JB FOODS LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 201200268D)
(the "**Company**")

RESPONSES TO QUESTIONS RECEIVED FOR ANNUAL GENERAL MEETING TO BE HELD ON 23 JUNE 2020

The board of Directors (the "**Board**") of the Company (and together with its subsidiaries, the "**Group**") refers to its forthcoming annual general meeting to be held on 23 June 2020 by way of electronic means ("**AGM**") and would like to thank the shareholders for submitting their questions in advance of the AGM.

The Company has consolidated the material questions submitted by shareholders and set out responses to such shareholders' questions in Annex A of this announcement.

BY ORDER OF THE BOARD

Chua Cheow Khoon Michael
Chairman

22 June 2020

ANNEX A
RESPONSES TO QUESTIONS FROM SHAREHOLDERS

Question	Answer
1. How has Covid-19 pandemic affected the manufacturing operations, supply chain and sales of the Group and what is the future outlook?	The movement control orders imposed by the Malaysia and Indonesia governments have caused our manufacturing operations to operate at reduced capacity as a result of having to observe the health and safety standard operating procedures imposed by the authorities. We have also seen some disruptions at the ports as well as with truck and courier delivery services due to lockdowns and reduced manpower supporting daily supply chain activities. The lockdown imposed by most countries has also led to a slowdown in global consumption and demand for cocoa ingredients. Customer sentiments remain cautious, and some customers have requested that shipment be postponed due to the slowdown in consumption. At this juncture, it is difficult to quantify the financial impact of the Covid-19 pandemic on the Group. The future outlook is very much dependent on how quickly the economy can recover from the Covid-19 pandemic. There is a risk that overall processing margin might be affected in the event of a prolonged Covid-19 pandemic contributing to weaker market sentiment. However, over the long term and based on historical cocoa consumption, we are optimistic and believe the cocoa consumption environment will be resilient once the Covid-19 pandemic is over.
2. Are the Group's manufacturing facilities (in both Malaysia and Indonesia) deemed essential operations and therefore staffed and allowed to operate at desired capacity? There was an announcement on 18 March 2020 but it did not specify whether the Group's facilities were deemed essential services.	The Group's operations do not fall directly into the essential services category. However, as some of our customers' operations are classified as essential services, we have been able to operate our production facilities at reduced capacity during this period.

3. What is the level of utilisation of the Group's factories YTD and how does it compare to last year? Does the Group have any plan to increase manufacturing capacity whether via M&A or expansion of factories? What is the rationale of the purchase of land and building contracted on 8 January 2020 and where is this property located? Will this purchase increase the manufacturing capacity of the Group and if yes, when will the capacity come online?	The Group's factories' utilisation level for 2019 is slightly higher than 2018. In view of the slowdown in global consumption and demand in 2020 amid Covid-19, and the uncertainty as to the effect of the Living Income Differential on cocoa beans in the Ivory Coast and Ghana, the Group anticipates that it will not operate as per the intended operating capacity. As part of the Group's long-term growing strategy, the Group has identified a three-storey industry land and building in PTP, Malaysia, which is located just next to the Group's existing factory. This building is connected with the existing factory. Due to the Covid-19 pandemic situation, the Group do not foresee any additional major CAPEX expansion in the near term. However, over the longer term, this purchase will contribute to an increase in the Group's manufacturing capacity, and the Group believes it will be able to maximise the scale of its operations from the enlarged manufacturing capacity. The Group will continue to explore suitable opportunities to increase our market share and manufacturing capacity.
4. What is the most recent borrowings outstanding figure? What is the Group's plan to pay down its increased borrowings? Has there been any impact on the Group's borrowing facilities and total availability from the recent tightening of credit markets?	As at 31 Dec 2019, 96% of our borrowings are short-term trade bills financing, which is used for the purchase of cocoa bean. As our business volume grows and if there is an increase in the cocoa bean prices, the short-term trade bills borrowing will increase accordingly. All the short-term trade bills borrowings as at 31 Dec 2019 have been fully paid. There is no impact on the Group's borrowing facilities from the recent tightening of credit markets given our transparent track record, strong financials, and relationship with the banks.

5. It was mentioned in the FY2019 annual report that "higher inventories maintained in FY2019 as a result from the higher processing capacity in FY2019". There been a y-o-y increase in finished goods inventory from USD 22M to USD 73.4M, but not in raw materials nor WIP. Why would the higher capacity result in the holding of more finished goods only (and not raw materials and WIP) and will finished goods continue to remain at the higher level of USD 70+M going forward or will it trend lower? What are the latest inventory balances by category? Is there any risk of write-down/write-off in inventories?	Our finished goods increased substantially from USD22m to USD73m mainly due to the change in customers' behaviour. Most of our finished goods as at 31 Dec 2019 have been delivered to our customers in 2020. As of to-date, there is no write-down/write-off in the inventories. In recent years, most of the Group's key customers have changed their procurement behaviour and either outsource their non-core activities or maintain a Vendor Managed Inventory ("**VMI**") arrangement with us. All the additional inventory carrying costs will be reimbursed by the customers. As part of our long-term growth strategy, we have modified our business model, and now maintain higher finished goods due to the VMI arrangements with some customers. We anticipate the finished goods will be maintained at similar levels going forward as long as the VMI arrangements continue.
6. Has there been any increase in bad debts or delays in collections of receivables vs FY2018 and YTD2019? As at 31 Dec 2019, the "Total trade and other receivables" was US$65.437m. How many % has been collected so far? Any difficulties faced in collecting the remainder during this Covid period? If so, what has the Audit Committee planned to do about it? What is the rationale for the lower weighted average loss rate of 10% (vs 100% in FY18) for the receivables past due over 60 days in Note 32.1 of the FY2019 annual report?	There is no bad debt arising in FY2019. The increase in trade receivables as at 31 Dec 2019 was mainly due to higher shipment volume from 4Q2019 onwards. More than 90% of receivables as at 31 Dec 2019 have been collected to-date. The weighted average loss rate is determined based on the historical payment collection cycle for the customers. It was a new policy set out in 2018 based on actual past due over 60 days. The Group is reviewing and fine tuning this policy periodically based on the actual outcome for the customers, and therefore, resulting in the changes of the weighted average loss rate used in 2019.

7. I refer to page 103 of the Annual Report about "Derivative Financial Instruments". In view that the gross profit margin has declined by 0.4% from 15.1% in 2018 to 14.7% in 2019, can the CEO explain the Group's strategy towards the usage of Foreign currency forward contracts & Derivative cocoa bean contracts in managing the cost of sales? Furthermore, can the Audit Committee explain how they ensure there are no over-exposure or under-exposure?	Our group pricing model with customers is mainly derived on an informal cost-plus basis. The increase in the cocoa bean price will result in higher revenue, and therefore the gross profit margin will decline when there is an increase in cocoa bean price. The Group uses foreign currency forward contracts and derivative cocoa bean contracts to hedge the Group's sales and purchases commitments in accordance with the limit, guidelines and strategy reviewed by the Risk Management Committee. The Risk Management Committee will meet up at least twice a year to review and monitor the limit in accordance with the market situation, volatility of the currencies and cocoa bean price movement.
8. I refer to page 121 of the Annual Report about "Segment Information". It is noted that revenue from China customers had declined 20% from US$41.454m in 2018 to US$33.363m in 2019. What went wrong?	The decline in the China segment revenue is due to the China customers' request to delay the shipment delivery towards the end of the year in 2019.
9. I refer to page 47 of the Annual Report about "Principle 8: Disclosure on Remuneration". It is noted that the "Bonus" component of Tey How Keong has increased 46% from S$1.156m in 2018 to S$1.69m in 2019, and the "Bonus" component of Goh Lee Beng has increased 50% from S$532K in 2018 to S$796K in 2019. May I ask the Remuneration Committee what remuneration factors specifically led to the increase? And how much is attributable to each of these remuneration factors? (Because the profit after tax has not changed much.	The remuneration of the executive directors comprises the fixed and variable component as per the service agreements approved by the Remuneration Committee and the Board. The variable component is computed based on a certain percentage of the moving 2 years average Group profit before taxation, i.e.: FY2019 performance bonus will be computed based on the average audited Group profit before taxation for FY2018 and FY2019. The increase is mainly due to the increase in the average Group profit before taxation for the computation for the variable component by USD8m from USD26m in FY2018 to USD34m in FY2019.

10. While the Group has chosen to report semi-annually, will the Group consider releasing key information and financials as voluntary quarterly updates for better transparency to investors?	As per our announcement on 27 Feb 2020, the Company has ceased quarterly reporting in order to reduce the manpower and other compliance cost involved in the preparation of financial statements on quarterly basis, and allow resources reserved for the Group to be invested in generating growth and creating value over a longer term. Notwithstanding the foregoing, the Company would like to assure shareholders that the Company will comply with its continuing disclosure obligations to keep shareholders updated as and when appropriate, should there be any material developments (financial or otherwise) relating to the Company or the Group.
11.Understand the company tries to operate on cost-plus model, but if Ghana and Ivory Coast implement Living Income Differential system and raw material cost increases drastically, would JB Foods be able to pass on the increase in cost to customers easily? Since Ghana and Ivory Coast are top producers, end customers eg Nestle should face the same cost increases regardless which grinder/processor they go to? Will these giants force grinders to accept lower margins as a whole?	In the short term, not all customers are receptive to accepting and absorbing the full costs of LID. This is causing some uncertainties to the pricing structure in the industry. As a result, some customers are putting their orders on hold for the time being pending resolution. Meanwhile, we are sourcing cocoa beans from other producing countries to minimise the effect. However, over the long term, the LID will improve the income and livelihood of farmers and encourage crop production. The higher output will lead to a decrease in cocoa bean price and outright purchase price of our customers.
12.Will the management be able to look into increasing the overall liquidity of the company's shares? (eg engaging a market maker etc). The low free float and liquidity of the company's shares has worsened the fluctuation and volatility of the company's share price especially during market meltdowns as we witnessed during the recent March bear market.	The management is aware of the situation and is considering various options including the use of market maker to increase the overall liquidity of the company’s shares.