

**DUFU TECHNOLOGY CORP. BERHAD**

(Company No. 581612-A)

(Incorporated in Malaysia)

Key matters deliberated during the Fourteenth Annual General Meeting of the Company held at U Hotel, Room Jupiter, Ground Floor, 676 Jalan Sungai Dua, 11700 Penang, Malaysia on Thursday, May 19, 2016 at 9.00 a.m.

*Note:*

*The page number depicted hereinafter shall read in conjunction with the Annual Report 2015 of Dufu Technology Corp. Berhad*

	<u>Enquiries / Concerns</u>	<u>Response from the Management</u>
a.	<b>Page 74</b> Mr. Phoon Kin Seng (Mr. Phoon) pointed out that an Inventories of RM2.512 million and RM4.242 million have been written down during the year 2015 and 2014 respectively. He enquired whether such inventories write down are in accordance with the Group's Inventory Management Policy.	Mr. Chong Kok, the Senior Financial Controller of the Company reverted that such inventories write down is in line with the Group's Inventory Management Policy whereby all slow moving stocks that are more than 4 months will be written down. Upon receipt of relevant orders from customers, such Inventories will be written back accordingly.
b.	<b>Page 74</b> Mr. Chee Sai Mun (Mr. Chee) enquired the rationale for the Properties, Plant and Equipment (PPE) write off of RM1.719 million during the year 2015.	Mr. Chong Kok explained such PPE write off was in line with the Group PPE Management Policy whereby the Group would perform physical review on PPE on half yearly basis; those PPE that are in poor condition and non-usable will be written off accordingly and recorded in a separate assets listing for monitoring purpose.
c.	<b>Page 49</b> It was observed that the cash flow used for purchase of PPE was RM5 million and RM7.4 million respectively in year 2015 and 2014 respectively. Mr. Teh Kian Lang (Mr. Teh) asked on the nature of such purchase and whether the Management expects any further purchase of PPE in year 2016.	Mr. Chong Kok replied that such purchase of PPE was mainly for Non-HDD segment.  Mr. Khoo added that the Management does allocate a budget for purchase of PPE from time to time. However, the concentration would be more on Controls and Sensors segment. A sum of RM7-8 million has been budgeted for Purchase of PPE in 2016. Nevertheless, such amount might not be fully utilized and Mr. Khoo stressed that the Management has been prudent in purchase of machineries for the past two years and will continue such practice.

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d.	<b>Dividend Policy</b> Mr. Chee commended the Management for encouraging dividend payout for year 2015.	Mr. Khoo informed that the Company has adopted the Dividend Policy whereby at least 50% of the Company's Operating Profit After Tax (PAT) will be paid as Dividend to Shareholders after taking consideration of the Company's retained profits, cash flow as well as the funding requirement of our Group. The Dividend Policy has been previously announced via Bursa Link.
e.	<b>Foreign Exchange Rate</b> Mr. Chee enquired on the Foreign Exchange Rate used by the Group.	Mr. Chong Kok informed that the average exchange rate in year 2015 was RM3.85:USD1 whilst year end rate was RM4.40:USD1.  Mr. Khoo explained that since the implementation of Goods and Services Tax (GST), all reporting are based on Foreign Exchange Rate of the date of transaction.
f.	<b>Page 78 - Commitment for purchase of PPE</b> Mr. Chee asked whether capital commitment has been omitted from the reporting in year 2015.	Mr. Chong Kok confirmed that there is no capital commitment that contracted but not provided for as at December 31, 2015. He clarified that such disclosure of capital commitment is not a forecast for purchase of PPE.  Mr. Khoo re-iterated that a sum of RM7-8 million has been budgeted for Purchase of PPE. Nevertheless, such amount will only be fully utilized, subject to market conditions and performance of respective segments. He added that the Management has been investing in the HDD segment for the past years and is expecting to utilize such capacity now. Thus, the allocation of capital expenditure for Non-HDD segment will be relatively higher as compared to HDD segment this year.

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g.	<p><b>Page 84 – List of Properties</b> Mr. Teh raised his concern on the possibility to renew the leasehold period of the existing premises of Dufu.</p> <p>Mr. Teh also enquired on the general conditions that might be imposed to the leasehold industrial land in Penang.</p>	<p>Mr. Khoo replied that the Management did enquire on such matter with the State Authority. However, it has yet to receive any response from the Authority as the expiry date is still very far from now.</p> <p>Mr. Ang shared that from his personal experience, the Authority would consider the renewal with a premium payable.</p> <p>Mr. Ang also replied to Mr. Teh that the transfer of ownership of the leasehold industrial land in Penang would subject to the consent of the State Authority.</p> <p>In reply to Mr. Teh’s enquiry on the current value of the premises of Dufu, Mr. Chong Kok mentioned it is valued at approximately RM34 million.</p>
h.	<p><b>Page 84 – List of Properties</b> Mr. Teh enquired the location of the premises of Futron Ltd.</p>	<p>Mr. Khoo replied that it is located in Guangzhou China.</p>
i.	<p><b>Page 82 – Matter 2 as disclosed in Note 26</b> Mr. Chee sought the Management’s clarification on the impact of non-recovery of such outstanding balance to the financial position of the Group.</p>	<p>Mr. Chong Kok informed that such outstanding balances has been fully impaired as at December 31, 2015. The non-recovery of such balances would not have further impact to the financial position of the Group.</p> <p>He added that such balances, if recovered would generate an extraordinary income to the Group.</p>
j.	<p><b>Page 74 – Impairment loss on loans and receivables from unrelated parties</b> Mr. Chee enquired the reason for such impairment.</p>	<p>Mr. Chong Kok explained that such impairment was in accordance to the Group’s Policy whereby receivables that aged more than 4 months will be impaired accordingly.</p>

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k.	<p><b>Page 85 – List of Properties</b> Mr. Teh enquired on the location of the Property owned by Dufusion Sdn. Bhd. (Dufusion).</p>	<p>Mr. Ang replied that the Property is just 5-10 minutes' drive from Dufu's current principal premises.</p> <p>Mr. Yeoh Beng Hooi (Mr. Yeoh) added that the Property will be for the operation of Non-HDD segment, i.e. medical devices, controls and sensors.</p> <p>In response to enquiry by Mr. Teh, Mr. Yeoh confirmed that ISO qualification is sufficient for production of medical devices in Dufusion and no other special licenses are required.</p>
l.	<p><b>Workforces</b> Mr. Phoon enquired on the Group's workforce.</p> <p>In order to cushion the impact of increasing labour charges from time to time, Mr. Phoon enquired the possibility of transforming the Group towards highly automated production to reduce its workforce.</p>	<p>Mr. Yeoh replied that the Group presently has approximately 760 workers in Malaysia, of which approximately 400 are foreign workers.</p> <p>Mr. Phoon further enquired the impact of the increase of minimum wages to Dufu Group. Mr. Yeoh replied that the impact to the Group's overhead is still manageable as the Management has gradually increased its minimum wages since last year and most of the employees of the Group have met the minimum wages requirement.</p> <p>Mr. Yeoh commented that the nature of products in Dufu is more on customized products. He further explained that most of the products e.g. spacer still requires different processes and may not be able to be produced in fully automated line.</p>

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m.	<p><b>Shares Buy-Back</b> Mr. Phoon pointed out that the Company has been actively purchased its own shares recently and further enquired the rationale of such purchases.</p>	<p>Mr. Khoo explained that the Company has just implemented the Shares Buy Back since March 2016. Thus, such recent purchases were to gauge the response of investors towards such buy-back.</p> <p>He further explained that the Shares Buy-Back is not for speculative purpose and the purchases were in the best interest of the Company and Shareholders.</p> <p>Moving forward subject to the quantum of the treasury shares held, the Management might consider distributing the treasury shares as dividend in specie to the Shareholders of the Company.</p>
n.	<p><b>Page 12 – Business Outlook</b> Mr. Chee sought the Management’s further elaboration on the business prospect and strategies for Non-HDD Segment, i.e. Medical Devices, Controls and Sensors.</p>	<p>Mr. Khoo informed that the Management is optimistic on the growth in Non-HDD Segment as it has been receiving enquiries from a few potential customers. However, the timing of realization of orders from such enquirers is still uncertain.</p> <p>He added that despite the growth in Non-HDD Segment, the HDD Segment is still the core business of the Group. Moving forward, the Management will concentrate more on the development of Non-HDD Segment.</p> <p>When asked by Mr. Chee on the growth rate of HDD Segment as compared to preceding year, Mr. Yeoh replied that the growth rate is approximately 2%. He added that despite the constant orders received for Non-HDD Segment, its performance has been overshadowed by HDD-Segment.</p>
o.	<p><b>Page 78 – Segmental Reporting</b> Mr. Chee observed that the Group recorded a high volume of sales to Thailand.</p>	<p>Mr. Khoo explained that the sales recorded by way of geographical segment are based on the destination of goods delivery as instructed by customers of the Group.</p>

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p.	<p><b>Page 46 – Consolidated Statement of Financial Position (The Statement)</b></p> <p>Mr. Teh enquired the nature of “Reverse Acquisition Reserve” of RM24,110,002/- recorded in the Statement.</p>	<p>Mr. Eddy Chan (a Partner of Messrs. Crowe Horwath, the Auditors of the Company) explained that this reserve was merely accounting treatment imposed by MFRS 3 whereby the acquisition of subsidiaries by the Company pursuant to the Initial Public Offering Scheme are deemed as Reverse Take Over.</p> <p>He added that most of the Initial Public Offering Scheme during that era adopted such concept.</p>
q.	<p><b>Page 46</b></p> <p>Mr. Teh point out that the Cash and Bank Balances of Group stands at approximately RM25 million whilst the Bank Borrowing stands at approximately RM23 million. He enquired the possibility of utilizing the available Cash to pay off the Bank Borrowing for interest saving purpose.</p>	<p>Mr. Chong Kok explained that the Bank Borrowing are mainly Hire Purchase and Trade Finance Facilities, thus, it is not viable to utilize the available cash for such settlement.</p>