factories which have the potential to save up to 30% of energy cost.

We believe that rising energy cost is an industry-wide issue and in fact a crisis faced by the manufacturing sector. Therefore, we expect this to be gradually priced into our product prices to customers in the near future. However, our bottom line may slightly suffer this year as the increased costs have not been priced into this year's product prices yet due to our practice of doing one-year forward sale.

(c) Any improvement in the logistic issue?

Answer: Exporting cocoa products, in particularly from Asia to the US and Europe, was badly affected by the supply chain disruptions amidst the pandemic. However, we observe that freight issues begin to ease out these days as we see drops in logistic rates and more shipments being secured by customers. 20' containers to the US are now shipping at a rate of about $8,500-$11,500 as compared to the all-time high of $18,000 and containers to Europe are now shipping at a rate of $5,800-$6,500 as compared to the all-time high of $7,300. We always ensure that we price the freight costs in our costing so that we have sufficient margins. On the other hand, products shipped within the Asian countries and within the European countries have not been impacted as badly and we continue to export at the pre-COVID volumes.

In terms of our importing business, importing cocoa beans from African countries into Asia was only slightly affected by the freight issues. Nevertheless, we ensure that we keep sufficient bean inventory at our warehouses and purchase beans on CNF basis so that the costs are priced into our costing for a better cost management.

(d) Does our company face worker's shortage problem?

Answer: Currently, we do not face significant labour issues at our entities. However, our subsidiary in the US, namely Carlyle Cocoa Co., LLC, experienced some labour shortage issues due to enhanced unemployment benefits offered during the pandemic. This problem has eased off as the scheme ended in September 2021. Furthermore, we are in the midst of rolling out the automation projects for our butter and liquor melting lines at Carlyle Cocoa starting from Q2 2023 in order to improve production efficiency, lower workers' needs and in turn lower labour cost in the long-term. At the same time, we are also implementing automation projects in Malaysia which can counter potential labour issues.

Question No.5 from Mr Chua June Ho (Proxy)

(a) How do you think about the liabilities of GCB, is that too high for the situation now especially the macro economy is not that stable.

Answer: 70% of our borrowing is used to finance working capital. We are carrying higher bean inventory due to favourable bean prices and the intention to keep more buffer stocks. At the same time, we are carrying higher finished good inventory as customers choose to delay shipments in anticipation for lower shipping rates. To this extent, higher borrowings are necessary to support the lower inventory turnover. However, as we observe a gradual setback to the soaring logistic rates, we are arranging for more finished good shipments starting from Q2 2022, which means that we will be able to lower the inventory for beans and finished goods and reduce our working capital financing.

(b) How do you think the gearing compare to the operating cashflow currently, if the demand drops in future, will it affect the financial result? Will you refinance more or issue more shares to pay the loan?

Answer: Our gearing ratio maintained at a level of about 0.98 in Q1 2022 which is in line with our internal control to keep our gearing ratio below 1. The gearing ratio is higher than usual due to higher bean and finished good inventory, as explained in Q1. Nevertheless, with our plans to reduce bean inventories, ship more finished goods and exercise warrant, we believe that these can help to serve our financial obligations, improve operating cash flow and lower gearing ratio. Demand in the near future is expected to improve as countries gradually lift the travel restrictions and consumers are practicing revenged spending after prolonged lockdown.

(c) Will the operating cashflow getting better in future when the Ivory Coast, Germany and UK factories are completed?

Answer: Our operating cash flow won't see an immediate improvement when the facilities in Ivory Coast, Germany and the UK are completed. However, once we start running at full capacities at all facilities, we are able to streamline our group business model, by having the plant in Ivory Coast to supply cocoa products to our industrial chocolate facilities in Germany and the UK to be internally consumed. This enables us to lower logistic costs, storage costs, interest costs, import duties and bean and finished goods inventory, amongst other benefits, which can in turn help to improve operating cash flow in the long-term.

(d) Is every expanding factory still in progress? Any geopolitics, supply chain, freight, labour shortage, foreign currency affected or will affects GCB?

Answer: Our expansion projects are progressing well. Supply chain issues are easing off as logistic rates are dropping and the previously delayed shipments are also gradually being arranged to be shipped. Currently the group does not face a significant labour shortage issue, except at Carlyle Cocoa in the US. However, this is being managed as we are implementing automation projects at the facility which will reduce the required workforce when it is completed in Q2 2023. We mitigate the risk of fluctuations in foreign currency, through matching the purchase of raw materials in USD and GBP with export sales of cocoa products in USD and GBP. For the remaining portion of currency risk that is not naturally hedged, we enter into forward currency contracts.

(e) Will GCB become OBM in the future? Will that affect GCB's current client like Mars, Hershey, Nestle etc

Answer: We do not intend to become OBM, we are focusing on growing our business in the cocoa grinding and industrial chocolate manufacturing segments to serve the chocolate manufacturers.

(f) Would the inventories of cocoa bean get expired since GCB stored so much of inventory currently?

Answer: Cocoa beans can be kept for up to 6 months in Malaysia and Indonesia in order for quality to remain reasonably well. Currently, we have higher bean inventory than usual due to favourable bean prices and the intention to keep more buffer stocks to counter any potential supply chain disruptions. However, as the freight situation improves, we are reducing our bean inventory by about 20% in Q2 2022, resuming to the normal stock level in Q3 2022.

<u>Question No.6 from Mr Hiu Chee Keong (Shareholder)</u>

(a) How does minimum wage and cukai makmur affect the company ?

Answer: The 25% increase in minimum wage from RM 1,200 to RM1,500 effective from 1st May 2022 does not have a significant increase in wages to our company as we only see a trivial 1.21% increase in worker wages from April to May 2022 at our facilities in Malaysia. Labour cost accounts for merely around 15% of our total processing cost due to our higher capacity and the fact that we are capital intensive rather than labour intensive. Furthermore, the increase in minimum wages only affects certain portion of our workforce, i.e. those with wages below RM 1,500 previously. Therefore, we do not foresee that this would pose a significant impact to us. In any way, we believe that our automation projects can help to reduce the required workforce and tackle any potential labour issue.

Cukai Makmur is a one-off corporate income tax rate of 33% imposed on the taxable income in excess of RM 100 million in YA 2022. Since none of our entities meet the threshold, we believe that Cukai Makmur has no impact to us.

Question No.7 from Mr Kok Wai Keat (Shareholder)

(a) How does the company deal with inflation and increasing interest rate environment in the next 12 months?

Answer: The issue of inflation can be viewed from different dimensions:

(i) Increase in the costs of certain raw materials, packaging materials, construction materials, spare parts, chemicals and labour

There is a marginal increase in the cost of packaging materials and certain raw materials at Schokinag. However, we expect these costs to be gradually priced into our selling prices and thus we do not foresee this to pose a significant impact to our group in the long term. We are also confident that the effect of slight increase in labour cost can be countered by our automation projects. Regarding the increasing costs of packaging materials, construction materials, spare parts and chemical, it is not possible to avoid these expenditures, as they are vital to our day-to-day operations. However, as an internal control, we always make sure to approach at least 3 suppliers for cost comparison and negotiate for the lowest possible prices.

(ii) Freight issue

We have been through the worst times of freight crisis and currently we observe a decreasing trend in shipping rates as 20' containers to the US are now shipping at a rate of about $8,500-$11,500 as compared to the all-time high of $18,000 and containers to Europe are now shipping at a rate of $5,800-$6,500 as compared to the all-time high of $7,300. We always ensure that we price the freight costs in our costing so that we have sufficient margins.

(iii) Rising energy cost

Energy cost in Germany increases by more than 2 times since the last year. In order to keep the processing costs within budget, we have locked in with energy suppliers in Germany majority of our energy requirements this year and partially for the coming 3 years. We continue to monitor energy cost proactively and extend the coverage if needed. As a result of energy cost increase, in Q1 2022 our industrial chocolate processing cost per MT in Germany increased slightly over 10%, eroding our processing margin. On the other hand, energy costs in Malaysia and Indonesia increase marginally by about 25% and 8% respectively in Q1 2022.

We closely monitor our processing costs to ensure that they are within our budget. We are also planning to install solar panels at most of our facilities which can lower energy cost by up to 30%. We believe that the increased energy cost is an industry-wide issue faced by all players. Thus, it will be gradually priced into our costing and passed along the value chain, though in the short-term we will have to absorb the higher cost due to our one-year forward selling nature.

(iv) Interest cost hike

In order to reduce our exposure to the interest rate hike in the US, we plan to leverage our loan portfolio with higher mix of loans in EUR and GBP instead of USD. A majority of our loans taken are for working capital financing, hence we will also price the higher interest rates into our product costing when we sell. Furthermore, by reducing our bean and finished goods inventory and potentially exercising the warrant, we may be able to reduce our working capital financing significantly starting from Q2 2022 and thus reduce our interest exposure.

(b) Why Tan Ah Lai is the best choice for independent director for the company? is there any other better choice out there?

Answer: We believe that Mr Tan Ah Lai is very competent for his role as the independent director of the company. He is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a Chartered Accountant of the Malaysian Institute of Accountants (MIA). Equipped with his extensive experience in the tax, accounting and consultation fields, he constantly provides professional advice from an objective viewpoint to the company's operations.

<u>Question No.8 from Mr Yu Choong Cheong (Shareholder)</u>

(a) Refer to note 32 on Directors' remuneration, total Executive Directors' remuneration is RM 25.9 million while the remuneration of Non-Executive Directors is only RM 230,500 The EDs are getting 100 times more than the non EDs. Please explain.

Answer: We believe that directors are fairly compensated for the work they perform for the company. All remunerations are being reviewed and agreed upon by the Remuneration Committee, which consists of Independent Directors only.