JB FOODS LIMITED

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

RESPONSES TO QUESTIONS RECEIVED IN RELATION TO THE ANNUAL REPORT 2021

The board of directors (the "**Board**") of JB Foods Limited (the "**Company**", or the "**Group**") refers to the Company's announcement dated 13 April 2022 on the Important Notice to Shareholders regarding the Company's Annual General Meeting to be held on 28 April 2022 (the "**Announcement**"). Further to the Announcement, the Board did not receive any questions from shareholders.

The Board has however, received questions from Securities Investors Association (Singapore) ("**SIAS**") ("**Questions**") on behalf of shareholders.

The Board would like to thank SIAS for the questions raised and is pleased to respond as follows:

Q1. As noted in the annual report and in the Company's announcement dated 16 March 2022, following the onset of the armed conflict between Ukraine and Russia, the Group expects its business in Russia to be negatively impacted in the short term due to various factors, such as the massive devaluation of the Russian Roubles and supply chain disruption from the war.

The Group is actively monitoring the conflict situation in Russia and Ukraine, and would continue to exercise caution, as well as adopt remedial measures to mitigate its impact.

While the Group does not have any physical assets in Russia and Ukraine, the two countries contributed approximately 17% to our FY2021 revenue (US$58.5 million for Russia). On exposure, outstanding receivables are unlikely to significantly impact to the Group's financial performance (US$10.3 million as at 31 December 2021).

In view of the uncertain environment in Ukraine, the Group has temporarily halted sales-related activities due to massive damage to public infrastructure and disruption to its supply chain.

(i) Can management give shareholders an update on the situation on the ground with nearly 2 months into the war, especially with its agents and customers?

Since the Company's announcement dated 16 March 2022, the Group continues to have frequent updates with our agents and customers. The Company noted that there have been no significant changes to the Group's business or financial risks in Russia — shipments and customer collections are still operating as per usual.

(ii) What are the profiles of the main customers in the two countries? What are the main products sold in these two markets?

The Group's main customers in these two countries are Food & Beverages multinational corporations (MNCs). Our products sold in these two markets are mainly cocoa butter and cocoa powder.

(iii) While the group has halted sales related activities in Ukraine, what is the status of the group's operations in Russia?

The Group has imposed stricter payment terms for new shipments. Other than this, the Group's operations in Russia are continuing as per usual.

(iv) Can management also provide an update on the US$10.3 million (as at 31 December 2021) trade receivables due from customers in Russia? How much of it has since been collected? What is the level of communication with the agent(s) /customer(s) in Russia?

As of the date of this announcement, the Group continues to receive the payments on a regular basis. The outstanding receivables of US$10.3 million from Russia has been fully collected. The remaining undelivered contracts for the year 2022 are about 6% of the Group's 2022 revenue target.

Q2. In the Company's CEO statement to shareholders, the CEO stressed the importance of resolve, resilience and reliability to allow the group to continue to deliver during this challenging time.

Despite the higher profits, the group's gross profit declined by US$17.7 million or 40.5% from US$43.8 million for FY2020 to US$26.1 million for FY2021. This has been attributed to a significant surge in ocean freight rates caused by disruption in global supply chain, shortage of shipping vessels and higher trucking costs arising from higher local delivery sales in the North America and Russia markets.

Cost of sales, selling and distribution expenses, and administrative expenses all increased at a faster pace of 13.0%, 18.8%, and 9.9% respectively.

For FY2022, the Group has stated that it expects continued global supply chain disruptions, significant ocean freight surges and more recently, turbulence from the Russia-Ukraine conflict that would continue to post headwinds to its business, and impact profitability and growth.

(i) Can the management provide a breakdown to show the impact on profit margin due to higher freight rates and higher trucking costs? What are the levers available to management to better manage these costs?

23. PROFIT BEFORE INCOME TAX

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the above includes the following charges/(credits):

	Group	
	2021 US$'000	**2020 US$'000**
		Restated
Cost of sales		
Amortisation of right-of-use assets	**216**	162
Depreciation of property, plant and equipment	**5,779**	5,686
Factory utilities expenses	**7,977**	7,071
Fair value (gain)/loss on derivative financial instruments, net	**(1,844)**	4,182
Outward freight	**17,710**	3,666
Haulage trucking – export	**2,996**	1,015
Handling and documentation – export	**1,871**	1,484
Realised gain on cocoa beans derivative contracts	**(413)**	(703)
Write down to net realisable values of inventories	**16**	68
Short term leases	**261**	210

As disclosed on Page 117 of the Annual Report, outward freight and trucking costs have increased by US$14.0 million from US$3.7 million in the year 2020 to US$17.7 million in the year 2021 (or 4.8 times higher or a 383% increase), and US$2.0 million from US$1.0 million in year 2020 to US$3.0 million in year 2021 (2.9 times higher or a 195% increase) respectively. However, the Group's revenue only increased by 7.4%. Accordingly, the profit margin for the year 2021 has been substantially impacted due to ocean freight rates and trucking costs that have been agreed upon and contracted in year 2020. Additional costs could not be fully passed on to customers for contracts on Cost Insurance and Freight (CIF) terms.

(ii) What is management's view of cocoa bean price? Has the supply of cocoa bean been affected by COVID-19 related factors and/or bad weather?

As with most commodities, cocoa bean prices are affected by supply and demand, as well as seasonality of the weather and broader global economic factors.

(iii) How well has the group mitigated the impact due to the newly instated US$400 per tonne Living Income Differential that has been implemented in Ghana and Cote d'Ivoire?

Since the implementation of the US$400 per tonne Living Income Differential, market participants including JB Foods Limited have considered and priced in this additional cost into the pricing model during contracts negotiation.

(iv) Management has attributed the increase to higher headcount and staff costs to support the sales growth, and higher sales commission arising from higher sales volume. In addition, does management expect selling and distribution expenses to remain elevated and to account for a higher percentage relative to sales?

Despite the COVID-19 Pandemic, the Group's revenue increased by 7.4% year-on-year.

Even as the Company continues in its business strategy to grow current markets and make headway in new markets, increased global headcount in trading, sustainability, and regional sales and marketing helps foster stronger customer relationships and reinforce the Group's market position.

The Company's selling and distribution expenses are expected to remain elevated in the short term while the Group expands and penetrates new geographical segments. Once presence in new markets is established and higher sales volumes secured, the Group expects that the expenses will stabilise.

(v) How much pricing power does the group have to pass on costs increases?

In principle, the Group adopts a cost-plus pricing strategy that considers market competition in pricing negotiations with our customers. The Group believes in making best efforts to manage costs together with our suppliers and customers.

Surges in ocean freight rates that occurred from Q42020 and year 2021 were unforeseen, and such cost could not be factored into contracts that were agreed before Q42020.

As mentioned in our response to Question 2 (i) above, new contracts concluded in the year 2021 and 2022 are priced competitively, according to the cost-plus model and current ocean freight and trucking rates, where possible.

(vi) What are management's strategies to improve the profitability of the group going forward?

The Group is unwavering in our trajectory to be established as one of the major players in the cocoa industry, adopting clear business strategies to be nimble-footed and close to key and growing markets.

Keeping pulse with the industry and global business climate, the Group is committed to sustainability and traceability efforts at origins. By increasing cost efficiencies — conserving energy while reducing carbon footprints, expanding our global sales network and customer base, and developing new product capabilities, the Group expects to continue to drive long-term profitability.

Q3. The company has appointed Yang Lee & Associates ("IA") as the outsourced internal auditors. The IA is independent of the management and will report to the chairman of the audit committee (AC) on any material weaknesses and risks identified in the course of the audit which will also be communicated to management.

The IA has unfettered access to all the company's documents, records, properties and personnel, including access to the AC. The IA is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards), issued by the Institute of Internal Auditors. The AC is satisfied with the adequacy and effectiveness of the current internal audit function and is of the view that the internal audit function is independent, effective and adequately resourced.

(i) What was the scope of the internal audit in FY2021?

For financial year ("FY") ended 31 December 2021 ("FY2021"), two internal audits were performed on the key operating cycles of PT Jebe Koko and JB Cocoa Foods (China) Co., Ltd, the Group's key operating subsidiaries in Indonesia and the People's Republic of China.

(ii) The group has subsidiaries in Singapore, Malaysia, Switzerland, the Republic of Estonia, the United States of America, the People's Republic of China, Indonesia, the Republic of Côte d'Ivoire. Were all major operating foreign entities included in the IA? How was the internal audit carried out for these overseas entities?

A 3-year internal audit rotational plan, commencing FY2020 ("IA rotational plan") and aligned with the Group Enterprise Risk Management Framework, was set up to cover the Group's key operating entities. Under the risk aligned IA rotational plan, only entities that meet pre-set criteria approved by the Audit Committee are/will be covered.

Besides the entities covered in FY2021 as mentioned above, other entities covered under the IA rotational plan are JB Foods Limited, JB Foods Global Pte Ltd and JB Cocoa Sdn Bhd (based in Singapore and Malaysia) in FY2020 and for FY2022, JB Cocoa Inc. (based in the United States of America) and JB Foods Limited, JB Foods Global Pte Ltd and JB Cocoa Sdn Bhd (based in Singapore and Malaysia) will be covered. The IA rotational plan covers the key operating entities (including key foreign entities) of the Group, based on a risk-aligned approach.

(iii) Given the closure of national borders, was the scope and the effectiveness of the IA affected?

Due to the travel restrictions imposed by foreign countries, IA was not able to travel on-site to perform the internal audits. Accordingly, the IA conducted its internal audit primarily by using technological tools such as virtual meeting software, emails and telecommunication devices. For certain procedures that required on-site presence, local contractors were engaged by IA to perform the procedures under their supervision. The Audit Committee noted that the IA did not raise any significant unresolved issue or scope limitation during its meetings with the IA. Going forward, full on-site reviews will be arranged where practicable.

(iv) What were the key findings and recommendations by the internal auditor?
For the FY 2021 internal audit of PT Jebe Koko, key findings and recommendations made included proper follow-up of standard cost variances, proper configuration of inventory ageing in the information technology ("IT") system and strengthening of local IT function.

For the FY2021 internal audit of JB Cocoa Foods (China) Co., Ltd, key findings and recommendations made included improvements to fire-suppression controls, formalisation of external inventory management and enhancements to transfer pricing policy.

BY ORDER OF THE BOARD

CHUA CHEOW KHOON MICHAEL
Independent Director & Chairman
26 April 2022