GUAN CHONG BERHAD
Twenty-First Annual General Meeting
Wednesday, 28 May 2025

ANNEXURE 3

Questions & Answers (Q&A) Session

Question No.1 from Mr Chin Yok Fong (Shareholder)

(a) What are the key factors contributing to the gross loss recorded this year, given that the company has consistently reported gross profits in previous years?

Answer:

In Ivory Coast, the Group had entered into fixed-price cocoa bean purchase contracts approximately one year in advance. However, at the time of purchase, we had not yet secured forward sales contracts for the full volume of beans committed. To manage the associated price risk, we hedged using paper contracts (derivatives) to minimize exposure to fluctuations in market prices.

Since 2023, the cocoa market has experienced a consistent upward trend, with significant price volatility throughout FY2024, ultimately reaching record-high levels. Cocoa bean purchase contracts entered for FY2025 were hedged against product sales in FY2024. As a result, the Group had to procure spot beans at higher price to fulfil FY2024 requirements, leading to physical loss, which was offset by fair value gains from firm purchase commitments and derivative gains from commodity forward contracts.

(b) It is noted that other operating income was significantly higher this year; however, why there is no corresponding increase in the cash and bank balances?

Answer:

Other operating income was primarily arose from fair value gains on firm purchase commitments and partially from unrealised gains on commodities, as previously explained in point (a). These unrealised gains will only be converted into cash upon realised.

The actual cash generated during the period was largely utilised to support the increased cost of beans. This is evidenced by the higher inventory and trade receivables balances recorded as at the end of the financial year, reflecting the need for additional working capital to finance the elevated commodity prices.

(c) What is the reason of high negative operating cash flow?

Answer:

Due to the increased in cocoa bean price, the Group now requires additional funding and a higher level of working capital to support operations. However, the Group's short-term borrowings are well-backed by strong inventory levels and trade receivables, which are expected to be converted into cash in the near term.

These solid asset positions provide confidence to our banks. As a result, the banks remain supportive and are willing to extend additional credit facilities to the Group. Furthermore, our current debt levels remain within the gearing ratio thresholds set by the banks, ensuring continued financial flexibility.

(d) Will future audited financial statements include a separate note detailing the components of other income?

Answer:

Given the increasing significance of the amount, we will consider providing a separate disclosure in future financial statements to offer greater transparency and more detailed information for the users.

Question No.2 from Mr Gor Ching Ruey (Proxy)

(a) Kindly elaborate on the hedging mechanism implemented within GCB. Is the decision made by a designated individual?

Answer:

GCB's hedging policy targets coverage of minimum 80% of its production capacity. This is not a decision made unilaterally by any single individual or management member, but rather one governed by an established framework and system controls. All hedging activities are conducted and strictly observed within defined exposure limits. The trading team and CFO are authorized to approve hedging exposure of not more than 10% of production capacity and greater exposure would require higher level of approval at Board level.

(b) Understand that for Ivory Coast operation, the company enters into purchase contracts and hedges up to one year forward, what will be the exposure if the price falls?

Answer:

Referring back to our reply under Question 1 (a), we hedge our open position using paper contracts (derivatives) to minimize exposure to market price fluctuations. In the event of decline in cocoa bean prices, GCB may incur losses on its derivative contracts; however, this would be offset by corresponding gains on the physical side, as the company would benefit from purchasing cocoa beans at lower prices.

Question No.3 from Mr Lee Aek Hong (Shareholder)

(a) Does GCB face any competition from China?

Answer:

China does not produce cocoa beans and is not a major player in global cocoa processing. Its production is primarily for domestic consumption, and as such, it does not pose direct competitive pressure to us as a cocoa processor.

Question No.4 from Ms Chong Anna (Proxy)

(a) Is GCB considered as an integrated cocoa player?

Answer:

GCB is not considered an integrated cocoa player, as we do not participate in the upstream segment of the cocoa value chain, such as operating cocoa plantations. Instead, our operations are focused on the secondary and tertiary stages, which is cocoa bean processing and manufacturing of industrial chocolate. This strategic focus enables us to be highly responsive to evolving customer needs. Our flexibility, technical capabilities and consistent quality standards have made us a preferred supplier among major chocolate manufacturers who value reliability and customization in their sourcing partnerships.

(b) Does GCB have any intention of going upstream?

Answer:

While the company has explored the potential for upstream integration, there are currently no plans to move in that direction. Agricultural farming, particularly cocoa cultivation, is not within our core expertise. Additionally, establishing cocoa farming operations in new country would expose us to various country-specific risks, regulatory frameworks, and operational complexities, all of which require thorough evaluation before any commitment is made.

At this stage, our strategic priority remains on strengthening our core competencies in cocoa processing and industrial chocolate manufacturing. We are focused on optimizing the utilisation of our existing production capacity and enhancing value within the midstream and downstream segments of the cocoa supply chain.