

D'NONCE TECHNOLOGY BHD ("DTB" OR "THE COMPANY")

VARIATION TO UTILISATION OF PROCEEDS RAISED FROM THE RIGHTS ISSUE WITH WARRANTS

1. INTRODUCTION

Reference is made to the proposed utilisation of proceeds raised from the Rights Issue with Warrants exercise as disclosed in the Company's abridged prospectus dated 29 October 2015 ("**Rights Issue with Warrants**"). The Company had raised total gross proceeds of approximately RM22.551 million from the Rights Issue with Warrants which was completed on 30 November 2015.

On 26 October 2017, the Board of Directors of DTB ("**Board**") had announced that as at 26 October 2017, the Company had yet to utilise the balance proceeds of RM10.954 million from the Rights Issue with Warrants ("**Balance Proceeds**"). Accordingly, the Board had on even date approved an extension of timeframe for the utilisation of the Balance Proceeds up to 29 November 2018.

For the avoidance of doubt, as at 13 July 2018, being the latest practicable date prior to this announcement ("**LPD**"), the Balance Proceeds still maintained at RM10.954 million, further details of which are set out below:-

Purpose of the Balance Proceeds	Approved Proposed utilisation RM'000	Actual utilisation as at LPD RM'000	Balance Proceeds as at LPD RM'000
To partly finance the purchase of land and factory building, renovation and refurbishment expenses	5,000	-	5,000
Construction of clean room facility and purchase of 3 lines of tray cleaning systems in Thailand	4,400	646	3,754
Construction of new factory building in Thailand	2,200	-	2,200
Total	11,600	646	10,954

On 25 July 2018, the Board had announced the following:-

- (i) D'nonce Properties Sdn Bhd (formerly known as D'nonce Health Science Sdn Bhd ("**DPSB**"), a wholly-owned subsidiary of DTB, had on 25 July 2018 entered into a development rights agreement ("**DRA**") with Tan Than Kau and Tan Tiang Yang (collectively, the "**Vendors**") to accept the rights granted by the Vendors for the development of one plot of land, namely a parcel of freehold land measuring 6,774 square metres ("**sq m**") held under title identified as Lot No. 10320, GM No. 1496 (formerly PT 471, HSM 1598), Mukim 10, Seberang Perai Tengah, Pulau Pinang ("**Subject Land**") for a total consideration of RM10,000,000 to be fully satisfied via cash ("**Proposed Acceptance of Development Rights**"); and
- (ii) DTB and its subsidiaries ("**DTB Group**" or "**Group**") proposes to diversify the principal activities of the Group to include property development and construction businesses ("**Proposed Diversification**").

After due deliberation, the Board wishes to announce that the Board had resolved to vary the utilisation of the Balance Proceeds to be re-allocated for the purpose of the Proposed Acceptance of Development Rights as well as to fund the additional working capital of DTB and its subsidiaries ("**DTB Group**" or the "**Group**") ("**Proposed Variation**"). Further details of the Proposed Variation are set out in the ensuing sections of this announcement.

2. DETAILS OF THE PROPOSED VARIATION

The Company intends to vary the utilisation of the Balance Proceeds as follows:-

Purpose	Approved Proposed utilisation RM'000	Actual utilisation as at LPD RM'000	Balance Proceeds as at LPD RM'000	Variation to the Balance Proceeds RM'000	After the Proposed Variation	
					Amount RM'000	Intended timeframe for utilisation from the date of this announcement
To partly finance the purchase of land and factory building, renovation and refurbishment expenses	5,000	-	5,000	(5,000)	-	-
Construction of clean room facility and purchase of 3 lines of tray cleaning systems in Thailand	4,400	646	3,754	(3,754)	-	-
Construction of new factory building in Thailand	2,200	-	2,200	(2,200)	-	-
To partly satisfy the consideration for the Proposed Acceptance of Development Rights ¹	-	-	-	4,000	4,000	Within 24 months
Additional working capital ²	-	-	-	6,954	6,954	Within 12 months
Total	11,600	646	10,954	-	10,954	

Notes:-

¹ For the avoidance of doubt, the total consideration for the Proposed Acceptance of Development Rights is RM10.00 million, out of which, RM6.00 million shall be financed through bank borrowings whilst the remaining RM4.00 million shall be satisfied via the Balance Proceeds.

² Approximately RM6.954 million of the Balance Proceeds will be re-allocated for the additional working capital of DTB's subsidiaries, namely Attractive Venture (JB) Sdn Bhd ("AVJB") and ISCM Technology (Thailand) Co., Ltd ("ISCM Technology") and/ or any other operating subsidiaries of DTB. AVJB is operating within the supply of packaging materials operating segment of the Group whilst ISCM Technology is operating within the contract manufacturing operating segment of the Group. Further details on the principal activities of AVJB and ISCM Technology are set out in Section 3 of this announcement.

The Proposed Variation is intended to support the existing business operations of AVJB and ISCM Technology and/ or any other operating subsidiaries of DTB, particularly for the repayment to trade creditors for the purchase of raw materials such as paper, plastic resins, plastic sheets and consumables as well as to cater to their existing and future production needs. For the avoidance of doubt, the exact breakdown of the utilisation for each specific purpose of the working capital cannot be determined at this juncture as the actual amount used for each specific purpose may differ at the time of utilisation which will be dependent on the then operating requirements of the operating subsidiaries of DTB.

3. RATIONALE

As set out in **Section 2** of this announcement, the Company intends to vary the utilisation of the Balance Proceeds which had been previously earmarked for the following purposes:-

3.1 To partly finance the purchase of land and factory building, renovation and refurbishment expenses

DTB had earlier proposed to utilise approximately RM5 million of the proceeds from the Rights Issue with Warrants for its subsidiary company, namely AVJB, to purchase a piece of land and factory building near their existing factories in Kulai or Senai, Johor. The total consideration for the proposed acquisition of the aforesaid land and factory building was estimated to be approximately RM10.00 million.

Purely for information purposes, AVJB is 60% directly held by DTB and 40% held via another 55%-owned subsidiary of DTB, namely D'nonce (Johore) Sdn Bhd. AVJB is principally involved in the design and conversion of advanced packaging materials and distribution of electronic products. AVJB's customers are mainly Malaysian incorporated subsidiary companies of multinational corporations based in the United States.

However, as the Board continued to assess the option to expand the business operations of AVJB, one of the major customers of AVJB, which is involved in the provision of manufacturing services to technology companies, had discontinued the manufacturing of one of its core electronic products which required the packaging expertise of AVJB ("**Major Business**").

For the avoidance of doubt, the revenue contribution from the Major Business to AVJB's total revenue for the past 3 financial years up to the FYE 31 August 2017 is further set out below:-

	<-----FYE 31 August----->		
	2015 RM'000	2016 RM'000	2017 RM'000
Revenue contribution from the Major Business (A)	10,600	9,482	691
Total packaging revenue of AVJB (B)	22,705	26,072	20,856
(A) / (B)	46.7%	36.4%	3.3%

As illustrated in the table above, the Major Business had been contributing approximately 46.7%, 36.4% and 3.3% to AVJB's total packaging revenue for the past 3 financial years up to the FYE 31 August 2017. The loss of the Major Business in December 2016 had resulted in the loss of revenue of approximately RM10 million per annum which is equivalent to more than half of AVJB's packaging revenue per annum for the past 3 financial years up to the FYE 31 August 2017. Furthermore, as at to date, AVJB is unable to secure new business from the said major customer or other customers to make up the loss of revenue from the Major Business.

The Board also noted that pursuant to the loss of the Major Business, AVJB's production output for packaging of electronic products in the latest FYE 31 August 2017 stood at approximately 1,800 metric ton per annum, whilst its maximum production capacity stood at approximately 3,000 metric ton per annum, representing production utilisation rate of only approximately 60%. In view that AVJB has not been operating at its full capacity, the purchase of land and factory building to further increase AVJB's maximum production capacity is not justifiable at this juncture as there is still room for increasing the current production capacity of AVJB.

In view of the foregoing, the Board had then decided to vary the utilisation of the proceeds of RM5.00 million earmarked for the purchase of the aforesaid land and factory building to be fully re-allocated to the working capital of the business to support the existing business operations of AVJB and/ or any other operating subsidiaries of DTB, particularly for the repayment to trade creditors for the purchase of raw materials as well as to cater to the existing and future production needs of AVJB and/ or any other operating subsidiaries of DTB.

For the avoidance of doubt, the exact breakdown of the utilisation for each specific purpose of the working capital cannot be determined at this juncture as the actual amount used for each specific purpose may differ at the time of utilisation which will be dependent on the then operating requirements of AVJB and/ or any other operating subsidiaries of DTB.

3.2 Construction of clean room facility, purchase of 3 lines of tray cleaning systems and construction of new factory building in Thailand

DTB had earlier proposed to utilise approximately RM6.6 million of the proceeds from the Rights Issue with Warrants for its wholly-owned subsidiary company, ISCM Technology (Thailand) Co., Ltd ("**ISCM Technology**") for the following purposes:-

- (a) RM4.4 million was earmarked for the setting up of a new clean room facility in the second factory building located in Ayutthaya, Thailand and purchase of 3 lines of tray cleaning systems ("**Construction of Clean Room Facility with Tray Cleaning Systems**"); and
- (b) RM2.2 million was earmarked for the construction of a new factory building in Thailand ("**Construction of New Factory Building**").

Purely for information purposes, ISCM Technology is a wholly-owned subsidiary of DTB. It is principally involved in the provision of clean room capabilities, component washing services for hard disk drive ("**HDD**") industries, contract manufacturing services, design, tooling, equipment, fabrication and customised packaging services. ISCM Technology's customers are mainly Thailand incorporated subsidiary companies of multinational corporations based in the United States.

As part of DTB Group's initial business expansion plan, ISCM Technology had planned to utilise approximately RM4.4 million of the proceeds from the Rights Issue with Warrants to set up an additional clean room in its second factory building, which is a rented premise located in Ayutthaya, Thailand, to house an additional 3 lines of tray cleaning systems to be purchased by ISCM Technology. The intended utilisation of proceeds for Construction of Clean Room Facility with Tray Cleaning Systems is as follows:-

	RM'000
Construction of 1 clean room	2,000
Purchase of additional 3 lines of tray cleaning systems	2,400
Total	<u>4,400</u>^{*1}

Note:-

^{*1} As highlighted in Section 2 of this announcement, out of the total RM4.40 million proceeds earmarked for the construction of clean room facility with tray cleaning systems, approximately RM0.65 million had been utilised whilst the remaining balance yet to be utilised stood at approximately RM3.75 million as at the LPD

To facilitate the construction of the aforementioned clean room facility, ISCM Technology had also planned to re-locate the packaging operations from the second factory building to a new factory building to be constructed as the packaging operations do not require a clean room environment. The Construction of New Factory Building would provide additional space for further expansion of ISCM Technology's packaging operations in the future, and was expected to increase the production capacity of ISCM Technology's packaging operations up to 70.5 million pieces per annum.

For the avoidance of doubt, the estimated cost for the Construction of New Factory Building was approximately RM7.2 million, out of which approximately RM2.2 million was intended to be funded via the proceeds from the Rights Issue with Warrants. The balance construction cost of approximately RM5.0 million would be funded via bank borrowings or internally generated funds of the Company.

Notwithstanding the above, the Construction of Clean Room Facility with Tray Cleaning Systems and the Construction of New Factory Building had been delayed in light of the downturn of the HDD industry since 2016, which resulted in ISCM Technology recording losses in the latest 2 financial years up to the FYE 31 August 2017. Based on the latest audited financial statements of DTB Group for the FYE 31 August 2017, the external revenue from contract manufacturing (mainly contributed by ISCM Technology) had maintained at around RM17.8 million but the bottom line results had further decreased from a loss of RM0.3 million in the FYE 31 August 2016 to a higher loss of RM2.40 million in the FYE 31 August 2017.

Furthermore, the production output of ISCM Technology had also decreased from 284.9 million pieces in the FYE 31 August 2015 to 153.2 million in the FYE 31 August 2017, further details as set out below:-

	Maximum production capacity (million)	Production output for the FYE 31 August 2015 (million)	Production output for the FYE 31 August 2017 (million)
Thermo vacuum forming and aqueous cleaning services	313.4	284.9	153.2
Production utilisation rate^{*1} (%)		90.9	48.9

Note:-

^{*1} Calculated based on total production output for the respective financial years over the total maximum production capacity of ISCM Technology

Based on the table above, ISCM Technology's production utilisation rate for the FYE 31 August 2017 only stood at approximately 48.9% as compared to the FYE 31 August 2015 of approximately 90.9%. Accordingly, the decrease in ISCM Technology's production utilisation rate represents the decrease in overall market demand for ISCM Technology's products/ services with visible signs of excess production capacity in the latest financial year ended 31 August 2017.

In view of the above, coupled with the stiff competition in the HDD industry, the Board had then decided to vary the utilisation of the balance proceeds earmarked for both the Construction of Clean Room Facility with Tray Cleaning Systems and the Construction of New Factory Building of approximately RM5.95 million (being RM6.60 million minus RM0.65 million which had been utilised) to be fully re-allocated to partly satisfy the consideration for the Proposed Acceptance of Development Rights of RM4.00 million and the remaining balance of RM1.95 million to be channeled towards the working capital of ISCM Technology and/ or any other operating subsidiaries of DTB.

4. APPROVALS REQUIRED

Purely for information purposes, the Proposed Variation is not subject to the approval of the shareholders of the Company or any regulatory authorities.

However, the Proposed Variation is conditional upon the Proposed Diversification being approved by the shareholders of the Company.

In the event the Proposed Diversification is not approved by DTB's shareholders at an EGM of the Company to be convened, DTB Group will identify other assets or business for acquisition or investment with the intention to provide an additional source of income to the Group.

Accordingly, the RM4.00 million from the Balance Proceeds which is intended to partly satisfy the consideration for the Proposed Acceptance of Development Rights will be channelled towards financing such potential acquisition or investment which is similar the Group's existing business or other businesses when the opportunities arise in the future.

Notwithstanding the above, the Company will make the necessary announcements to Bursa Securities and seek prior shareholders' approval, if required, in compliance with the Listing Requirements in the event such circumstance arises.

This announcement is dated 25 July 2018.