

Date : 24 May 2024

Manager, Corporate Monitoring
Minority Shareholders Watch Group (MSWG)
Level 23, Unit 23-2
Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Dear Mr Jackson Tan,

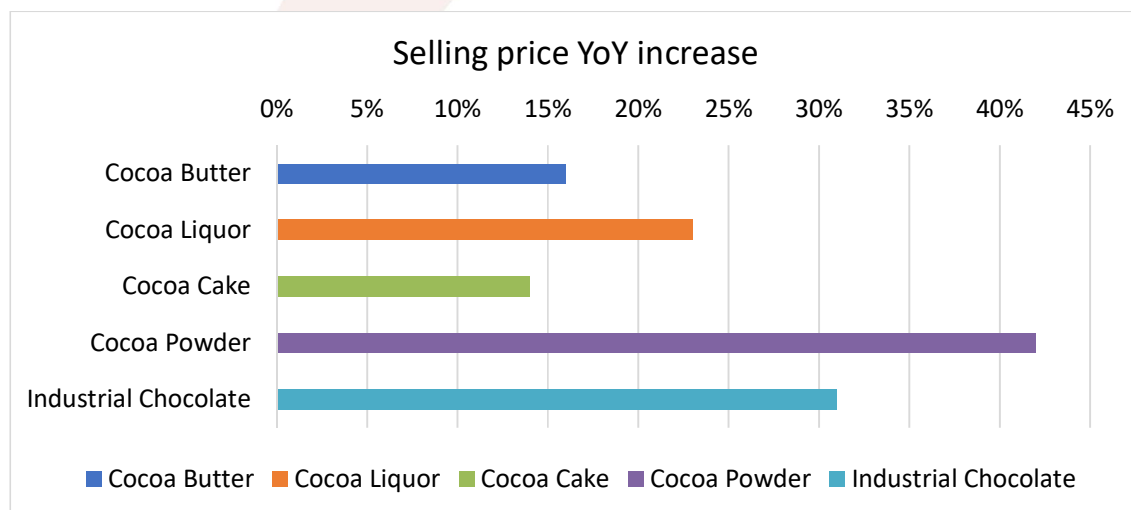
RE: 20th Annual General Meeting ("AGM") of Guan Chong Berhad ("GCB" or the "Company") to be held on Monday, 27 May 2024

With reference to the letter received on 20 May 2024, please find below our response to your questions:-

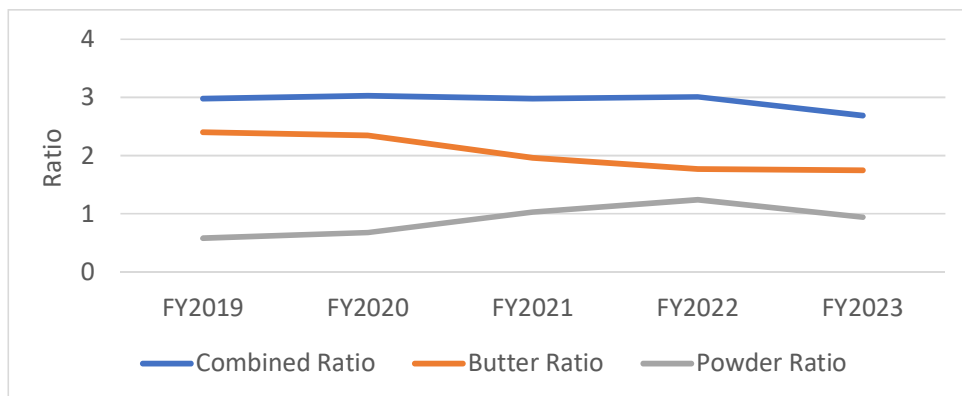
Operational & Financial Matters

1. In FY2023, GCB achieved a significant milestone with a record-high revenue of RM5.3 billion, up 20.4% from RM4.4 billion in FY2022. This was primarily attributed to the surge in the selling prices of its cocoa ingredients and industrial chocolates, driven by escalating cocoa bean prices. However, net profit declined by 31.5% to RM100.9 million in FY2023 (page 30 of Annual Report (AR) 2023)

(a) How much was the increase in the selling prices of cocoa ingredients and industrial chocolates in FY2023?



(b) Combined ratio is a key profitability metric for GCB. How was the trend of the combined ratio over the past five years?



(c) How long has the Group locked-in its forward sales as at the end of FY2023?

The Group typically locks in forward sales for cocoa butter and cocoa liquor 6 months to 1 year in advance, while cocoa cake and cocoa powder are usually sold 3 to 6 months ahead of time.

(d) The Group's pre-tax margin declined from 4.3% in FY2022 to 2.6% in FY2023. What is the outlook for profit margin?

The Group's pre-tax margin declined in FY2023 due to lower grinding margins and increased finance costs from higher borrowings.

Due to the nature of this industry, cocoa butter is typically sold in ratio through forward contracts, while cocoa powder is sold more promptly at market prices. In the Group's cocoa grinding segment, cocoa butter represents about 70% of our revenue, while cocoa cake and cocoa powder account for the remaining 30%.

Since cocoa butter is sold through forward contracts, we can pass on higher raw material costs to our cocoa ingredient customers. Generally, the Group benefits from higher product selling prices amid high bean prices, as product prices increase to a greater extent than bean prices.

For cocoa cake and cocoa powder, the Group will closely monitor the market and adjust prices and product ratios promptly to ensure market fluctuations are reflected in the product prices we offer to customers.

Consequently, we anticipate a recovery in profit margins as these pricing adjustments take effect.

(e) What is the budgeted capex for FY2024 and its breakdown?

The budgeted CAPEX for FY2024 is approximately RM 56.2 million, details as follows:

- *RM 15.8 million in Malaysia mainly for warehouse expansion and cocoa press machine.*
- *RM 12.9 million in Indonesia mainly for cocoa press machines.*
- *RM 12.7 million in the UK for value-added facility project.*
- *RM 9.7 million in the US for the expansion of the powder mill and automated depalletizing of butter and liquor.*
- *RM 5.1 million in Ivory Coast for cocoa press machine.*

2. The Group's new cocoa processing facility in Ivory Coast became fully operational in November 2022 and undertook its maiden export shipment in February 2023. The new facility boasts the potential to reach a capacity of 240,000 MT. Since its commissioning, the Group has continued to explore opportunities to enhance capacity utilisation, aiming to maximise its full potential. (page 27 of AR 2023)

(a) What was the production capacity and average utilisation rate of the Ivory Coast plant in FY2023?

The production capacity of our Ivory Coast facility was 60,000 MT per annum, and we operated at near full capacity during FY2023.

(b) What is the current production capacity and utilisation rate?

Currently, our Ivory Coast facility has the capacity to produce up to 65,000 MT per annum, and the utilization rate for the first quarter of 2024 was nearing maximum capacity.

(c) Does the Group have any plans to expand its production capacity this year? When do you expect to reach the potential capacity of 240,000 MT?

Given the current volatility in the cocoa market, the Group has decided to postpone the expansion plans for Ivory Coast, opting instead to closely monitor market conditions. For now, we will utilize our existing capacity to meet the current demand.

3. The Group's net gearing ratio has increased to a five-year high of 1.21 times in FY2023 from 0.68 times in FY2022. This was mainly due to the high cocoa bean prices. Does the Group expect this ratio to increase, maintain or decline in FY2024? What measures do you plan to take to mitigate current challenges?

The high gearing ratio was inevitable due to the escalating prices of cocoa beans, which soared to USD 4,200 and GBP 3,500 by the end of FY2023 and currently hover around USD 8,100 and GBP 6,650.

The increase in borrowings primarily stemmed from higher trade loans, which were utilized to finance the daily working capital trade cycle, encompassing the procurement of raw materials, inventory balances, and debtors. Based on the current high market conditions, we anticipate maintaining a similar gearing level in the upcoming quarters.

Currently, the Group maintains a healthy inventory level. However, owing to the global shortage of cocoa beans, the Group anticipates a decline in inventory levels, both in raw materials and finished goods, in the coming near quarters while customer demand remains strong. Consequently, our trade cycle is expected to shorten in the near term.

The Group is also exploring off balance sheet borrowings, such as receivable financing and supply chain financing to support daily financing needs without burdening gearing level. With these and higher profits anticipated alongside the decrease in inventory, it is likely that gearing will decrease in the second half of the year.

Yours sincerely,

Hia Cheng
Chief Financial Officer