Company Registration N.: 198403096C

QUESTIONS FROM SHAREHOLDERS IN RELATION TO THE 2023 ANNUAL REPORT

The Board of Directors (the "**Board**") of Delfi Limited (the "**Company**") refers to the Company's announcement dated 08 April 2024 in the Notice of Annual General Meeting (the "AGM") to Shareholders regarding the Company's upcoming AGM to be held on 23 April 2024 (the "**Announcement**").

Further to the Announcement, the Board have received questions from shareholders (the "**Questions**").

The Board would like to thank shareholders for submitting the Questions. The Board is pleased to set out its responses as follows:

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1. **What is Delfi's projected capex for next 3 years?**

   Delfi follows a prudent approach to capital investment with a careful assessment for maintenance needs, productivity improvements, increased capacity when there is evidence of expected strong demand, and investments to meet sustainability related commitments.

   In 2023, we invested US$23.6 million of capital expenditure, which marked a return to investment levels more in line with our pre-COVID amounts. The investments in 2023 comprised mainly of production equipment in anticipation of continued market growth, quality and food safety enhancements, and a plot of land in Indonesia to meet our long-term operational needs. At end-2023, our Group's production capacity totalled about 130,000 metric tonnes, with the capability to produce a wide range of products.

   This level of capital expenditure is higher compared to the previous two years as we had deliberately curtailed our capital expenditure to include only the most essential items in light of the uncertainties created by the COVID-19 pandemic.

   Over the next few years, our capital expenditures will be guided by our business growth and outlook (taking into consideration the current uncertainties in macro-economic conditions, and the geo-political environment). Having said that, we will continue to monitor our current capital expenditure programme and evaluate it against any changes in market conditions, which could result in us prudently deferring investments to a later period, if required.

2. **What is Delfi's mitigating plan for the recent rise in cocoa prices? Does the company have an official hedging program in place today? Any comment on how the team is managing this and how it might impact margins in 2024 would be helpful.**

   Delfi does not buy cocoa beans. Instead, we procure intermediate cocoa ingredients from leading world class suppliers that are used to produce our chocolate products.

   We carefully and proactively manage the impact to our business from procurement and supply chain pressures by using all of the levers available to us to help mitigate rising input costs, including those impacted by rising cocoa prices. These tools include enhancing production efficiency, locking in prices in advance with our suppliers for extended periods, introducing new flavour variants with less volatile ingredients costs, adjusting product prices when warranted, and changing packaging materials. These actions help us to accommodate changes in input costs, while addressing competition in our key markets, reaching profit objectives, and maintaining customer loyalty.

   Our forward cover strategy is an important component in mitigating the risk of ingredients prices mentioned above by providing us with sufficient visibility and enough flexibility to manoeuvre operations and adjust strategies to manage, uphold and sustain margins while supporting profitability and retaining customer demand.

   Through our forward cover strategy and by applying our range of activities to address ingredients prices, we expect to be able to mitigate the potential impact on our 2024 cost of ingredients.

3. **In FY2023, the decrease in GP margin is attributed partly due to "The business decision to increase promotion costs to fend off higher competition in Indonesia, further strengthen the brand equity of our core brands, and support our branded products that we believe have the highest potential for future growth" Was the decision to increase promotion a proactive or reactive move?**

   Our decision in FY2023 to increase promotion costs was an important part of our strategy to proactively invest further in our core brands and to invest in building the products which we believe have the potential for the strongest growth. This strategic decision was proactive and is expected to help further grow our product sales. We also strategically increased our promotion spend to proactively address heightened competition in Indonesia during the year, which was net off against sales which contributed to the impact on our Gross Profit Margin.

4. **Working capital expanded by quite a significant margin in FY2022 & FY2023 after reduction during covid years. Is the current level of working capital considered normal?**

   Like many businesses, our working capital needs (comprising accounts receivables, inventory and trade payables), are a function of our sales activity and the business growth achieved or anticipated by our business. During the COVID-19 period, our sales were impacted by the lockdowns in our key markets with our working capital needs consequently reduced during those years. With the opening of our markets after the pandemic, the increased consumer demand drove the growth of our business resulting in a need to increase our working capital. Although we expect to have higher working capital requirements to support our future business growth, we will remain vigilant and tightly manage appropriate levels of receivables, inventories and payables.

5. **What is the proportion of premium format category in own brands revenue in 2023?**

   We do not publicly disclose the proportion of premium format category for our Own Brand revenue. The premium category is a very important part of our overall brands strategy for our Own Brands business. We continually invest in our premium format products to increase our brand equity and drive growth. An increasing portion of our new products are in the premium category and our purchase of the rights to the *Van Houten* brand in 2018 was a strategic decision to enhance our premium category offerings in Indonesia and across Southeast Asia.

6. **In the CEO's letter in AR2014, John Chuang stated, "As we supply products to more than 50% of the chocolate confectionery demand in Indonesia, it is our market to lose. We must defend and grow our market leadership to sustain our profitability for the long haul." Since the Group doesn't disclose market share, I would like to ask if, after close to 10 years, the group has lost market share?**

   What are Delfi market shares in Indonesia and Philippines? Is market share expanding?

   As mentioned in the question, we do not publicly disclose market share in Indonesia. However, we can highlight that despite the increased competition in Indonesia over the years, and the challenging period from the pandemic, we still hold a leading position today in Indonesia.

   It is important to note that the market in Indonesia today is larger than it was back in 2014. Also, it is important to note that market share is only one metric in determining business performance. Other metrics including profitability, sales growth, the growth of our distribution network and the number of new product launches, to name a few, are also important in determining overall performance.

As mentioned above, it is important to keep in mind that the market for chocolate has grown significantly in volume over the past ten years (excluding during the pandemic) by around 10% per annum on average, substantially expanding the size of the market to its current size. In addition, many new categories have emerged that did not exist in 2014 which has an impact on measuring current overall market positions for companies in Indonesia. Having said that, we have experienced strong growth over this period and have retained our leading position in the country and especially in moulded chocolate bars with our heritage *SilverQueen* brand.

Over the years, our leading position in the country has been based on our investments in our core brands, which has helped to further strengthen our brand equity. We have also been able to retain our position by innovating to extend our product range into new categories, by developing new packaging formats, by enhancing our market segmentation, and by broadening our reach to younger consumers including Millennials and GenZs.

Our position as the leading producer in Indonesia for moulded bars has also resulted in our ability to fend off competition from other brands including those from outside the country. We have also tailored our marketing campaigns to showcase our brand values and improved our access to retailing networks to deliver on our brand promises.

These strategies have contributed to our ability to retain the leading position we have today for chocolate in Indonesia and to an improving presence in our Own Brands in the Philippines.

7. I appreciate the management's leadership over the years, with FY2022 & 23 ROE exceeding 17%, the highest since Delfi refocused back to a brand owner and distributor of 3rd party brands. However, many global consumer companies in the US have achieved higher ROE. Any plan to bridge the profitability gap?

It is very difficult to compare consumer companies in the US with those in Indonesia and Southeast Asia. If we look at the main chocolate confectionery companies in the US, they benefit from much higher per capita chocolate consumption in the US and in their other developed markets, and they offer a much broader portfolio of products to consumers, while Delfi is more of a pure-play chocolate confectionery company in Indonesia which has low per capita chocolate consumption. Moreover, almost all of the US based consumer companies carry high debt loads which helps to elevate their ROE.

We believe the best gauge of our performance from a ROE point of view is to focus on the recent trend which shows a growing ROE.

8. Was the increase in sales in 2023 mainly due to the increase in unit volume demand growth or due to increase in pricing?

The increase in sales was primarily driven by an increase in volume.

9. **In the CEO letter in the 2023 Annual Report, the CEO explained that the decrease in margin was due to increased promotion costs in Indonesia. But in Note 7 of the Financial Statements, the marketing expense was lower in 2023 compared to that of 2022, and totalled US$4.8M, which is less than 1% of Group revenue. How do we reconcile that to CEO letter and is the US$4.8M all the group spent on marketing and promotion cost, or is promotion cost deducted from selling price?**

   As surmised, the majority of the A&P expenses were classified to net off against sales. Therefore, the figures reported in Note 7 do not represent the full A&P expenses.

   As answered for Question 3, our decision in FY2023 to increase promotion costs was an important part of our strategy to proactively invest further in our core brands and to invest in building the products which we believe have the potential for the strongest growth. This strategic decision was proactive and is expected to help further grow our product sales. We also strategically increased our promotion spend to proactively address heightened competition in Indonesia during the year, which was net off against sales which contributed to the impact on our Gross Profit Margin.

10. **The group has over US$90M capital allowances and unutilized tax losses at the holding company level, which is significant compared to group profit and Singapore tax rate. Could you please explain how tax losses, the majority of US$90M occurred and what are the plans to utilize them?**

    Of the US$90 million of capital allowances and unutilised tax losses at the holding Company level, the unutilised tax losses are the US$86.8 million related to the cocoa ingredients business which was disposed of in FY2013.

    These capital allowances and tax losses do not have any expiry dates. However, as they are not expected to be utilised within the holding company within the near future, they are not recognised as a tax asset.

11. **What is Management's plan for growth in the future?**

    Our focus as a company is to continue growing sales profitability at least in line with, or on average, higher than, the growth of the chocolate market in Indonesia. We employ many strategies to accomplish this including investing in our core brands, offering a wide array of products to all consumer segments, launching new products to the market, expanding our brands into new product categories, remaining close to our customers and consumers, strengthening our distribution capabilities, and improving our routes-to-market.

    Indonesia, with its large population, increasing urbanization, growing middle class, and expected strong growth in per capita chocolate consumption, remains a favourable market with strong growth potential. We believe Delfi is well positioned to benefit from the expected market growth.

12. **Which of the foreign competitors have local processing capabilities in Indonesia?**

    None of the major foreign based companies that sell chocolate confectionery in Indonesia currently have domestic production capabilities. They import their products into the country.

    While the main Indonesian companies have production facilities in the country, most of them, do not focus on producing moulded bars using real chocolate. Companies like Mayora, Garuda and Orang Tua focus more on products with compound, on wafers, biscuits and snacks. For those domestic producers who may offer real chocolate bars in the local market, currently they do not have a strong presence in this segment.

13. **Do you have the same relationship in Indonesia with the Modern Trade Independents as with the more established ones (Alfamart and Indomaret)?**

    With many years as a well-established and leading chocolate producer in Indonesia and with a long history of distributing products to retailers across the country, Delfi cultivated strong commercial relationships across all retail channels beginning with the Traditional Trade channel and eventually with the Modern Trade channel once it emerged as part of the retail sector. Over time, as the Modern Trade sector (Super Markets, Hyper Markets, and Mini-markets) further developed and grew, Delfi was well positioned to develop strong commercial relationships, and our strong distribution capabilities gave us a strong advantage to access the growing channel.

    Historically, the Modern Trade Independent (“MTI”) segment has been a smaller component of the broader channel, but recently it has competed more strongly against some of the weaker large-chain stores, resulting in higher growth for MTI than in the past. With our experience supplying other Modern Trade segments including, Indomaret and Alfamart, we have been able to develop strong commercial relationships with the growing MTI channel. Our brand recognition and product offering help attract consumers to these stores and coupled with our strong and reliable distribution capabilities, make us an important supplier for these companies.

14. **Is the Agency business to continue growing faster than own brands business?**

    Our aim is to profitably grow the Agency business as quickly as possible, while continuing to grow our Own Brands business. We do not have a specific plan to grow the Agency business more quickly. It is important to keep in mind that the businesses are fundamentally different, which is why we manage and operate them separately. We continually invest in our supply chain capabilities and further develop our commercial relationships with principal partners in an array of businesses.

Our Agency business builds on our existing extensive distribution network and, with little incremental cost, provides us with an additional strategy to generate profits and cash flow from our distribution network. It also complements and strengthens our commercial relationships with distributors and retail companies across Indonesia, Malaysia and the Philippines.

Note that the growth of our Agency business for any specific period could be heavily influenced by new accounts added to or removed from our portfolio which might distort any year-to-year comparison.

By Order of the Board

Siau Kuei Lian
Company Secretary

19 April 2024