



27 September 2022

The Chief Executive Officer
 Badan Pengawas Pemegang Saham Minoriti Berhad
 Level 23, Unit 23-2
 Menara AIA Sentral
 No. 30 Jalan Sultan Ismail
 50250 Kuala Lumpur

Dear Sir,

Re: Response to queries from Minority Shareholders Watch Group in respect of the 22nd Annual General Meeting (AGM) of D'nonce Technology Berhad on Monday, 26 September 2022

The Board of Directors (“the Board”) of the D'nonce Technology Bhd (“the Company” or “Group”) refers to the queries raised by the Minority Shareholders Watch Group (“MSWG”) in respect of the Company’s 22nd AGM on Monday, 26 September 2022. The Company wishes to provide its responses to the queries by MSWG as below:-

Operational & Financial Matters

MSWG Query 1

As shown in the table below, D'nonce has posted fluctuating top-line and bottom-line performance for the past four fiscal periods.

	Revenue (RM)	Net profit attributable to owners of the Company (RM)	Monthly pro-rated profit (RM)
FPE2022*	166,406,009	8,348,000	758,909
FY2021	184,248,840	13,501,744	1,125,145
FPE2020**	228,618,244	580,822	36,301
FY2018***	269,718,075	2,605,367	162,835

*11-month financial period from 30 April 2021 to 31 March 2022

**16-month financial period from 1 January 2019 to 30 April 2020

***16-month financial period 1 September 2017 to 31 December 2018

- a) Under the leadership of new executive director Mr. Choong Lee Aun, who was appointed with effect from 14 September 2021, what are the strategies to deliver more sustainable financial performance and deliver better shareholder value?



- b) Due to the constant changes in financial year end, there are no corresponding comparative figures for shareholders to compare the financial performance of D'nonce.

What are the reasons for the constant changes in fiscal year-end in the past few years?

Company's Response:

Under the new leadership of Mr Choong, the Group had focused on expansionary strategies whereby the Group undertook significant capex investments in land and machineries, coupled together with the proposed acquisition of a new business and other proposed capex investments. Included in the capex investment are the RM12 million for purchase of land for the expansion of our Johor factory, and RM8.4 million for purchase of machineries, to cater for opportunities in terms of new segments, customers and product mix.

Notwithstanding the growth strategies, The Group had also focused on cost optimization initiatives to ensure that the Group remains competitive and profitable in the current challenging environment.

Premised on the above, the Group is cautiously optimistic that it will deliver a more sustainable financial performance and deliver better shareholder value in the short and long run.

The Group had undergone 3 changes in financial year ends in the past few years mainly due to requiring additional time to ensure the accuracy of the company's financial accounts as a result of the widening scope of the special investigation audit, to better plan it's audit schedule and hold its annual general meeting during the off peak period, and lastly to align with the financial year end of its major shareholder for better management of the Group.

MSWG Query 2

The Company's annual report does not disclose any 5-year financial highlights to provide some useful financial indicators such as revenue, profit/loss before tax, profit/loss after tax, gearing level, return on equity, net assets per share, dividend per share, dividend payout ratio, share price.

The financial highlight provides a quick snapshot for shareholders to see the past financial performance of a company.

Please provide this information in the form of i.e., tables, charts or graphs in future annual reports, as it would provide meaningful information to shareholders.



Company's Response:

Noted on the above.

MSWG Query 3

As shown in the table below, all business segments of D'nonce namely Healthcare, Electrical & Electronics, and Other Industries recorded lower segment margin in FPE2022 compared to FY2021.

	FPE2022			FY2021		
	Segment revenue (RM)	Segment result (RM)	Segment margin (%)	Segment revenue (RM)	Segment result (RM)	Segment margin (%)
Healthcare	57,001,964	8,009,675	14.05	61,016,537	11,408,680	18.70
Electrical & Electronics	87,561,411	9,263,136	10.58	97,315,031	11,591,045	11.91
Other Industries	21,842,634	696,045	3.19	25,917,272	1,019,315	3.93

Source: Annual Report 2022

Given the impact of rising raw materials costs, labour costs, logistics costs and supply chain disruptions on profit margin, how has the Management factored in these uncertainties in the new work orders secured?

To what extent can D'nonce could pass the cost increase to customers?

Company's Response:

The Group had review the average selling price of its products and also the product margin after taking into consideration the cost challenges and had been in negotiation with its major customers towards ensuring a sustainable model for all parties. Generally while the outcome has been positive with the majority of our customers, the Group is still in the midst of discussion with several other customer, and any adjustment in price would only be realised later on.

The Group had also taken several initiatives to control the escalating costs, including increasing its inventory level to better manage the raw material costs, investing in automation and streamlining production headcount to manage the labour overheads. These initiatives do ensure that the Group is able to provide competitive quotes to our customers.



MSWG Query 4

On 11 August 2022, the Group announced the business diversification to include manufacturing and selling of self-adhesive labels by acquiring 99.9991% equity interest in Komark (Thailand) Company Limited (KTCL) from Komarkcorp Berhad.

- a) KTCL has been making losses over the last four fiscal years with net losses ranging between THB10.68 million and THB22.39 million (page 70 of D'nonce announcement dated 11 August 2022).

Given the loss track record of KTCL, what is the commercial sense of acquiring this loss-generating and value depreciating asset?

How does this proposed acquisition create value for D'nonce shareholders?

Would the consolidation of KTCL's financial result affect the overall financial performance of D'nonce moving forwards?

- b) As Komarkcorp has been unsuccessful in turning around KTCL for years, how would KTCL perform differently under the management of D'nonce?
- c) How does the Group derive the projection of KTCL contributing 25% of D'nonce net profit (page 6 of D'nonce announcement dated 11 August 2022)?

Company's Response:

The management is of the opinion that it is synergistic to expand the operations of the Group to include labelling business, and the proposed acquisition serves as a strategic entry for the Group.

The management is confident that the Group and KTCL would be able to tap into each other's customer base and segments, thus enabling the enlarged Group to broaden and diversify its revenue streams while also expanding to other segments. Currently, the customer base of the Group is mainly in the E&E industries, healthcare and other industries (e.g., automotive as well as food and beverage) in Thailand while KTCL's customers are from various industry segments including pharmaceutical, food and beverage and FMCG in Thailand. Upon completion of the Proposed Acquisition, KTCL will be able to offer the packaging solutions of the Group to KTCL's customers and vice versa.

On the turnaround of KTCL, the management has identified the current Managing Director for the Group's Thailand operation, Mr Jimmy Teo to oversee the performance of KTCL's operations after the completion of the proposed acquisition. Mr Jimmy Teo has a proven track record in Thailand driving the results in the healthcare segment for the past few years. He would be working together with the current branch manager of KTCL to carry out on-going review of the business and operations of KTCL and make arrangements, rationalisation and reorganisation that is suitable to remain competitive.

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In addition to the above, the management had also proposed the construction of a new factory building to relocate the KTCL operations. The relocation will enable rental cost savings of approximately RM600K per annum as well as ease of management and co-ordination, and also consolidation of resources.

Based on all the above, the management is of the opinion that there would be positive change to KTCL financial results and would positively affect the overall financial performance of the Group moving forward.

On the labelling business contributing to 25% or more of the net profits/net assets of the Group in the future, the proposed acquisition of KTCL in Thailand would be a strategic entry into the labelling industry, and moving forward the Group is optimistic that it would be able to grow the labelling business within Thailand and also to other regions once it has acquired the industry knowledge, technical expertise and know-how.

MSWG Query 5

On 11 August 2022, the Group also proposed a rights issue exercise of issuing up to 434.7 million shares on the basis of 1 rights share for every 1 D'nonce share held.

The rights issue exercise is to raise fund for the purposes stated below (page 20 of D'nonce announcement dated 11 August 2022):

- Construction of a new warehouse and additional production area/ Purchase of a separate factory building, in Penang
- Capital expenditure for purchase of machinery and equipment and installation of enterprise resource planning system
- Repayment of bank borrowings
- Working capital
- Construction of new factory building in Thailand

As of 30 June 2022, D'nonce's had a net cash position with total borrowings of RM21.54 million, against cash and bank balances of RM33.98 million. Besides, it also generated positive cashflow from operating activities.

With the net cash status and positive operating cash flow, what is the urgency of proposing a highly dilutive rights issue to raise fund for these business expansion activities?

Company's Response:

As at 30 June 2022, cash and bank balances (excluding deposits pledged to bank) was RM21.8 million. The Group has 12 non-dormant subsidiaries including the holding company. On average, each non-dormant subsidiary has free cash balances of approximately RM1.82 million, which would be sufficient for the daily operations.



The Group had also recently announced the capital expenditure of RM12 million for the purchase of land for the expansion of the Johor factory, which would be satisfied by internally generated funds and/or bank borrowings. With the purchase of land, other construction cost in addition to escalating operational costs, it would be beneficial to utilise funds from the proposed rights issue for the business expansion activities as above.

MSWG Query 6

As of FPE2022, D'nonce has invested total RM13.4 million (FY2021: nil) in local quoted shares and short-term investments (page 140, Note 14 – Other Investments, AR2022). The size of other investment further increased to RM17.26 million as of 30 June 2022.

- a) What is the investment objective of investing in these instruments? Please provide the stock name and value of the investments in quoted shares.
- b) What is the yield on these investments?
- c) Please elaborate on the risk management and decision-making processes of investing in these instruments.

Company's Response:

The objective of the other investments is part of the Group's capital management strategy, to take up strategic stakes in high growth and recovery play companies. The Company would make relevant disclosure of its investments in quoted shares when Company triggers the relevant announcement criteria in due course. Other investment value is RM17.26 million as at 30 June 2022 and there is no realised yield as at the same date.

On the process and risk management, the Board will evaluate and approve the investments after considering the objective and rationale of the investment, the valuation and future prospects, the key risk factors and regulatory requirements. The management would monitor the equity investments on a portfolio basis.

Corporate Governance Matters

MSWG Query 1

As of the end of FPE2022, D'nonce executive director Mr. Choong Lee Aun held executive directorship in four PLCs including AT Systematization Berhad, AE Multi Holdings Berhad and Trive Property Group Berhad.



Executive directors are full-time employees of a company. They are expected to demonstrate full commitment in discharging their duties and roles in managing a company, notwithstanding the assistance from key senior managements and executive committee.

Given Mr. Choong's multiple executive roles in these PLCs, what is the rationale of appointing him to as the ED of D'nonce especially from the viewpoint of time commitment? What are the criteria imposed by the Nomination Committee in recommending Mr. Choong as an executive director of D'nonce?

Company's Response:

The Board has established clear roles and responsibilities for the ED, Mr Choong who is appointed to implement the Board's business direction and strategies while overseeing the operations of the Group.

Mr Choong is supported by the senior management team comprising the COO, Thailand Managing Director, CFO and the respective heads of region, who are responsible for the day to day running of the operations.

To be appointed as the ED for D'nonce, the Nominating Committee had considered Mr Choong's leadership skills and relevant working experience in various global MNCs and PLCs.

MSWG Query 2

The Company has departed from adopting Practice 1.4 of the Malaysian Code on Corporate Governance (MCCG) which states that the Chairman of the board should not be a member of the Audit Committee (AC), Nomination Committee (NC) or Remuneration Committee (RC).

Currently, the Chairman of the Board Dato' Moktar Bin Mohd Noor is also the member of the Audit and Risk Management Committee (ARMC).

The Board believes that the Chairman's position as an independent director safeguards his ability to impart objective views and decisions at the ARMC.

Does the Board plan to adopt Practice 1.4 to further enhance the independence and objectivity of the AC, NC and RC? And if so, by when?

Company's Response:

The Board recognises the importance of enhancing the independence and objectivity of the ARMC, and would regularly assess the composition of the ARMC, and to appoint another independent director replacing the Chairman in due course.



MSWG Query 3

To better promote boardroom diversity and inclusivity, public-listed companies in Bursa Malaysia are required to appoint at least one woman director on their boards with effect from 1 June 2023. Currently, D'nonce has no woman director (out of four directors) on its board.

What is the progress in identifying suitable women candidates? How many women candidates were interviewed and shortlisted?

Company's Response:

The Board is currently still in progress of identifying suitable women candidates with the right mix of skills and experience.

MSWG Query 4

The Company also departed from applying Practice 5.9 of MCCG which stipulates that 30% of the Board should comprise of women directors. The Board said it will review its composition as and when it is required and will formalise and adopt a Gender Diversity Policy in due course (page 31 of CGR2022).

Does the Company intend to apply Practice 5.9? If so, by when?

Company's Response:

The Company is still in progress of formalizing and adopting a Gender Diversity policy, taking in consideration the timeline of Bursa's requirement of appointment of at least 1 woman director in the Board by 1 June 2023.

Thank you.

By order of the Board

A handwritten signature in black ink, appearing to be "Choong Lee Aun".

Choong Lee Aun
Executive Director