

Key matters deliberated during the Twenty-First General Meeting of the Company held at Function Room 7 at Spice Convention Centre, SPICE, No. 108, Jalan Tun Dr. Awang, 11900, Penang, Malaysia on Friday, 28 April 2023 at 9.00 a.m. (Continued...)

<b>No.</b>	<b>Enquiries / Concern</b>	<b>Company Response</b>																		
<b>1.</b>	<b>Operational &amp; Financial Matters</b>																			
	<p>DUFU currently owns and operates 4 manufacturing sites. The Bayan Lepas Phase IV plant in Penang and Guangzhou plant in China are catered for precision machining. (page 66 of Annual Report (AR) 2022)</p> <p>(a) What was the Group's total capacity for precision machining in Malaysia and China respectively as of end-FY2022? How many employees does the Group employ for this segment in Malaysia and in China?</p>	<p>The total number of employees for this segment in Malaysia and China was 595 and 274 respectively. As at end-FY2022, based on the Group's machining capacity, the plant in Malaysia and China is able to generate an approximate revenue worth RM150 million and RM120 million respectively.</p>																		
	<p>(b) What was the average utilisation rate for the Malaysia and the China plants respectively in FY2022?</p>	<p>The average utilisation rate for both the Malaysian and China plants was 70% each in FY2022.</p>																		
	<p>(c) What is the expected utilisation rate for the Malaysia and China plants respectively for FY2023?</p>	<p>Excluding the anticipated increase in capacity arising from the completion of the new plant in China in the third quarter of this year, we expect the utilisation rate in FY2023 for the current Malaysia and China plants to be similar to FY2022.</p>																		
<b>2.</b>	<b>Revenue streaming from Sheet Metal and Stamping division recorded robust growth for enclosures and frames related to consumer electronics, semi-conductor, and life science. (page 68 of AR 2022)</b>																			
	<p>(a) How much was the revenue contribution from the Sheet Metal and Stamping division in FY2022 vs FY2021?</p>	<p>The Group's revenue contribution from the Sheet Metal and Stamping division increased by approximately 36% from RM25.19 million in FY2021 to RM34.33 million in FY2022. Both of these divisions have an almost equal weightage in terms of revenue contribution.</p>																		
	<p>(b) Please provide the revenue breakdown for this division by sector (eg. consumer electronics, semiconductor etc).</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">No.</th> <th style="text-align: center;">Description</th> <th style="text-align: center;">%</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1.</td> <td>Telecommunication</td> <td style="text-align: center;">35</td> </tr> <tr> <td style="text-align: center;">2.</td> <td>Life science</td> <td style="text-align: center;">35</td> </tr> <tr> <td style="text-align: center;">3.</td> <td>Fabrication of Equipment (mainly for semiconductor sector)</td> <td style="text-align: center;">25</td> </tr> <tr> <td style="text-align: center;">4.</td> <td>Electronics &amp; others</td> <td style="text-align: center;">5</td> </tr> <tr> <td colspan="2" style="text-align: right;">Total</td> <td style="text-align: center;">100</td> </tr> </tbody> </table>	No.	Description	%	1.	Telecommunication	35	2.	Life science	35	3.	Fabrication of Equipment (mainly for semiconductor sector)	25	4.	Electronics & others	5	Total		100
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	(c) What was the average utilisation rate in FY2022? What is the expected utilisation rate for FY2023?	The average utilisation rate for Sheet Metal & Stamping division in FY2022 was 75%. We hope to maintain similar utilisation rate for FY2023.
<b>3.</b>	DUFU has invested RM51.62 million in FY2022, on top of RM31.93 million in FY2021, mainly for the capital in progress billing of RM41.1 million incurred for the construction of new building facility in Guangzhou, China, and investment of new CNC related machines and supporting lines. (page 71 of AR 2022)	
	(a) What is the Group's budgeted capex for FY2023 and FY2024?	Excluding the committed capex required for the new plant in China which we have explained in paragraph (b) below and the progress billings arising from the acquisition of RM45.37 million for the two units of Industrial Buildings at Seberang Perai Selatan, the Group's budgeted capex for FY2023 is anticipated to be RM5 million. We have not set the budgeted capex for FY2024 due to the current economic volatility and the quantum of our capex investments in FY2024 is dependent on our customers forecast.
	(b) How much has the Group invested in the new plant in China? What is the remaining capex required?	As at end of FY2022, the Group has invested a total of RM67.5 million on the new plant in China excluding the land costs of RM7.1 million. The remaining capex of RM7.8 million is expected to be incurred in FY2023.
	(c) When do you expect this new plant to start operations?	Barring any unforeseen circumstances, we expect this plant to commence operations in early 2024.
	(d) How much additional capacity does this plant add to the Group?	The built-up size of this new plant in China is approximately 394,000 sq. feet, which is 2.6 times larger than our current built-up machine precision plant of 151,000 sq. feet at Phase IV, Bayan Lepas. As such, the potential additional capacity that this new plant in China will be able to generate enormous future growth for the Group.

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<b>4.</b>	<p>DUFU derives 91% of its revenue from abroad, of which 88% is denominated in US Dollars (USD). (page 72 of AR 2022)</p> <p>(a) How much of the Group's purchases are denominated in USD?</p>	<p>The Group's USD denominated purchases consists of 60% of its USD denominated sales.</p>
	<p>(b) Does the Group hedge the remaining USD exposure?</p>	<p>Despite the Group has ample foreign exchange related banking facilities, the Group currently does not hedge its net USD exposure. The current guidance given to the finance team is to convert the excess USD in hand into MYR when the spot rate is higher than the accounting book rate of which the accounting book rate is fixed at every month end of the previous month.</p>
<b>5.</b>	<p><b>Corporate Governance Matters</b></p> <p>Practice 5.9 of the Malaysian Code of Corporate Governance stipulates that 30% of the Board should comprise women. As of FY2022, there was only one-woman director out of the 6 directors on the Board. Does the Company intend to apply Practice 5.9, and if yes, by when?</p>	<p>As stated in Practice 5.9 of the Company's Corporate Governance Report FY2022, a Board Diversity Policy has been adopted by the Board on 25 February 2022, which recognizes Board diversity including gender diversity as an essential measure of good corporate governance and an attribute of a well-functioning board. The Board Diversity Policy requires to have at least one-woman director on the Board. The Board is of the view that while selection of candidates for appointment to the Board will be based on a range of diversity perspective including gender, merit and contribution that the selected candidates will bring to the Board should be prioritized in deciding appointments to the Board. Thus, for the time being, the Board has not put in place a definitive timeline to stipulate that 30% of the Board should comprise of women.</p>
<b>6.</b>	<p>Further to the recently released quarterly results of <i>Seagate</i>, a major customer of the Group, it has provide a gloomy guidance for the hard disk business for year 2023. Can the Board share an update on sales mix from Hard Disk Drive (HDD) business and outlook on hard disk market.</p>	<p>Mr. David Khoo informed that during FY2022, the Group's HDD sales has declined and only managed to record only 75% of the total revenue of the Group as opposed to slightly above 80% for year 2021.</p>

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		<p>He continued that further to the transcript results of <i>Seagate</i> for the quarter ended 31 December 2022, HDD business is bottoming up and at its recovering trend. The same happened to DUFU where it manage to record an encouraging sales results in Jan 2023. However, such momentum did not continue in Feb and March. He mentioned that the current market environment for HDD industry is volatile but the Management foresee its prospect to be positive in long term.</p> <p>Mr. Teoh Chiew Hong (Mr. Teoh), the Group Deputy CEO added that as mentioned by the Seagate's CEO, despite the elongated customer inventory correction that led to weaker performance, 30-plus terabyte HAMR-based products has been shipped to its targeted customers. In view of this, the Management believes that the HDD business will grow positively in long term.</p>
7.	What is the function / purpose of new plant in China? Is it for HDD business or non HDD business?	Mr. Teoh reverted that the new plant shall cater for the productions of both HDD and non-HDD products.
8.	Does the Management has the intention to lower down the HDD contribution of the Group in the long run, says to 60-70%?	Mr. Teoh replied that the Management has since pass few years, endeavour to lower down its HDD contribution. However, whilst expanding the Group's non HDD business, the HDD business has grown correspondingly and its performance has always outshine the non HDD business.
9.	Any guidance compound annual growth rate (CAGR) for HDD spacer for next 5 or 10 years?	Mr. Teoh shared that the business of HDD spacer has grown rapidly and he expected that the HDD will remains as the key storage media for the next 5 years.
10.	Any intention to further venture into sub modules assembly for sheet metal fabrication and stamping business?	Mr. Teoh informed that the Group has started the sub modules assembly business for life science since many years ago and the business continue. Further to the earlier announcement released in October 2022, the Group acquired a new property near to Valdor Industrial Park to cater for expansion of sheet metal fabrication and stamping business. As for the machining and precision component business, the production will be at Bayan Lepas plant and China plant.

