



MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

25 October 2022

BY EMAIL/FAX/HAND

The Board of Directors
D'NOUNCE TECHNOLOGY BHD
 A1-2-2 Solaris Dutamas
 No 1, Jalan Dutamas 1
 50480 Kuala Lumpur
 Wilayah Persekutuan

Attention: Tan Kok Siong
Company Secretary

Dear Directors,

Re: Extraordinary General Meeting (AGM) of D'nonce Technology Bhd ("D'nonce" or "the Company") to be held on Tuesday, 1 November 2022

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

Proposed acquisition by D'nonce of 333,997 ordinary shares or 99.9991% in Komark (Thailand) Company Limited (KTCL), from General Labels & Labelling (M) Sdn Bhd, a wholly-owned subsidiary of Komarkcorp Berhad for RM9.1 million to be satisfied entirely via the issuance of 58.71 million D'nonce shares at an issue price of 15.5 sen each (collectively known as Proposed Acquisition)

The Group proposed to acquire 99.9991% equity interest in Komark (Thailand) Company Limited (KTCL) from Komarkcorp Berhad for RM9.1 million. KTCL is involved in the manufacturing and selling of self-adhesive labels.

- 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 90, Appendix I of D'nonce Circular to Shareholders dated 17 October 2022). It also recorded negative cash flow from operating activities during the same period.

Given the financial performance of KTCL, the Proposed Acquisition goes against commercial sense as it is neither profit-generating nor is it asset-value accretive.

How does this Proposed Acquisition create value for D'nonce shareholders?

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

Incorporated in Malaysia Registration No: 200001022382 (524989-M)

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D'nonce Technology Bhd

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In view of the loss-making status, would the consolidation of KTCL's financial result affect the overall financial performance of D'nonce going forward?

- b) Komarkcorp had been unsuccessful in turning around KTCL for years. How would KTCL perform differently under the management of D'nonce?

What would be the strategies to turn around KTCL upon completion of the Proposed Acquisition? How long would it take for D'nonce to turn around KTCL?

- c) Based on KTCL's management accounts for the 2-month ended 31 May 2022, KTCL posted improved financial performance where it recorded a slight net profit (page 5 of the Circular dated 17 October 2022).

What were the catalysts for KTCL's better financial performance during the two months? How sustainable is the profit-making record?

- d) Based on D'nonce's net cash position (after deducting total borrowings) of RM12.44 million as of 30 June 2022, why did the Company not satisfy the acquisition via a combination of cash and shares to minimise the dilutive impact of new shares issuance?

Proposed Business Diversification

D'nonce diversified into the property development and construction business in 2018 via a development rights agreement (DRA) to develop a parcel of freehold land measuring 6,774 square metres in Seberang Perai, Pulau Pinang, into a housing development (the Development). The DRA was granted by two vendors for RM10 million, satisfied entirely in cash (page 1 of Circular to Shareholders dated 3 October 2018).

However, there has been no revenue contribution from that segment since then. At the same time, the division incurred losses of between RM298,000 and RM448,000 (page 9 of the Circular dated 17 October 2022).

- a) What happened to the granted DRA?
- b) What is the status of the Development? Has the Group completed the building plan and secured a development order for the Development?
- c) Why was the division unable to generate meaningful financial contributions to the Group?

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Proposed Rights Issue

The Group also proposed a rights issue exercise of issuing up to 434.69 million shares and warrants on the basis of 1 rights share for every 1 D'nonce share to raise funds for the purposes stated below (page 30 of the Circular dated 17 October 2022):

- Construction of a new warehouse and additional production area/ Purchase of a separate factory building, in Penang
 - Capital expenditure for the purchase of machinery and equipment and installation of enterprise resource planning system
 - Repayment of bank borrowings
 - Working capital
 - Construction of a new factory building in Thailand
- a) As of 30 June 2022, D'nonce was in 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 cash flow 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 funds for these business expansion activities?

- b) The Group intends to utilise proceeds of up to RM6 million from the Proposed Rights Issue for the construction of a new factory building in Thailand to house the labelling operation under KTCL.

Currently, KTCL operates from a rented factory with a built-up area of 24,487 sq ft with an annual rental of RM600,000 (pages 38 and 39 of the Circular dated 17 October 2022).

As stated previously, KTCL has been making losses and operating at a utilisation rate of about 65% for the past three years (pages 87 and 90 of the Circular).

With no sign of earnings recovery in KTCL in the near term, should D'nonce not hold on to the plan to construct a new factory building for the labelling business?

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Proposed ESOS termination

A total of 24.68 million ESOS Options have been exercised into 24,678,000 new D'nonce Shares since the ESOS Effective Date (18 May 2016) up to 30 September 2022. There are 228,500 outstanding ESOS Options as of 30 September 2022.

- a) Please provide the breakdown of the recipients of the ESOS Options by mid to low-level employees, senior management, executive directors and non-executive directors.
- b) How effective is D'nonce's existing ESOS Options in motivating, incentivising and retaining these employees and directors? What is the turnover rate among ESOS recipients?

Proposed Share Issuance Scheme (SIS)

Upon the termination of the Existing ESOS, the Company has proposed to establish a new SIS of issuing up to not more than 15% of D'nonce shares to eligible employees, executive directors and non-executive directors.

Under the Proposed SIS, three independent non-executive directors (INEDs), namely Dato' Mokhtar bin Mohd Noor, Datuk Sham Shamrat Sen Gupta and Kang Teik Yih are eligible to participate in the Proposed SIS and subscribe for new D'nonce shares (Ordinary Resolutions 6, 8 and 9, Notice of Extraordinary General Meeting dated 17 October 2022).

MSWG does not encourage the practice of giving share options to INEDs as they are not executive management and are responsible for monitoring the option allocation to employees and executive directors. The risk is that the independent directors may be fixated on their share price, and this may affect their impartial decision-making, which should be made without reference to share price considerations.

Why are the Proposed SIS Options extended to the three INEDs since they are not involved in the day-to-day business? The directors' fees and other benefits they receive should be structured to adequately compensate the services rendered by them.

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Please present the questions raised herein, and the related answers, to the shareholders present at the forthcoming EGM. 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/RF/LCY/D'NONCE/EGM2022

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