

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FULL YEAR FINANCIAL YEAR ENDED 31 DECEMBER 2023

The Board of Directors of New Toyo International Holdings Ltd (the “Company” and together with its subsidiaries, the “Group”) refers to the queries raised by the Securities Investors Association (Singapore) (“SIAS”) in relation to the Company’s Annual Report for the Financial Year ended 31 December 2023. The Company wishes to provide its responses to the queries below:

Q1. During the financial year, the group ventured into the food & beverage (F&B) industry through the acquisition of all shares in New Ocean Beijing Duck Restaurant Sdn. Bhd. This entry into a new area of business is intended to allow the group to diversify its revenue sources.

- (i) **Can the independent directors help shareholders better understand the reasoning behind the decision to diversify into the F&B industry and why Peking Duck specifically? Are there synergies with the current core businesses of the group?**
- (ii) **On what basis did the board/management consider that the group will be successful with this diversification given that the F&B industry is highly competitive and that the company has picked a very specific niche, i.e. a specialty Peking Duck restaurant?**
- (iii) **Has the board approved the diversification into F&B and what was the investment hurdle rate used in the board approval process?**
- (iv) **In fact, were other industries considered by the board? Would the company be seeking shareholders’ approval for the diversification?**
- (v) **What is the total amount approved by the board for this diversification into F&B?**

Company’s response:

As outlined in the announcement dated 29 December 2023, the acquisition of New Ocean Beijing Duck Restaurant Sdn. Bhd. (“NOBD”) presents an opportunity to the Group to explore the food and beverage business, which is in line with the Group’s corporate strategy to seek new areas to expand its earning streams whilst remaining focused on its core businesses.

According to a report titled “Malaysia Foodservice Market Size and Trends by Profit and Cost Sector Channels, Consumers, Locations, Key Players, and Forecast, 2021-2026” by GlobalData, a leading data and analytics company, the full-service restaurant (“FSR”) channel remained the largest foodservice profit sector channel with a 39.8% share and the channel is forecast to record a strong growth at a CAGR of 5.7%¹.

¹ <https://www.globaldata.com/media/foodservice/malaysia-foodservice-profit-sector-grow-8-9-cagr-2026-forecasts-globaldata/>

Considering its enduring popularity and cultural significance, serving Peking Duck as a specialty dish offers a unique culinary experience to customers. The expertise and experience of the chef team in NOBD ensures authenticity and quality in preparing this traditional dish. In addition, the Restaurant is situated in Petaling Jaya, an area which the Group is familiar with given its years of operating its core businesses there. Besides Peking Duck, the Restaurant would also be serving a diverse selection of high-quality dish from a thoughtfully curated menu that caters to diverse tastes and preferences, ensuring an exceptional dining experience for every customer.

The Board of Directors has assessed the acquisition of NOBD, considering various factors, including but not limited to market potential, geographical relevance, and growth projections. The acquisition of NOBD constitutes a “non-disclosable transaction” under Chapter 10 of the Listing Manual, and the Group will make further investment of MYR 6.26 million (approximately S\$1.79 million) from its internal cash resources to fund the capital expenditure and working capital needs.

This acquisition underscores the Group’s commitment to adapt its strategy aiming to enhance resilience and ensure sustainable growth for shareholders.

Q2. Would the board/management provide greater clarify on the following operational and financial matters? Specifically:

- (i) **Specialty Paper (SP):** The SP segment remains the main profit contributor with \$13.2 million in net profit before tax. **Could management provide a detailed breakdown of revenue within the SP segment?** Specifically, shareholders would be interested in understanding the revenue generated from different product categories such as laminated aluminium foil paper, coated paper, and metallised paper and metallised polyethylene terephthalate; and from various customer segments or applications, including cigarette packaging, food and beverages packaging, tissue boxes, cosmetic packaging, and gift-wrapping.
- (ii) **Manufacturing and Supply of Packaging Materials Agreement (MSPMA):** The MSPMA was extended for an additional 3 years commencing from 1 January 2023 to 31 December 2025. The previous agreement was for a longer 6-year period. **What are the reasons for the shorter supply agreement?**
- (iii) **Trading:** Revenue from the trading business increased from \$75.7 million to \$123.1 million mainly due to higher demand of certain raw materials and in the Hong Kong market, offset by lower sale of virgin pulp and jumbo reels to Vietnam. However, segment results were substantially lower, at \$1.0 million compared to \$2.06 million. **What is the group’s value-add, if any? How does management ensures that returns align with the risks involved in trading? With the increased trading volume, have additional safeguards been implemented, and is the group exclusively engaging with creditworthy customers to mitigate potential risks?**

Company’s response:

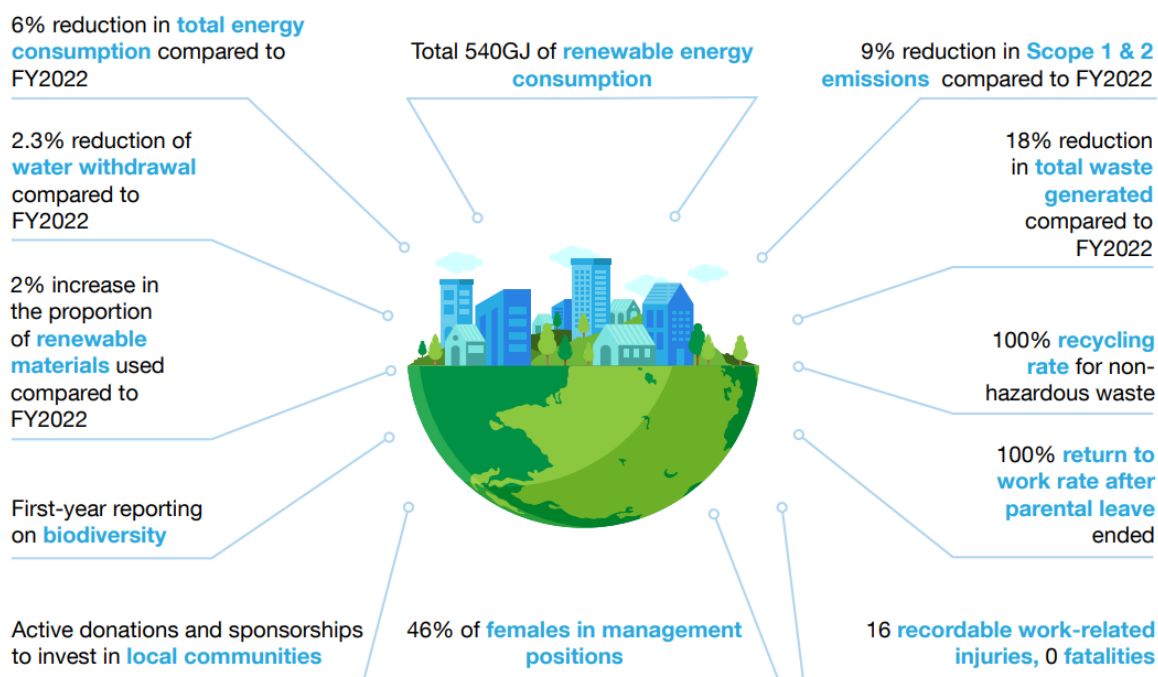
- (i) Whilst we acknowledge shareholders’ interest in a detailed breakdown of revenue by product categories or customer segments, we prioritize the confidentiality of sensitive market data essential for maintaining our competitive edge. As markets evolve, we continuously evaluate and adjust our product portfolio to align with the needs and preferences of our customers.

- (ii) Following the acquisition of PT Bintang Pesona Jagat (“BPJ”) in November 2016, the initial 6-year supply agreement was secured, designating BPJ as the exclusive supplier of print supplies to the British American Tobacco group of companies in Indonesia. After negotiations, the MSPMA was extended for an additional 3 years commencing from 1 January 2023 and expiring on 31 December 2025. The announcements dated 3 November 2016 and 9 February 2023 detailed the acquisition and contract extension respectively.
- (iii) The Trading business, which oversees volume purchases and manages key customer relationships, enables us to leverage on economies of scale, enhancing our negotiation power and supply chain efficiencies. To ensure that returns align with the risks inherent in trading activities, we employ a comprehensive risk management framework, which considers evaluation and mitigation of various risks associated with market volatility, credit exposure, and operational challenges. Other measures include monitoring of market trends, diversification of supplier and customer bases, and regular review of credit policies. We prioritize the engagement of creditworthy customers and conduct credit checks to mitigate potential credit risks and maintain financial stability. Additionally, we cultivate longstanding relationships with customers, fostering trust and reliability in our business dealings.

Q3. The group has expressed its commitment to sustainability in all areas of its business practices, operations and culture. In its sustainability report, it will be expanding on scope disclosure and reporting. The group is further enhancing its sustainability governance and efforts this year through the Group Sustainability Policy, Climate Change Policy, Water Policy and Biodiversity Policy.

A snapshot of the sustainability performance is shown below (page 16).

Our Performance in FY2023¹



(Source: company annual report)

The full sustainability report will be published and made available on the company’s website (and presumably SGXNet) by 30 April 2024.

- (i) **Materials [GRI 301-1, GRI 301-2]:** The percentage of recycled input material used in the manufacturing of products hovers at 3-5%. **Can management help shareholders better understand if there are technical/food safety issues that is preventing the higher use of recycled input material?** In the core business, the group remains innovative in leveraging on green packaging solutions and sustainable paper products. **What are some of the innovative eco-friendly and sustainable paper products introduced by the group?**
- (ii) **Anti-Corruption [GRI 205-3]:** The group has in place a Code of Conduct applicable to all employees and which covers policies relating to ethical conduct, including conflicts of interest within or outside the group. The group also expects its suppliers to also put in place procedures within their organisations to ensure zero tolerance to bribery and corruption, as well as avoidance of conflicts of interest, or excessive gifts and entertainment. The Code of Conduct is communicated to all employees and the board of directors to ensure compliant practices and behaviour. **Does the group have a zero-tolerance policy towards corruption, fraud and bribery? How does the company foster a culture of transparency and ethical conduct from the top down, and what actions are taken to continuously reinforce this tone at all levels of the organization?**

Company's response:

- (i) While the current percentage of recycled input materials in our manufacturing processes hovers at 3-5%, our overall input materials prioritize sustainability through recyclability and renewability. Approximately 80% of our total materials used consist of renewable materials such as paper, paperboard, and paper core.

In our efforts to mitigate environmental impact, we recognize the potential risks associated with unsustainable timber harvesting, deforestation, and ecosystem conversion, particularly within our supply chain. Therefore, we have implemented a Supplier Code of Conduct that emphasizes our preference for suppliers committed to minimizing the consumption of natural resources. Furthermore, we encourage transparency and regular reporting on biodiversity protection initiatives from our suppliers.

Innovation plays a crucial role in driving sustainable practices within our core business. Advancements in material science and manufacturing techniques have enabled us to develop innovative packaging solutions that balance sustainability with functionality and performance. For instance, we are increasingly adopting aqueous coatings as alternatives to traditional coatings, offering comparable functionality while being more environmentally friendly.

Collaboration with our customers has also led to the development of paper packaging material structures that enhance compostability, aligning with our commitment to eco-friendliness. Additionally, we are expanding our product offerings to include coated papers and paperboards with barriers against water and oil, introducing new categories that further promote sustainability within our product portfolio.

- (ii) The Group maintains a steadfast zero-tolerance policy towards corruption, fraud and bribery. We firmly believe in fostering a culture of transparency and ethical conduct from the senior management down to every individual within the organization.

To ensure this commitment is upheld, comprehensive policies and guidelines that explicitly outline what constitutes unethical behaviour, including corruption, fraud,

and bribery are in place. We have also established whistleblowing mechanisms for employees to report any instances of corruption or unethical behaviour without the fear of reprisal.

We conduct regular audits and compliance checks to monitor adherence to ethical standards and detect any potential instances of misconduct. We enforce strict accountability measures for violations of ethical standards, including disciplinary action and legal consequences where applicable.

We are committed to continuously reviewing and improving our policies, procedures and practices related to ethics and compliance. By implementing these strategies, we strive to create a corporate culture where integrity, transparency and ethical conduct are not just encouraged but ingrained in our organization at every level.

By Order of the Board
Lee Wei Hsiung
Company Secretary
26 April 2024