



1 November 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 Extraordinary General Meeting (EGM) of D'nonce Technology Berhad to be held on Tuesday 1 November 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 EGM to be held on 1 November 2022. The Company wishes to provide its responses to the queries by MSWG as below:-

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)

MSWG Query 1

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?



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?

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, and views the Proposed Acquisition as an attractive business proposition as it allows the Group to gain an immediate access into an on-going Labelling Business entity that serves the market in Thailand.

KTCL's Labelling Business is part of the Group's long term strategy of the extension of entire end-to-end packaging and design solutions, and be a one-stop provider for packaging and labelling solutions in Thailand. This would enable the Group to strengthen its foothold and enhance its competitiveness in the end-to-end packaging and labelling segments in Thailand.

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.

The diversification into the Labelling Business would be an avenue for future growth potential and the Labelling Business would provide the Group with an additional stream of income to diversify its earnings base. Through the Proposed Acquisition, the customer base across various industry segments will also provide the enlarged D'nonce Group with a more defensible earnings stream over time, as it will help lessen any business and financial impact in the event of a downturn in any specific industry segment.

Based on all the above, and the strategy highlighted below, the management is of the opinion that the Proposed Acquisition is expected to augur well for the growth prospects of the Group in the future, as the proposal will provide the Group with an opportunity to expand its income stream and growth prospect.

- 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?

**Company's Response:**

On the turnaround strategy 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, in addition to implementation of the cross selling strategies as 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.

- 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?

Company's Response:

KTCL achieved a better financial performance for April 2022 and May 2022 mainly due to controlling the operational cost of production. Upon the completion of the proposed acquisition, the management would be focusing on the business and financial objectives of the KTCL to drive the future success and long term sustainability and profitability of the Labelling Business.

- 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?

Company's Response:

The Company takes note that the settlement of the Purchase Consideration via the issuance of Consideration Shares will have a dilutive impact to the shareholdings of its existing shareholders. However, this will allow the Group to enhance its business without any immediate impact on the cashflow and gearing levels of the Group as opposed to being settled in cash and/ or via bank borrowings. With a larger share capital base, the enlarged Group will gain improved access to both debt and equity capital market.



The Company did not satisfy the acquisition via a combination of cash and shares as the Group intends to reserve the cash for its working capital and capital expenditure, including the purchase of land and building in Johor and Kelantan.

Proposed Business Diversification

MSWG Query 2

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?

Company's Response:

There has been no change in status for the granted DRA. The agreement is in full force from the date of signing in 2018.

- b) What is the status of the Development? Has the Group completed the building plan and secured a development order for the Development?

Company's Response:

The Group (via D'nonce Properties Sdn Bhd ("DPSB"), a wholly-owned subsidiary company of DTB) had in the past attempted to commence the development of the Subject Land, such efforts include, entered into a joint venture agreement ("JV Agreement") with Fajar Simfoni Sdn Bhd ("FSSB"), a wholly-owned subsidiary of OCR Group Berhad for both parties to jointly develop the Subject Land. The JV Agreement was subsequently terminated on 10 March 2020.

The Group is still in the midst of evaluating the market conditions to determine an appropriate time to undertake the development of the Subject Land in light of the gradual economic recovery from the COVID-19 pandemic. The land has been approved by Majlis Perbandaran Seberang Perai for development (DO) of a block of 19 storey affordable apartments and a block of 7 storey car park podium, and is valid until 1 July 2023. The Group intends to apply for further extension of the validity period of the DO.



- c) Why was the division unable to generate meaningful financial contributions to the Group?

Company's Response:

As the construction work for the development of the Subject Land has yet to commence, as such there was no revenue contributed from the property development and construction business segment. The abovementioned losses incurred were in respect of professional fees, rental of showroom and depreciation of showroom assets, among other cost.

Proposed Rights Issue

MSWG Query 3

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?

Company's Response:

The Proposed Rights Issue will enable the Group to raise the funds without incurring interest costs associated with bank borrowings or the issuance of debt instruments, thereby minimizing any potential cash outflow arising from interest servicing costs. The Proposed Rights Issue would enable all entitled shareholders of the Company to participate in the fund-raising exercise.

In addition, the Board has also considered the following and is of the opinion that the Proposed Rights Issue is an appropriate option as:



- a) the proceeds from the issuance of Rights Shares will improve the cash flow of the Group and the usage of proceeds are expected to contribute positively to the Group's future earnings and improve its financial performance;
- b) the issuance of new Shares via Proposed Rights Issue will not dilute the existing shareholders' equity interest, assuming all entitled shareholders fully subscribe for their respective entitlements;
- c) subscription to the Rights Shares provides an opportunity for the Company's existing shareholders to increase their equity participation in the Company; and
- d) the undertaking by the Undertaking Shareholder will enable the Company to raise the minimum required funds without incurring additional cost in the form of underwriting commission.

The Group intends to reserve its cash for its working capital and capital expenditure, including the purchase of land and building in Johor and Kelantan, which are not part of the proposed rights issue use of proceeds. In addition, the management of the Company is in the midst of evaluating the construction of new factories of the said lands which will be funded via the Group internally generated funds and/ or borrowings.

- 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?

Company's Response:

The relocation of KTCL's operations to the New Labelling Factory is part of the Group's plan to save rental cost of approximately RM0.60 million per annum as well as ease of management and co-ordination. In line with the Group's plan to extend the entire end-to-end packaging and design solutions (via the Labelling Business) and for both DTB Group and KTCL to tap into each other's customer base, the close proximity between the 2 factories will also facilitate the movement of work-in-progress inventories and enable savings in transportation cost.



Currently, KTCL has fully occupied the production area of its existing factory, and the New Labelling Factory would also be able to cater for KTCL's future growth including acquiring new machines in the future.

The management is optimistic that its plans for KTCL, including (i) relocation of KTCL to the New Labelling Factory, and (ii) cross selling of packaging solutions across the combined customer base of the enlarged DTB Group KTCL, are expected to augur well for the growth prospects of the enlarged DTB Group in the future, as the plans provide the enlarged Group with an opportunity to expand its income stream and growth prospect.

Proposed ESOS termination

MSWG Query 4

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.

Company's Response:

The breakdown of ESOS Options recipients by employment level is as below:

Employment level	ESOS Options Recipient
Exec Director	2
Non-Exec Director	4
Senior Management	26
Others (such as staff from administration, production and marketing departments)	253
Total	285

- 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?

Company's Response:

As of current date, 46.32% of the current ESOS recipients are still in employment with the Group.



Proposed Share Issuance Scheme (SIS)

MSWG Query 5

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.

Company's Response:

The INEDs are eligible to participate in the Scheme, to recognise their contribution to Company and their independent views in the decision making process and maintaining good corporate practices. A Grantee who is a non-executive Director shall be subject to the restrictions on dealing in accordance with any prevailing and applicable guidelines issued by Bursa Securities or any other relevant authorities as amended from time to time including, but not limited to Paragraph 8.20 of the Listing Requirements which prohibits a non-executive Director from selling, transferring or assigning the Shares obtained through the exercise of SIS Options offered to him pursuant to the Scheme within 1 year from the date of offer of such SIS Options.

Thank you.

By order of the Board



Choong Lee Sun
Executive Director

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