

Questions and concerns raised during the 22nd Annual General Meeting held at Jadeite Room, Level 5 at Amari SPICE, No. 2 Persiaran Mahsuri, 11900 Penang, Malaysia on Wednesday, 8 May 2024 at 9.00 a.m.

		Operational & Financial Matters
1.		The Group's revenue declined by 25% to RM227.8 million in FY2023 due to lower demand in the HDD related business. Consequently, profit before tax fell 60% to RM33.6 million. In FY2023, the Group invested RM17.75 million in capital expenditure (capex), adding to the RM83.55 million spent in FY2021-2022. <i>(page 5, 17 and 20 of Annual Report (AR) 2023)</i>
	(a)	Does the Group expect revenue to rebound in FY2024 ?
		<p><u>Our Response</u></p> <p><i>In FY2023, the Group saw a 25% decline in revenue, mainly due to reduced demand in the HDD-related business sector. While predicting future trends is challenging amidst current economic volatility, the Group remains cautiously optimistic about the potential for revenue rebound in FY2024. Various factors such as market conditions, economic recovery, and shifts in demand will heavily influence the revenue trajectory for the upcoming fiscal year. Given the prevailing circumstances, the Group expects a low-end double-digit growth in revenue for FY2024.</i></p>
	(b)	What is the medium-term outlook for the HDD related business?
		<p><u>Our Response</u></p> <p><i>Cloud demand is picking up, and we foresee steady growth driven by increased nearline demand, especially with AI driving advancements in storage solutions.</i></p> <p><i>We would like to quote Dave Mosley – CEO of Seagate Technology in their Fiscal Third Quarter 2024 Conference Call held on 23 April 2024. During the conference call, he mentioned that “the first stage of GenAI has focused on setting up the compute-intensive infrastructure needed to develop and train large language models. As we move from development to deployment, businesses will start using these trained AI models to transform data with valuable applications and generate content rich in data. We anticipate a surge in HDD demand as this phase gains momentum. Over the next few years, the volume of AI-generated content is expected to significantly increase, with a notable shift towards more imagery and videos, which can be up to 1,000 times larger than text. These trends are favorable for HDD demand in the long term, as HDDs remain the most cost-effective solution for storing and handling large amounts of data”.</i></p>
	(c)	What is the budgeted capex for FY2024 and its breakdown?
		<p><u>Our Response</u></p> <p><i>The budgeted capital expenditure (capex) for FY2024 hinges on the completion timeline of the new sheet metal fabrication designated plant. The total property cost stands at RM45.4 million. As of December 31, 2023, we've already incurred RM6.8 million (15% of the purchase consideration) in progress billings, with the remaining RM38.6 million to be paid based on completion progress.</i></p> <p><i>Additionally, for the newly completed plant in China, RM8 million of the remaining contracted sum will become payable in FY2024. Apart from these properties, we've earmarked RM6 million for new plant, machinery, and equipment.</i></p> <p><i>Taking all these factors into account, our projected capex for FY2024 could potentially reach around RM53 million.</i></p>

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2.		The Group has established a manufacturing hub at Bukit Minyak in 2019 to support sheet metal fabrication products in the domestic market. In Dec 2022, the Group acquired two units of Single Storey Detached Factory – which is scheduled for completion at the end of 2024 – to expand its existing business activities in metal fabrication, machining and assembly. <i>(page 16 of AR 2023)</i>
	(a)	How much was the revenue contribution from the sheet metal fabrication division in FY2023? What goals has the management set in terms of revenue and earnings over the next five years or longer term?
		<p><u>Our Response</u></p> <p><i>In FY2023, the revenue contribution from the sheet metal fabrication division amounted to RM26.2 million, marking a decline of 30.4% compared to the RM37.7 million recorded in FY2022. Looking ahead, management has set ambitious targets for revenue and earnings growth over the next five years or longer term. These objectives are in line with the Group's strategic vision and may entail expanding market share, diversifying product and service offerings through innovative engineering solutions, entering new markets, and optimizing operational efficiency to enhance profitability.</i></p> <p><i>The revenue projection for the sheet metal fabrication division anticipates a 20% growth in FY2024, followed by an annual growth rate of 10%-15% thereafter.</i></p>
	(b)	What was the total capacity for the sheet metal fabrication division as of 31 December 2023?
		<p><u>Our Response</u></p> <p><i>As of end of December 2023, the sheet metal fabrication division was capable of generating RM43 million in revenue at full capacity.</i></p>
	(c)	What was the average utilisation rate in FY2023 ?
		<p><u>Our Response</u></p> <p><i>In FY2023, the sheet metal fabrication division operated at an average utilization rate of 60%.</i></p>
	(d)	What is the division's current outstanding orderbook? And how does it compare to a year ago ?
		<p><u>Our Response</u></p> <p><i>We are currently unable to provide details on our customers' outstanding order book. However, we have observed a significant improvement in the outstanding Purchase Orders ("POs") from our customers compared to the previous year. Nonetheless, relying solely on POs may not accurately predict revenue projections, as customers may choose to delay or defer the delivery of these inventories.</i></p> <p><i>A more reliable indicator would be the customers' forecasts, which show a promising improvement of 20% compared to the previous year.</i></p>
	(e)	How much is the additional capacity from the new facilities? What is the potential revenue that the new facilities can generate at full capacity?
		<p><u>Our Response</u></p> <p><i>With a new property boasting a build-up area of 129,600 square feet, approximately 1.8 times larger than the current site at Bukit Minyak, which spans 70,700 square feet, the potential revenue generated from the present site could reach RM80 million at full capacity.</i></p>

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3.		The Group's employee benefits expense decreased from RM66.58 million in FY2022 to RM60.22 million in FY2023. This decline can be attributed to the reduction in the overall headcount over the last two years, as the Group continued to face demand headwinds in 2023. <i>(page 19 of AR 2023)</i>
	(a)	What was the Group's total headcount as at end-FY2023 compared to end- FY2022? Please provide the breakdown between local and foreign workers.
		<p><u>Our Response</u></p> <p><i>As of the conclusion of FY2023, the Group's total headcount in Malaysia stood at 860, reflecting a slight decrease from the 870 employees recorded at the end of FY2022. Notably, despite this overall decline, the number of local workers exhibited a noteworthy increase, rising to 405 by the end of FY2023 from 387 at the conclusion of FY2022.</i></p> <p><i>The breakdown between local and foreign workers as of the end of FY2023 was as follows:</i></p> <ul style="list-style-type: none"> • <i>Local workers: 405 (up from 387 at the end of FY2022)</i> • <i>Foreign workers: 455 (down from 483 at the end of FY2022)</i> <p><i>Meanwhile, the number of employees working in our China plants remained unchanged at 274 people.</i></p>
	(b)	Does the Group expect further headcount reduction in FY2024? If yes, please provide more details.
		<p><u>Our Response</u></p> <p><i>No, the Group does not anticipate any further reduction in headcount in FY2024. Instead, the Group intends to recruit more workers to fulfill operational needs and support its strategic objectives. The Group will remain vigilant and continue to closely monitor market conditions, remaining agile in responding to any changes that may affect workforce planning in the future.</i></p>
5.		Since Dufu is forecasting a rebound of revenue on FY2024 by low double digit, any potential that the profit margin will be rebound to around 20% as recorded in previous years ?
		<p><u>Our Response</u></p> <p><i>We expect the profit margin would remain at as June 2024, This was simply due to additional expenses to be borne by the Group, more particularly the expenses incurred for new plant in China, eg, interest expenses of RM2.1 million, depreciation of new building of RM2 million, and other expenses of RM0.8 million. All in all, such expenses of approximately RM5 million shall set off against the additional revenue to be generated.</i></p>
6.	(a)	What is the contribution of existing China Plant to the Group's revenue and profit ?
		<p><u>Our Response</u></p> <p><i>Currently, the Group is operating at 70% capacity in existing China Plant without the utilization of new China Plant. Despite this, the China Plant's profit for FY 2023 was break even, primarily due to lower recorded revenue. However, the Management is optimistic that the China Plant will achieve profitability in FY 2024.</i></p>

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6.	(b)	What is the projected timeline for the new China Plant to reach its break-even point ?
		<p><u>Our Response</u></p> <p><i>The Management has not yet commenced its productions in new China Plant. However, the Management has earmarked to rent out 3 of 4 buildings in new China Plant for rental income. As of now, 2 of these buildings have been successfully rented out and expected to generate a rental income of RM1.2 million per year after the rental free period. Based on the current prevailing rental rate, it expected to generate an annual rental of RM2 million by renting out the 3 buildings, enable to Group to finance the interest expenses of the loan for new China Plant.</i></p>
	(c)	What would be the usage of new China Plant ? It is for HDD or Non HDD Segment ?
		<p><u>Our Response</u></p> <p><i>The Management have planned to generate rental income by leasing out 3 out of the 4 buildings within the new China Plant. As of now, 2 of these buildings have been successfully rented out, 1 is awaiting potential tenant and 1 was still idle. The idle building will be reserved to cater for future expansion in China for HDD segment.</i></p>
7.		What would be guidance from customer to Dufu Group in respect of future orders or forecast, more particularly the volume of spacers ?
		<p><u>Our Response</u></p> <p><i>The Management anticipates a 10% growth in the Hard Disk Drive (HDD) Segment and a 20% growth in the Non-HDD Segment. With an increase in orders, the Group would be able to achieve an improved margins for spacers.</i></p>
8.	(a)	With the evolution of Seagate's technology to Heat Assisted Magnetic Recording (HAMR), it was revealed that the maximum platters to be used for 1 single hard disk drive is capped at 10 platters. Moving forward will this affect the spacer disk ?
		<p><u>Our Response</u></p> <p><i>The design of 10 platters for 1 hard disk drive was in the market since 2-3 years ago and we believed that the HDD inventors are satisfied with this design for the time being. Regardless of Microwave-assisted magnetic recording (MAMR), HAMR or Conventional Magnetic Recording (CMR), the number of spacers are remained the same.</i></p>
	(b)	Will Dufu improve its spacers in the future as it is foresees that the storage capacity per platter will be increased in near future ?
		<p><u>Our Response</u></p> <p><i>The storage capacity needs to be increased due to the rising demand for storage, irrespective of whether it's for HDDs or Solid State Drives (SSDs).</i></p>

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9.		We were made to understand that the current capacity of existing facilities in Malaysia stood at 70%, what would be the capacity utilization for the preceding year corresponding period ?
		<u>Our Response</u> <i>The capacity utilization for the preceding year corresponding period is 50%-60%.</i>
10.		What is the current ratio of revenue contribution of HDD vs Non-HDD Segment for FY 2023?
		<u>Our Response</u> <i>The ratio is 70% :30%.</i>
11.		Given the current trend in AI technology, does Dufu secured any AI related orders ?
		<u>Our Response</u> <i>Dufu received orders from major HDD makers and not directly tied to AI technology. Nevertheless, there's a belief that these orders could be from AI related customers.</i>
12.		Could you provide insights on Dufu's market shares in HDD involvement and the challenges faced by Dufu in sustaining such market position ?
		<u>Our Response</u> <i>It believed that Dufu is currently holds a market share of 35% in HDD market, a drop from 40% previously as some HDD makers has developed extra as a contingency plan during the pandemic. .</i>
13.	(a)	Are there any new products in the pipeline that being developed by both existing HDD and non-HDD customers ? Does Dufu secured any orders from new customers recently ?
		<u>Our Response</u> <i>For HDD segment, one of our major customer is focusing on HAMR whilst another major customer is remains focusing on Energy-Assisted Magnetic Recording (EAMR). It is anticipated that the latter will transition to HAMR once the storage capacity surpasses 40TB. The spacer will remain the same regardless of the design of the HDD.</i> <i>Nevertheless, the Management anticipates that a revenue boost following the transition of HDD markers to HAMR. This is simply because the existing aluminum spacers might not be suitable to the new HAMR HDD.</i> <i>Dufu managed to secured orders from several new customers leading to the potential increase in its revenue of 20%.</i>
14.	(a)	Please provide insights on Dufu's Non-HDD business.
		<u>Our Response</u> <i>Dufu's Non-HDD business primarily focuses on sensors and control, with recent ventures into automotive. We have recently several Request for Quotation (RFQ) from potential customers in automotive industry as well as existing customers from sensors and control that engaged in semiconductor.</i>

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14.	(b)	What constitutes the product range within Dufu's Non-HDD Business?
		<p><u>Our Response</u></p> <p><i>Dufu's Non-HDD business primarily focuses on sensors and control, telecommunication and structures for semiconductor industry. These are those structured machines used for inspection purpose.</i></p>
		Corporate Governance Matters
15.		Practice 5.9 of the Malaysian Code of Corporate Governance (MCCG) stipulates that 30% of the Board should comprise women. As of FY2023, there was only one woman director out of the 6 directors on the Board. What steps are being taken to achieve a 30% women representation on the Board as stipulated by the MCCG? What specific plans and strategies does the Board have in place to work towards this goal ?
		<p><u>Our Response</u></p> <p><i>Dufu's 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.</i></p>

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