MEGA FIRST CORPORATION BERHAD

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of Mega First Corporation Berhad, I am pleased to present to you our Annual Report 2021 and audited financial statements for the financial year ended 31 December 2021.

Overview of the Group's Financial Performance

Financial year 2021 was an exceptional year for the Group. Despite the continued business challenges caused by the Coronavirus Disease 2019 ("COVID-19"), the Group posted its highest earnings since its listing in 1970 with a revenue of RM914.7 million (2020: RM767.1 million) and a profit before tax of RM539.6 million (2020: RM389.3 million), an increase of 19.2% and 38.6% respectively from the previous year.

Revenue for the financial year 2021 increased across all core divisions. The Packaging Division recorded the largest increase of 113.0% to RM208.2 million (2020: RM97.8 million) largely attributable to the consolidation of the 5 months results of Stenta Films (Malaysia) Sdn Bhd and its subsidiary ("Stenta") of RM83.2 million after the completion of the acquisition on 28 July 2021. The increase in the Renewable Energy Division followed, recording a growth of 4.6% to RM533.9 million (2020: RM510.2 million) while the Resources Division recorded an increase of 8.4% to RM154.9 million (2020: RM142.8 million).

The increase in profit before tax was largely due to a RM122.0 million share of profit in a joint venture, Edenor Technology Sdn Bhd ("Edenor"). This share of profit arose as a result of an unallocated bargain gain arising from Edenor's acquisition of Emery Oleochemicals (M) Sdn Bhd and Emery Specialty Chemicals Sdn Bhd and their subsidiaries on 1 November 2021. Excluding the share of unallocated bargain difference of RM125.1 million, the Group's earnings is 6.5% higher from the previous year at RM414.5 million, largely contributed by a 3.6% increase in profit from the Renewable Energy Division to RM385.6 million (2020: RM372.1 million) and an increase of 134.8% in the Packaging Division to RM22.2 million. The Resources Division's profit before tax fell 10.9% to RM16.7 million.

Please refer to the Management's Discussion and Analysis on pages 19-24 in this Annual Report for further details on the Group's financial performance.

Prospects and Future Plans

Renewable Energy ("RE") Division

The Renewable Energy Division continues to be the largest contributor to the Group's income, contributing a total of 92.3% (2020: 95.7%) to the Group's total profit before tax (excluding share of profit of joint venture as a result of unallocated bargain difference). Currently, the income from the Don Sahong Hydropower plant ("DSHP") is the main driver of this division and we intend to leverage on its strong and stable cash flows to continue to pursue RE opportunities in the region. We actively assess new projects not only in the hydropower and solar space but across all types of renewable energies locally and in the Asia Pacific region.

The division's achievements during the financial year are as follows:

i) Improved EAF of the DSHP

2021 was the second full year of income generation for the DSHP. Despite a longer period of scheduled turbine maintenance, Energy Availability Factor ("EAF") was 91.0% for the year, a significant improvement from 86.4% in its first year of operations. The higher EAF was not only due to factors outside our control such as higher water levels and a more effective power distribution system following the completion of EDL's 500KV transmission line from Ban Hat substation to the Cambodian border in November 2020 but also those within our control such as improvements made to water flow management. After the first year of operations, the operations and maintenance team gained a better understanding of the water flow conditions at the DSHP site and have optimised the operations of the plant accordingly.

Assuming there is no unusual decline in water level for the remaining part of this year's dry season, it is expected that the average EAF for the DSHP in the coming financial year to remain at around 2021 levels.

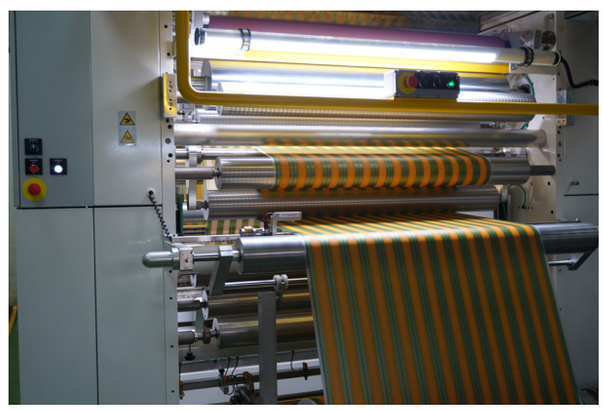
ii) Commenced construction for DSHP's fifth turbine

The plan to expand the DSHP by developing a 5th turbine was initially scheduled for financial year 2020 but was delayed due to the COVID-19 pandemic and the ensuing travel and supply chain restrictions. Nevertheless, construction work for the 5th turbine has commenced during the dry season of December 2021. The original project team managing the DSHP are also managing the expansion project and we expect that it will be a smooth process given their experience in the past. The expansion is scheduled to be completed in the 3rd quarter of 2024.

iii) Project additions to Commercial & Industrial solar photovoltaic ("C&I Solar PV") investment portfolio

Since the inception of our C&I Solar PV investment activities in late 2019, the Group has completed/is in the midst of completing 20.8MW of projects and are currently in advance negotiations to secure another 21.2MW project by the end of 2022. This is a commendable feat given the business disruptions brought about by the COVID-19 pandemic since early 2020 just after the business activities commenced. We practice investment discipline and have stringent risk assessment and investment return requirements for our C&I Solar PV investment activities. We will continuously assess opportunities for C&I solar investments and it is the plan for the Group to add at least 15 to 20 MW of solar investments per year.

Packaging Division



During the year, the Packaging Division recorded its best financial results yet and has overtaken the Resources Division to be the second largest contributor the Group's income.

The future of the division looks bright as consumers of the world over are becoming increasingly concerned with the damaging impact of packaging solutions to the environment. There is a notable demand shift from our customers, especially multinationals towards more sustainable forms of packaging materials such as from plastic bags to paper bags, hard plastic containers to lightweight flexible plastic wrappers and from multi-family materials to single family material flexible plastic packaging that are more easily recyclable. The products produced by our Packaging Division are able to cater to all these requirements.

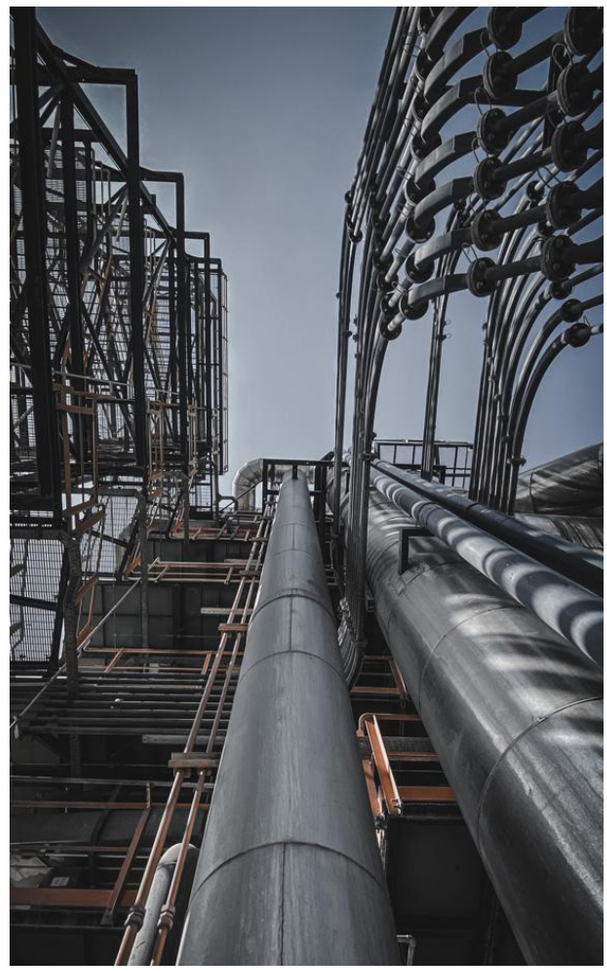
In light of this demand shift, during the financial year we made a decision to acquire 75% equity interest in Stenta, a leading flexible packaging film manufacturer of Biaxially Oriented Polypropylene Film ("BOPP") and Linear Low Density Polyethylene Film ("LLDPE") for a total cash consideration of RM153.75 million. This acquisition was made to strengthen our existing product development and innovation capabilities and to help improve overall supply chain management which will in turn enhance overall customer satisfaction and experience.

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.

At the present, Stenta is operating at near full capacity and plans are being made to construct a new factory cum office building adjacent to its existing site in Bangi. Construction of the new factory is expected to be completed in the first half of 2023.

In the coming year, the earnings performance of the Packaging Division will benefit from the full year consolidation of Stenta (2021: 5 months) and continued robust demand for packaging solutions. We will continue to monitor cost tightly given higher average raw material and logistic costs and are cautiously optimistic that we will be able to achieve productivity and efficiency gains that will more than offset these inflationary cost pressures.

Resources Division



Since its inception in 1973, the Group's Resources Division has always provided the Group with a steady stream of income with not a single year of losses. Whilst overlooked by many, the lime products manufactured by this division are essential for many vital industrial processes and is a solution to address complex environmental issues faced by large industries essential to the modern economy such as steel, paper and mining, to name a few. The importance of these lime products were especially evident at the start of the Movement Control Order in 2020 where it was classified as an "essential" industry given that it a key material for other essential industries such as water treatment plants to operate.

The Group's Resources Division is the largest commercial quicklime producer in Malaysia and has its own high purity limestone reserves, sufficient for at least 100 years of supply. While it is currently facing some pressure due to volatile economic conditions, we believe in the long-term sustainability of the business given that until today, there are no available substitutes for lime products in terms of usage and efficacy.

Moving into 2022, we anticipate that economic conditions will remain challenging with high and uncertain fuel costs, transport disarrangement caused by changes in freight rates and shipping capacity availability, changes in the regulatory environment as well as general inflation affecting the costs of labour and packaging materials. Management will take all mitigating measures such as export diversions to markets less affected by shipping constraints, diversifying its customer base to mitigate the impact from individual customer demand volatility, hold higher stock levels to lower the impacts of production disruptions and manage price volatility and where necessary, make selective price adjustments.

Despite the challenges faced, management expects the top line of the Resources Division to perform better in the coming year. Domestic sales volume of lime products is expected to continue to benefit from a gradual recovery in economic activities, while export volume is projected to rebound following successes in diverting some of the lost export volume to the other less affected regional markets.

We remain confident that the division will be able to manage the near term volatile market conditions given its success in navigating the business turmoil wreaked by the COVID-19 pandemic.

Plantation Division

The development of the coconut and macadamia nut plantation in Mondulkiri, Cambodia is progressing at a slightly slower pace than expected due to labour and logistic disruptions and various lockdown cycles caused by the COVID-19 pandemic. We target to complete planting by the end of 2025 and are currently evaluating various downstream processes to process these crops. This division is not expected to contribute positively to earnings till 2026.

Resilient Business Model

It has been more than two years since the onset of the COVID-19 pandemic that wreaked havoc throughout the world. While life is slowly returning to a pre-pandemic normal, we should never forget the wide-reaching impacts caused by COVID-19 and the lessons learnt while navigating those unchartered waters.

It has always been the Group's strategy to model its businesses to ensure resiliency in the face of severe pressure and COVID-19 severely tested this resiliency. Looking back, I am pleased to report that as a Group, our plans to build a resilient business model over the years were not in vain and we emerged from the pandemic unscathed, reporting two continuous years of record earnings despite the challenges faced.

The robustness of our business model was especially evident as all the core businesses we engaged in were considered "essential services" and continued with its operations throughout the various cycles of lockdown in the countries we operate in. While being in the right industry is one part of a resilient business model, the other is to have an exemplary management team who are agile and able to problem solve quickly to respond to the needs of the business. Throughout these two years, our management team has worked hard to engage with various stakeholders whether it be employees, customers, suppliers, financiers or government and regulatory bodies to address unprecedented issues brought on by the uncertain and everchanging environment. After the experience gained during this pandemic, I believe that the Group is in well positioned to weather any storms in the future.

Delivering Shareholder Value

The Board of Directors and management are focused on safeguarding and enhancing long term shareholder value.

Our various businesses are managed independently by experienced professionals who are experts in their industries, and we exercise strict investment criteria when assessing new investments. Good corporate governance practices ensure that we maintain high standards of responsibility, transparency, integrity and fairness and these practices will ensure that the interests of stakeholders are safeguarded. We also understand that the key to business longevity is a commitment to good Environmental, Social and Governance practices. Disclosure of our sustainability efforts are presented in our Sustainability Report on pages 25 to 74 of the Annual Report. The Sustainability Report provides an insight to the Group's sustainability strategy as well as an in-depth analysis on the performance in relation to ESG matters that are material to the Group and its stakeholders.

During the year, the Group won two awards during the year at The Edge Billion Ringgit Club 2021 awards. The two awards were for Highest Return to Shareholders over three years as well as Highest Growth in Profit after Tax over three years.

In recognition of shareholders' continuous support, during the financial year, the Company completed a share split to enhance the marketability and tradability of its shares on the Main Market of Bursa Malaysia, repurchased approximately 1.94 million of its issued shares from the open market and declared a total dividend of 6.75 sen per ordinary share for the financial year 2021, an 8% increase from 6.25 sen (adjusted for share split exercise) in 2020.

Acknowledgement and Appreciation

On behalf of the Board of Directors, I wish to take this opportunity to express great appreciation to our management team and employees. With your continued commitment and dedication, the Group has been able to continue to deliver stellar financial results year on year.

I would also like to thank all our financiers, customers, suppliers and business partners for their support throughout the year, especially in these uncertain times.

To my fellow Board Members, I have enjoyed working with you and hope that we can continue to share ideas and insights to guide the future of the Group.

Finally, I would like to thank all our shareholders for their continued support and confidence. We look forward to having you with us on our journey of sustainable value creation in the years ahead.