



MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

4 May 2022

BY EMAIL/FAX/HAND

(Fax No: +603 7960 7818)

The Board of Directors
MEGA FIRST CORPORATION BHD
A-12-01, Level 12
Block A, PJ8
23 Jalan Barat
Seksyen 8
46050 Petaling Jaya
Selangor Darul Ehsan

Attention: Madam Foo Wen Yunn
Company Secretary

Dear Directors,

**Re: 56th Annual General Meeting (“AGM”) of Mega First Corporation Bhd (“MFCB”
or the “Company”) to be held on Wednesday, 25 May 2022**

In the interest of minority shareholders and all other stakeholders of the Company, we would like to raise the following questions: -

Operational & Financial Matters

1. “The acquisition of Stenta came one year into our ambitious 5-year expansion plans for the Packaging Division that kicked off in 2020. The first step taken was to increase our existing production capacities of paper bags and flexible packaging and this capacity expansion is on track to be completed in 2022. We expect that these added capacities will be fully taken up in 2023. In addition to these increased capacities, we are now in the midst of planning for a new mega factory to be built on a 10.4-acre site in Melaka that was acquired during the financial year. We expect completion of this factory to be in the first half of 2023” (page 15 of FY2021 annual report).
 - a) What were the manufacturing capacities/ what will be the potential capacities of biaxially oriented polypropylene film and linear low density polyethylene films under Hexachase Corporation Sdn Bhd, and flexible packaging, paper bags, labels and stockers under Stenta Films (Malaysia) Sdn

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia . Company No:524989-M)

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- Bhd i) before the above expansions; ii) after the completion of capacity expansions in 2022; and iii) after the full completion of the new factory expected in 1H2023?
- b) How much is the capital expenditure budgeted for i) the capacity expansion targeted to be completed in 2022; and ii) the new mega factory?
- c) On page 38 of the company's 4Q21 results briefing slides uploaded to the company website, the combined annual revenue potential for the packaging division could jump from approximately RM450m to RM1.2b under the 5-year expansion plan. How does the group ensure sufficient new orders could be secured to fill up the new capacities under such aggressive expansion plans?
2. Edenor Technology Sdn Bhd, a 50%-owned joint venture company of the group, had acquired Emery group of companies, which are in the business of manufacturing and sale of basic and specialty oleochemicals, for a total consideration of approximately RM12.6m. Subsequently, Edenor recorded a total bargain purchase gain amounting to approximately RM250.3m. The key turnaround strategies for the investment in Edenor were shared on page 52 of 4Q21 results briefing slides. When does the Board expect Edenor to turn profitable?
3. The value of group's investment in quoted shares jumped substantially from RM98.79m in 2020 to RM200.067m. What were the stocks held by the group as at 31 December 2021?
4. As at 31 December 2021, the group had trade receivables and contract assets of RM38.016m past due more than 180 days.
- a) Which division contributed the most to the trade receivables and contract assets past due more than 180 days, and what was the amount?
- b) What were the reasons for the above long overdue trade receivables and contract assets?
- c) Is the Board confident of full collection of the receivables and contract assets?

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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Environment, Social and Governance Matters

5. As investors are increasingly placing more emphasis on Environment, Social and Governance (ESG) performance of companies, they progressively integrate ESG factors in stock valuation. Despite green/ renewable energy segment being the biggest revenue and earnings contributor to the group, what are the reasons for MFCB not being included as a component stock of FTSE4Good Bursa Malaysia Index/ FTSE4Good Bursa Malaysia Shariah Index? Furthermore, the company was rated 1*, the bottom 25% by ESG Ratings amongst public listed companies in FBM EMAS that have been assessed by FTSE Russell.

Please present the questions raised herein, and the related answers, to the shareholders present at the forthcoming AGM. At the same time, we await a written reply as soon as possible for our records.

Thank you.

Yours sincerely



Devanesan Evanson
Chief Executive Officer
DE/OBH/MFCB/AGM2021

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23 May 2022

MINORITY SHAREHOLDERS WATCH GROUP
Level 23-2, Menara AIA Sentral
No. 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Attention : Mr Devanesan Evanson, Chief Executive Officer

**56TH ANNUAL GENERAL MEETING (“AGM”) OF MEGA FIRST CORPORATION BHD
 (“MFCB”) TO BE HELD ON WEDNESDAY, 25 MAY 2022**

We thank you for your letter dated 4 May 2022 on questions raised that the Minority Shareholders Watch Group (“MSWG”), in relation to the 56th AGM of MFCB to be held on 25 May 2022.

As requested, we enclose MFCB’s response to the questions raised by MSWG in the letter.

Thank you.

Yours faithfully
MEGA FIRST CORPORATION BERHAD



FOO WEN YUNN
Company Secretary

Operational & Financial Matters

1. “The acquisition of Stenta came one year into our ambitious 5-year expansion plans for the Packaging Division that kicked off in 2020. The first step taken was to increase our existing production capacities of paper bags and flexible packaging and this capacity expansion is on track to be completed in 2022. We expect that these added capacities will be fully taken up in 2023. In addition to these increased capacities, we are now in the midst of planning for a new mega factory to be built on a 10.4-acre site in Melaka that was acquired during the financial year. We expect completion of this factory to be in the first half of 2023” (page 15 of FY2021 annual report).

- a) What were the manufacturing capacities/ what will be the potential capacities of biaxially oriented polypropylene film and linear low density polyethylene films under Hexachase Corporation Sdn Bhd, and flexible packaging, paper bags, labels and stockers under Stenta Films (Malaysia) Sdn Bhd i) before the above expansions; ii) after the completion of capacity expansions in 2022; and iii) after the full completion of the new factory expected in 1H2023?

Hexachase Group: Revenue Capacity

- i) Before 2020: about RM120 million per annum.
- ii) After 2020-2022 expansion: about RM280 million per annum.
- iii) Construction of the new factory building on a 10.4-acre land in Melaka is expected to be completed in 1H2023. Subject to prevailing market conditions and demand offtake, the Group intends to progressively add machinery capacity starting from 2H2023 over a 3-year period to 2026. This would raise total revenue capacity of Hexachase Group to approximately RM600 million per annum by 2026.

Stenta Group (acquired in July 2021) : Revenue Capacity

- i) At time of acquisition: about RM230 million per annum.
- ii) Construction of a new factory building on 6.7-acre land in Bangi, Selangor is expected to be completed in 1H2023. Subject to prevailing market conditions and demand offtake, production capacities are expected to be progressively added starting from 2H2023, over an estimated 3-year period to 2026. Upon completion, this would raise total revenue capacity of Stenta Group to approximately RM600 million per annum.

- b) How much is the capital expenditure budgeted for i) the capacity expansion targeted to be completed in 2022; and ii) the new mega factory?

Hexachase Group:

- i) Total expansion budget between 2020-2022: about RM81 million (RM51 million already incurred up to 31 December 2021 with RM30 million balance expected to be incurred in 2022).
- ii) Construction and capacity expansion of the new factory: about RM210 million to be incurred between 2022 and 2026.

Stenta Group:

- i) Construction and capacity expansion of the new factory: about RM150 million to be incurred between 2022 and 2026.
- c) **On page 38 of the company's 4Q21 results briefing slides uploaded to the company website, the combined annual revenue potential for the packaging division could jump from approximately RM450m to RM1.2b under the 5-year expansion plan. How does the group ensure sufficient new orders could be secured to fill up the new capacities under such aggressive expansion plans?**

Demand Outlook

According to IMARC, a leading market research company, the global flexible packaging market size reached US\$125 billion in 2021 and is expected to grow by a CAGR of 4.5% to US\$162 billion in 2027.

Future Market Insights (FMI), another leading market research company, estimated the global paper bag market at US\$5.2 billion in 2022, and is forecast to grow at a 4.1% CAGR between 2022 and 2030.

We believe the size and growth prospects of the global flexible packaging and paper bag markets will be able to absorb the Group's planned capacity expansions.

The Group focuses on developing quality, cost-effective, innovative and environmentally friendly packaging solutions for end customers. Our marketing efforts in recent years have made significant progress in securing new customers, including several large multinational companies. Over time, we hope with confidence and trust gained, we will be able to gradually increase the penetration rates of these customers.

2. **Edenor Technology Sdn Bhd, a 50%-owned joint venture company of the group, had acquired Emery group of companies, which are in the business of manufacturing and sale of basic and specialty oleochemicals, for a total consideration of approximately RM12.6m. Subsequently, Edenor recorded a total bargain purchase gain amounting to approximately RM250.3m. The key turnaround strategies for the investment in Edenor were shared on page 52 of 4Q21 results briefing slides. When does the Board expect Edenor to turn profitable?**

We expect Edenor to turn profitable in 2022.

3. **The value of group's investment in quoted shares jumped substantially from RM98.79m in 2020 to RM200.067m. What were the stocks held by the group as at 31 December 2021?**

D&O Green Technologies Bhd (D&O) made up 82.6% or RM165.3 million of the Group's investment in quoted shares at 31 December 2021. The substantial increase in investment in quoted shares from a year ago was primarily due to a sharp increase in D&O's share price.

4. As at 31 December 2021, the group had trade receivables and contract assets of RM38.016m past due more than 180 days.

a) Which division contributed the most to the trade receivables and contract assets past due more than 180 days, and what was the amount?

The renewable energy division accounted for 91% or RM34.4 million of trade receivables and contract assets past due more than 180 days.

b) What were the reasons for the above long overdue trade receivables and contract assets?

This amount relates to trade receivable in Lao Kip from Electricite du Laos (EDL). Under the Power Purchase Agreement, EDL shall pay Don Sahong Power Company (DSPC) 90% in US Dollar and 10% in Lao Kip for the hydro energy bought from DSPC. The payment of the Lao Kip portion has always been slower.

c) Is the Board confident of full collection of the receivables and contract assets?

The Board is confident of full collection of the receivables and contract assets.

Environment, Social and Governance Matters

5. As investors are increasingly placing more emphasis on Environment, Social and Governance (ESG) performance of companies, they progressively integrate ESG factors in stock valuation. Despite green/ renewable energy segment being the biggest revenue and earnings contributor to the group, what are the reasons for MFCB not being included as a component stock of FTSE4Good Bursa Malaysia Index/ FTSE4Good Bursa Malaysia Shariah Index? Furthermore, the company was rated 1*, the bottom 25% by ESG Ratings amongst public listed companies in FBM EMAS that have been assessed by FTSE Russell.

The Board is fully aware of the importance of sustainable development that provides benefits not only to our businesses but to all our stakeholders as key to safeguarding and enhancing long-term shareholder value.

We believe the historical poor scoring in ESG rating by FTSE Russell was largely due to inadequate documentation, disclosure and communication of the MFCB's ESG strategy and efforts along the lines of the new Global Reporting Initiatives (GRI) Universal Standards (2021) and Bursa Malaysia Main Market Listing Requirements on sustainability reporting.

In order to address this, the company took the initiative to engage an external sustainability consultancy to define a long-term sustainability strategy for MFCB and have put in tremendous efforts in the past 12 months to improve on our reporting standards as can be seen in the 2021 Sustainability Report when compared to that of 2020. We will continue work hard to close any reporting gaps in future reports. We hope that these changes will help improve MFCB's ESG rating moving forwards.