GUAN CHONG BERHAD
Nineteenth Annual General Meeting
Wednesday, 31 May 2023

ANNEXURE 3

Questions & Answers (Q&A) Session

Question No. 1 from Mr Norhisam Norhisam Bin Sidek (MSWG)

(a) Why don't the competitors want to expand/increase capacity when customers are pushing for more?

Answer:

Our competitors focus on the expansion of their industrial chocolate segment instead of the bean grinding segment. Since the bean grinding segment is capital intensive, it is cheaper to purchase from bean grinders like us instead of producing themselves. Furthermore, industrial chocolate manufacturers usually have more market power than bean grinders. For example, when industrial chocolate manufacturers need cocoa products, they purchase from bean grinders. When they do not need as much cocoa products, they simply reduce their purchase and do not have the burden to manage the excess cocoa products.

Furthermore, competitors prefer to maintain the current margin of cocoa products instead of adding more bean grinding capacity to the market which in turn will drive down the prices. In addition, most of our competitors already have established bean grinding factories worldwide so there is not much incentive for them to expand further. On the other hand, we wanted to expand to Europe and Africa in order to expand our footprint out of Asia.

(b) Does the company see any opportunity around the world? In terms of marketing, how do you promote your products?

Answer:

We see opportunities in expanding to the regions close to the bean origin countries and chocolate consuming countries in order to take advantage of the abundance of cocoa supply and demand and reduce the logistic costs. In terms of expansion to the origin countries, we currently focus on stabilising the operation of our newly established bean grinding facility in Côte d'Ivoire, the largest bean producing country in the world. We also see opportunities in expanding to South American bean origin countries, but that will be dependent on market conditions and internal resources.

In terms of expansion to the chocolate consuming countries, we currently focus on our expansion projects in Europe, which is the largest chocolate consuming region in the world. We also see potential in expanding to the US, the largest chocolate consuming country in the world, which will again be dependent on market conditions and internal resources.

When it comes to promoting our products, we are actively expanding our product range in cocoa powder (in terms of colours and flavours) and industrial chocolate (in terms of shapes, colours, flavours and types (for example gourmet chocolate, vegan chocolate etc.). Since we are dealing in the business-to-business (B2B) sector instead of the business-to-consumer (B2C) sector, we do not invest heavily in marketing and advertisements of our products.

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

(a) What is the impact of deforestation to your business?

Answer:

For decades, trees in the rainforests have been cut down in order to make way for cocoa monoculture. However, it is not until recent years that chocolate consumers grow to be more environmentally conscious and regulations are put in place to curb this issue. Just last year, the European Parliament has announced the Deforestation Regulation, which requires certain commodities, including cocoa, imported to the EU market to be free from deforestation and fully traceable. This regulation is likely to be applicable from early 2025.

Furthermore, businesses will be required to submit to the authorities a due diligence statement confirming that the relevant checks have been performed and identifying the specific location where the cocoa beans were produced. In order to comply to the regulation, we are working on establishing appropriate infrastructure in our supply chain in order to ensure we can sign the due diligence statement for all shipments. Even though the full guidelines have not yet been published, our team is constantly monitoring the situation in order to stay abreast with the latest updates. In the meantime, our trading and sustainability teams are working proactively with our suppliers in order to implement sustainability programmes that can tackle deforestation and improve traceability.

(b) Are there any red tape issues in Ivory Coast?

Answer:

We have not faced significant red tape issues in Côte d'Ivoire, yet we have experienced some slight delays when constructing the factory and exporting our first shipments. However, we understand that whenever we expand to a new country, there will be integration issue whereby we need to adjust and adapt to a new environment with different culture and a new set of regulations. We appreciate that this is part of the learning curve and we believe that we will be able to adapt well after some time with our extensive experience in previous expansion projects.

(c) Is there any possibility that customers will pull out their orders?

Answer:

Due to the nature of the industry, we enter into forward contracts with our customers to deliver specified products at specified quantities during the contract period. It is possible that customers choose to delay shipment if they foresee chocolate demand to drop, but we are able to charge them interest based on the terms and conditions of the contract. However, it is unlikely that they default on the contracts because they will not simply jeopardise the long-term customer-supplier relationship with us. In addition, we also have the capacity to bring them to arbitration which will lead to negative reputation of the customer in the industry. Therefore, it is unlikely that they will pull out their orders.

Question No. 3 from Mr Lim Khai Xuan (Shareholder)

(a) How does the company manage its financing while expanding rapidly/constantly?

Answer:

The company completed a warrant exercise amounting to RM 200 million in 2022. The company also completed a bond issuance amounting to RM 300 million in Q1 2023. We are able to take on both of these financing at no interest cost. Furthermore, before we make any investment, our due diligence team is tasked to ensure that the investment is able to generate sufficient return in order to serve principal and interest repayments. Other ways we strive to improve our liquidity include reducing bean and finished goods inventories, reducing trade cycle and strengthening customer base with better margins.

Question No. 4 from Mr Qua Sai Chuan @ Koo Sai Chuan (Shareholder)

(a) Is the company seeking secondary listing in Singapore or Hong Kong?

Answer:

We have no such intention at the moment.

(b) How big is the market in China to the company?

Answer:

Sales to China take up about 4% of our group revenue.

Question No. 5 from Ms Song Yoke May (Shareholder)

(a) Since the current focus of the company is on expansion, would dividend payout to shareholder be impacted?

Answer:

Our dividend policy remains to be a payout of 25% of our net profit subject to various factors (including financial strength, gearing ratio, cash flow requirements and investment forecast). We may pay more or less from year to year depending on the factors listed above.

(b) Good business forecast but GCB market price has been dropping significantly, why is that so?

Answer:

Share market prices are not reflective of the profit forecast. The share market is out of the control of the company but the company has been engaging very well with big investors.

(c) Does the increase in sugar prices affect the company?

Answer:

The cocoa grinding process does not use any sugar but industrial chocolate process does require sugar. However, since the price hike in sugar affects all industrial chocolate players in the market, it represents an increase in raw material cost for all players, and the effect will later be offset by the higher selling prices to customers. This means that the higher sugar costs will eventually be passed on to customers further down the value chain.