2. CORPORATE DIRECTORY

BOARD OF DIRECTORS

Name	Address	Nationality	Occupation
Dato' Haji Ahmad bin Hj Ibnihajar *(Independent and Non-Executive Chairman)*	2408, Lengkok Sungai Glugor 3, 11700 Glugor, Pulau Pinang	Malaysian	Company Director
Goh Hong Lim *(Managing Director)*	31, Jalan Tanjung Bungah 11200 Pulau Pinang	Malaysian	Company Director
Law Kim Choon *(Executive Director)*	No. 1, Halaman Hargreaves 11600 Pulau Pinang	Malaysian	Company Director
Lim Teik Hoe *(Executive Director)*	44, Changkat Delima Satu, Island Glades Glugor 11700 Pulau Pinang	Malaysian	Company Director
Chan Seng Sun *(Executive Director)*	26, Jalan Radin 1, Sri Petaling 57000 Kuala Lumpur	Malaysian	Company Director
Chin Yam Sin *(Executive Director)*	124, Taman Sagu, 09000 Kulim Kedah	Malaysian	Company Director
Emeri bin Johari *(Non-Executive Director)*	20, SS1/22A, 47300 Petaling Jaya Selangor	Malaysian	Company Director
Roslant bin Abu *(Non-Executive Director)*	60, Jalan Memanda 12, Taman Dato' Ahmad Razali Ampang 68000 Selangor	Malaysian	Company Director
Dato' Oon Choo Eng @ Oon Choo Khye *(Independent and Non-Executive Director)*	9, Lengkok Barat, 10450 Pulau Pinang	Malaysian	Company Director

AUDIT COMMITTEE

Name	Designation	Directorship
Dato' Haji Ahmad bin Hj Ibnihajar	Chairman	Independent and Non-Executive Director
Goh Hong Lim	Member	Managing Director
Dato' Oon Choo Eng @ Oon Choo Khye	Member	Independent and Non-Executive Director

2. CORPORATE DIRECTORY (*Cont'd*)

COMPANY SECRETARIES	:	Gunn Chit Geok (MAICSA No. 0673097) 23, Persiaran Midlands 10250 Pulau Pinang Yeap Kok Leong (MAICSA No. 0862549) 357, Jalan Sri Petaling 2 Bandar Baru, Sri Petaling 57000 Kuala Lumpur
REGISTERED OFFICE	:	21, Persiaran Midlands 10250 Pulau Pinang Tel No: 04-2296318 Fax No: 04-2268318 E-mail : tccsbpg@po.jaring.my
HEAD OFFICE	:	51-14-B & C, Menara BHL Bank Jalan Sultan Ahmad Shah 10050 Pulau Pinang Tel : (04) 2281198 Website : www.dnonce.com.my E-mail : dntech@po.jaring.my
PRINCIPAL BANKERS	:	Hong Leong Bank Berhad No. 1, Light Street 10200 Pulau Pinang Public Bank Berhad 6862-6864, Jalan Bagan Jermal Bagan Ajam, Butterworth 13000 Pulau Pinang Citibank Berhad Menara Penang Garden 42, Jalan Sultan Ahmad Shah 10050 Pulau Pinang
AUDITORS AND REPORTING ACCOUNTANTS	:	Arthur Andersen & Co Public Accountants 21st Floor, MWE Plaza, No. 8, Lebuh Farquhar 10200 Pulau Pinang

2. CORPORATE DIRECTORY (*Cont'd*)

SOLICITORS FOR THE COMPANY	:	Chew, Tan & Lim Advocates and Solicitors 20th Floor, Menara BHL Bank 51, Jalan Sultan Ahmad Shah 10050 Pulau Pinang Zaid Ibrahim & Co. Advocate and Solicitors 368-4-1, Bellisa Row, Burmah Road 10350 Pulau Pinang
SOLICITORS FOR DUE DILIGENCE	:	Chew, Tan & Lim Advocates and Solicitors 20th Floor, Menara BHL Bank 51, Jalan Sultan Ahmad Shah 10050 Pulau Pinang
ISSUING HOUSE	:	Malaysian Issuing House Sdn Bhd 27th Floor, Menara Multi-Purpose, Capital Square 8, Jalan Munshi Abdullah 50100 Kuala Lumpur
SHARE REGISTRARS	:	Tenaga Koperat Sdn Bhd 20th Floor, Plaza Permata *(formerly known as IGB Plaza)* Jalan Kampar Off Jalan Tun Razak 50400 Kuala Lumpur Tel No: 03-40416522 Fax No: 03-40426532
ADVISER AND MANAGING UNDERWRITER	:	Hwang-DBS Securities Berhad Level 8, Wisma Sri Pinang 60, Green Hall 10200 Pulau Pinang

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2. CORPORATE DIRECTORY (*Cont'd*)

UNDERWRITERS	:	Hwang-DBS Securities Berhad Level 8, Wisma Sri Pinang 60, Green Hall 10200 Pulau Pinang
		UT Securities Sdn Bhd *(formerly known as United Traders Securities Sdn Bhd)* Level 12, Floor, Mayban Trust Building 3, Penang Street 10200 Pulau Pinang
		HLG Securities Sdn Bhd Level 5, Wisma Kia Peng No. 3 Jalan Kia Peng 50450 Kuala Lumpur
		Soon Theam Securities Sdn Bhd No. 111, Jalan Macalister 10400 Pulau Pinang
		K&N Kenanga Bhd 8th Floor, Kenanga International Jalan Sultan Ismail 50250 Kuala Lumpur
LISTING SOUGHT	:	Second Board of the KLSE

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3. INTRODUCTION

This Prospectus is dated 26 February 2001.

A copy of this Prospectus has been registered with the SC and lodged with the Registrar of Companies, Malaysia, both of whom take no responsibility for its contents.

Application has been made to the KLSE for admission to the Official List of the Second Board of the KLSE and permission to deal in and quotation for the entire enlarged issued and fully paid-up ordinary shares of RM1.00 each in D'nonce Technology, including the Issue Shares, which are the subject of this Prospectus, the approval of which is still pending.

Pursuant to Section 14(1) of the Securities Industry (Central Depository) Act, 1991 and Section 44 of the Securities Commision Act, 1993, the KLSE has prescribed D'nonce Technology as a CDS counter. In consequence thereof, the shares offered through this Prospectus will be deposited directly with the MCD and any dealings in these shares will be carried out in accordance with the aforesaid Acts and the Rules of MCD.

These ordinary shares will be admitted to the Official List of the Second Board of the KLSE and official quotation will commence after receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants.

Acceptance of the applications will be conditional upon permission being granted by the KLSE to deal in and quotation for the entire issued and paid-up share capital of the Company on the Second Board of the KLSE. Monies paid in respect of any application accepted will be returned without interest if the said permission is not granted. Admission to listing is not being sought on any other stock exchange.

If you are in doubt concerning this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or any other professional adviser.

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4. RISK FACTORS

IN ADDITION TO OTHER INFORMATION CONTAIN ELSEWHERE IN THIS PROSPECTUS, APPLICANTS ARE ADVISED TO CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS (WHICH ARE NOT EXHAUSTIVE) BEFORE APPLYING FOR THE ISSUE SHARES:-

(i) NO PRIOR MARKET FOR D'NONCE TECHNOLOGY SHARES

As there has been no prior market for D'nonce Technology Shares, there can be no assurance that an active market may be developed upon the Company's listing on the Second Board of the KLSE or if developed, that such market will be sustained. The issue price of RM2.00 per Share has been determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and conditions, its future earnings, its prospects and the prospects of the industry in which the Group operates, the management of the Group, the market price for shares of companies engaged in similar businesses to that of the Group and the prevailing market conditions at the time when the issue price was determined. There can be no assurance that the issue price will correspond to the price at which D'nonce Technology will be traded on the Second Board of the KLSE upon or subsequent to its listing.

(ii) BUSINESS RISK

(a) Contract Manufacturing

Limited History

The Group's involvement in Contract Manufacturing commenced in December 1997. It is now a significant contributor to the Group, contributing approximately 58% and 47% respectively to the Group's turnover and PAT for the financial year ended 31 August 2000. However, Contract Manufacturing can be a highly competitive and capital intensive business requiring investment and strategic management approach which is different from the Group's other business activities. Given the Group's limited history in this activity, there can be no assurance that management will continue to be successful in managing and developing this business.

Recognising the Group's limited Contract Manufacturing history, the Directors have addressed this issue by recruiting suitable experienced personnel to manage and develop the business. Following the relocation of Read-Rite's manufacturing operations to the Republic of the Philippines in mid-1998, the Group has recruited many Read-Rite's senior managerial and technical personnel and managers to join AV Industries. Today, besides Read-Rite, the Group has expanded its customer base to include other MNCs's operation in this Region, amongst others, Sony Electronics (M) Sdn Bhd ("Sony"), Nikko Electronics (M) Sdn Bhd ("Nikko") and W.L. Gore Associates (Pacific) Pte Ltd ("WL Gore").

Dependence on Limited Number of Customers

Read-Rite and Sony are currently the two (2) largest Contract Manufacturing customers for AV Industries expecting to contribute approximately 26.0% and 25.2% respectively of the Group's turnover for the financial year ending 31 August 2001. Any cessation of orders from Read-Rite and/or Sony may have an adverse impact on the Group's financial performance.

While the Directors continue to develop AV Industries' customer base through marketing efforts and expect to diversify its customer base in the future, there can be no assurance that such new customers will be secured. Furthermore, due to factors such as the stringent pre-qualification processes, very often some lead time is required to build up the production volumes for new customers.

The Directors are of the opinion that it is common for new entrants to the contract manufacturing sector to be dependent on a small number of customers, particularly at the initial start-up stage. The new entrant would eventually be better positioned to expand its customer base once it has established a proven track record and the necessary capacity.

Dependence on Limited Number of Suppliers of Key Components

As a contract manufacturer of HSA for Read-Rite, the Group is required to purchase a key component from Read-Rite, i.e. the HGA. As a result, Read-Rite is currently the single largest supplier of the Group. In the event that the supply of components from Read-Rite is disrupted, the Group's production schedule for HSA will be affected.

As discussed in Section 7.4.10 this Prospectus, it is a common practice in the contract manufacturing sector for customers to specify suppliers from which their contract manufacturers are required to purchase the required key components. Although it is the Group's plan to widen its customer base (and correspondingly supplier base), there is no assurance that this will materialise.

(b) Design & Conversion

Increase In Raw Material Cost

The Group is also subject to the risk of increase in raw material cost. The main raw material cost can be categorised into paper, foams, plastic and bags.

In the effort to mitigate the increase in raw material costs, the suppliers will normally inform them in advance to enable the Group to have an ample time to gradually pass the increase in cost to their customers. However, there can be no assurance that the Group will not be adversely affected by any increase in prices of the raw materials. Notwithstanding that, these risks are not unique to the Group but is prevalent throughout the electronic industry.

(c) Sales & Distribution

Potential Loss of Distribution Rights

The continued success of Sales & Distribution is dependent on its ability to retain its existing pool of principals, and to secure new distribution rights. As with all other distributors, the Group faces the risk of its distributorships being terminated by the respective principals. The loss of any major distributorship may have an impact on the contribution of Sales & Distribution to the Group.

The Directors believe that the Group has developed strong business relationships with its existing principal suppliers, most of whom have been with the Group for more than five (5) years. They do not foresee any impending or potential loss of any of its current distributorships. Furthermore, no single principal supplier accounted for more than 5% of the Group's purchases for the financial year ended 31 August 2000 and the Directors also do not foresee that they will account for more than 5% of the Group's purchases for the financial year ending 31 August 2001.

4. RISK FACTORS (*Cont'd*)

(d) Competition

The Group has both local and foreign competitors, some of whom may have more extensive financial, marketing and technical resources than the Group and may enjoy superior name recognition in the market. The Group may also face competition from new market entrants.

As discussed in Section 7.4.6, the Directors believe that the Group has certain competitive strengths in each of its three business activities. These include a well established customer base, the ability to offer a wide range of quality products and services, strong customer support as well as established distribution network, a team of experienced management and technical personnel, a skilled labour force and a good relationship with principal suppliers. The Directors believe that these competitive strengths enable the Group to compete effectively in the marketplace.

(e) Technological Changes

Due to the rapid technological changes that characterise the electronics industry, customers often adjust their production schedule or make design changes in response to market conditions. Consequently, the Group is required to adapt quickly to such changes. The inability of the Group to anticipate, forecast or adapt to such changes could impact the Group's ability to maintain its existing business and/or to secure new business.

The Group will maintain close contact with its suppliers and customers, and other participants in the electronics industry in an effort to keep abreast with industry trends and technological developments. This enhances the Group's readiness and ability to anticipate, forecast and adapt to changes.

(f) Internet is Changing the Operating Environment

The increasing use of the Internet is changing the way companies communicate, collaborate and conduct business transactions with their customers and suppliers. The growing adoption of Enterprise Resource Planning ("ERP") and other similar electronic business application tools increasingly demand that companies offer on-line access to support customers' requirements. The effectiveness of such business-to-business e-commerce solutions offered by companies will play an increasingly important part in their ability to maintain existing customers and develop new ones. Should the Group be unable or slow to adapt to this changing operating environment, it may lose its competitive advantage or even face the risk of marginalisation.

The Group will continue to keep abreast with the latest developments of the Internet in order to take advantage of its benefits. The Group has already established an on-line communication, collaboration and information system, internally as well as with some of its MNC customers.

(iii) INDUSTRY RISK

(a) Dependence on the Electronics Industry

The Group sells its products and services to customers from various sub-sectors of the electronics industry. As such, the Group's performance will, to a large extent, depend on the outlook for the electronics industry. While current prospects for the electronics industry can be considered positive, there can be no assurance that this will sustain.

4. RISK FACTORS (*Cont'd*)

(b) Dependence of Removable Hard Disk Drive Industry

Currently, the Group's major Contract Manufacturing customers are in the removable hard disk drive industry. As such, Contract Manufacturing is currently dependent on the outlook of this industry.

The Group is in the process of widening its customer base to include those which are involved in the hard disk drive industry as well as in other sub-sectors of the electronics industry i.e. PC, audio products, telecommunications etc.

(Full details on Industry Overview are set out in Section 6.1 of this Prospectus).

(iv) DEPENDENCE ON KEY PERSONNEL

The Group believes that its continued success depends to a significant extent upon the abilities and continued effort to retain its existing Executive Directors and senior management as well as key technical personnel. The loss of any key member of the Group's Executive Directors and senior management as well as key technical personnel may, to a certain extent, affect the Group's continued ability to maintain and improve its performance. However, efforts are presently made by the Group to groom the other members of the management team to assume more responsibilities, hence ensuring a smooth transition should changes occur. The Group's future success will also depend upon its ability to attract, retain and motivate skilled personnel.

(v) CONTROL BY MAJOR SHAREHOLDERS

Upon completion of the Public and Special Issues, the four (4) Major Shareholders of the Company namely Goh Hong Lim, Law Kim Choon, Lim Teik Hoe and Chan Seng Sun will collectively own a total of 42.3% in the Company. As a result, it is likely that the said Major Shareholders may be able to jointly influence the outcome of certain matters requiring the vote of the Company's shareholders unless they are required to abstain from voting by law and/or by the relevant authorities.

(vi) CHANGES IN GENERAL ECONOMIC, POLITICAL, LEGISLATIVE, BUSINESS AND CREDIT CONDITIONS

The Group's future growth and performance may to certain extent depend on the political and economic developments in Malaysia and countries where the Group has business dealings such as Singapore, Philippines and Thailand. The future growth may also be subject to the overall changes in inflation, interest rates, tariffs, duties, taxation and social developments within and outside Malaysia.

The Group conducts a substantial portion of its business transactions in foreign currency and may therefore be affected by changes in foreign exchange rates. On 1 September 1998, the Malaysian government fixed the foreign exchange rate at RM3.80:USD1.00. In the event that the exchange rate peg is removed or adjusted, the Group's financial performance may be affected.

As such, there can be no assurance that the future growth and performance of the Group would remain favourable in the event of any changes in the general economic, political, legislative business and credit conditions within and outside Malaysia.

(vii) PROFIT FORECAST

This Prospectus contains the profit forecast of the Group that is based on certain assumptions deemed reasonable by the Directors of the Group. Due to the subjective judgements and inherent uncertainties and contingencies of the profit forecast and because of events and circumstances do not always materialise as expected, there can be no assurance that the profit forecast contained herein will be realised. The actual result may materially be different from those shown. Investors will be deemed to have read and understood the assumptions and uncertainties underlying the profit forecast that are contained herein.

(viii) DISCLOSURE REGARDING FORWARD LOOKING STATEMENT

Other than statements of historical facts, this Prospectus also contains forward-looking statements by the Directors. Although the Directors believe that the expectations reflected in such forward-looking statements are reasonable at this time, there can be no assurance that such expectations will prove to be correct. Any difference in the Group's expectations from actual eventualities may affect the Group's anticipated financial and business performance and plans.

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5. DETAILS OF THE PUBLIC AND SPECIAL ISSUES

5.1 SHARE CAPITAL

	RM
Authorised	
100,000,000 ordinary shares of RM1.00 each	100,000,000
Issued and fully paid-up	
30,000,000 ordinary shares of RM1.00 each	30,000,000
To be issued pursuant to the Public and Special Issues	
10,000,000 new ordinary shares of RM1.00 each	10,000,000
	40,000,000

The issue price of RM2.00 for each Issue Share is payable in full on application.

There is currently only one class of shares in the Company, namely ordinary shares of RM1.00 each. The Issue Shares, upon allotment and issue, will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and will be entitled to all rights, dividends and distributions the entitlement date of which is subsequent to the date of allotment of the said Issue Shares.

At any general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney and, on a show of hands, every person present who is a shareholder or a representative or proxy or attorney of a shareholder shall have one (1) vote and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one (1) vote for each ordinary share held in D'nonce Technology. A proxy may but need not be a member of the Company.

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of liquidation of the Company in accordance with the Articles of Association of the Company.

5.2 OPENING AND CLOSING OF APPLICATION LISTS

The application lists for the Issue Shares will open at 10.00 a.m. on 12 March 2001 and will remain open until 8.00 p.m. on the same day or for such further period or periods as the Directors of D'nonce Technology and the Underwriters may mutually decide.

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5.3 INDICATIVE TIMETABLE

The following events are intended to take place on the following tentative dates:-

Opening of Public and Special Issues	***26 February 2001***
Closing of Public and Special Issues	***12 March 2001***
Tentative Balloting Date	***19 March 2001***
Tentative Allotment Date	***3 April 2001***
Tentative Listing Date	***9 April 2001***

5.4 PURPOSES OF THE PUBLIC AND SPECIAL ISSUES

The purposes of the Public and Special Issues are as follows:-

(a) To increase the Bumiputera equity participation in the Company in line with the objective of the National Development Policy;

(b) To provide an opportunity for the Malaysian public, eligible employees and business associates of the Group to participate in the continuing growth of the Group by way of equity participation;

(c) To enable the Group to gain access to the capital market in order to tap external sources of funds for future expansion and continued growth of the Group;

(d) To obtain listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of the KLSE; and

(e) To enhance the Group's public image and corporate profile.

5.5 PARTICULARS OF THE PUBLIC AND SPECIAL ISSUES

The Public and Special Issues is an invitation by the Company to Bumiputera investors approved by MITI, eligible employees, business associates of the Group and the Malaysian public to apply for the Issue Shares subject to the terms and conditions of this Prospectus and upon acceptance, shall be allocated in the following manner:

(i) Approved Bumiputera Investors

3,000,000 new Shares each have been reserved for Bumiputera investors approved by MITI.

(ii) Eligible Employees and Business Associates of the Group

2,000,000 new Shares have been reserved for eligible employees and business associates of the Group.

5. DETAILS OF THE PUBLIC AND SPECIAL ISSUES (*cont'd*)

(iii) Malaysian Public

5,000,000 new Shares will be made available for subscription by Malaysian citizens, companies, co-operatives, societies and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions.

The Special Issue Shares in respect of paragraph (i) above need not be underwritten. All the 7,000,000 Public Issues Shares in respect of paragraphs (ii) and (iii) above have been fully underwritten by the Underwriters.

Any Public Issue Shares in respect of (ii) above not taken up by eligible employees and business associates of the Group will be made available for application by Malaysian citizens, companies, co-operatives, societies and institutions.

5.6 PRICING OF THE ISSUE SHARES

The issue price of RM2.00 per Share is market driven pricing and has been arrived at after taking into account, inter alia, the following:

(a) The Group's operating and financial history and conditions;

(b) The prospects and future plans of the Group as outlined in Section 6.2 of this Prospectus;

(c) The forecast net PE multiples of approximately 6.8 times based on the forecast net EPS and weighted average number of shares in issue of 29,424,859 D'nonce Technology Shares; and

(d) The proforma NTA per Share of D'nonce Group of RM1.40 prior to the Public and Special Issues.

Based on the above, the Directors of D'nonce Technology and Hwang-DBS, as the adviser and Managing Underwriter have determined and agreed on the issue price of RM2.00 per share.

However, shareholders should also note that the market prices of the D'nonce Technology Shares upon listing on the Second Board of the KLSE are subject to the vagaries of the market forces and other uncertainties which may affect the price of D'nonce Technology Shares.

5.7 PROCEEDS AND UTILISATION

The gross proceeds of RM26.9 million raised and to be raised by D'nonce Technology, comprising respectively RM6.9 million from the Rights Issue and RM20.0 million from the Public and Special Issues, will accrue entirely to the Company. All expenses and fees incidental to the listing of and quotation for the entire enlarged issued and paid-up share capital of D'nonce Technology on the Second Board of the KLSE estimated at RM1.5 million shall be borne by the Company.

The total gross proceeds from Rights Issue as well as Public and Special Issues will be utilised in the following manner:

	Notes	**RM'000**
Purchase of new machinery and equipment	1	17,214
Repayment of bank borrowings	2	6,717
Working capital	3	1,506
Estimated listing expenses	4	1,500
		26,937

5. DETAILS OF THE PUBLIC AND SPECIAL ISSUES (*cont'd*)

Notes

(1) Purchase of new machinery and equipment

- **Contract Manufacturing**

The Group will acquire additional three (3) high speed SMT lines and an auto insertion equipment at a total cost of approximately RM12.6 million in the first half of calender year 2001. The said machineries and equipment are for the production of PCBA and FCBA. The additions are to meet the anticipated increase in demand of the customers as well as to cater for the OEM assemblies. The purchase of general equipments which include aqueous wash machine, integrated circuit tester and wave soldering machine that amount to another RM1.1 million is expected to take place in the first half of calender year 2001. The Group is also expected to incur an additional RM1.5 million in the first half of calender year 2001 in upgrading its existing clean room facilities from Class 10k to Class 1k.

- **Design & Conversion**

The Group is expected to invest approximately RM1.4 million in acquiring five (5) plastic injection moulding machineries in the first half of the calender year 2001 in order to support the plastic reeling business and to expand its current products range. At the same time, the Group is also tapping into the new market segments such as audio/video, other electronics industries and the consumable markets to enhance its future earning base.

The Group is also acquiring an automatic high speed vacumn foaming machine for RM0.25 million and is expecting to incur RM0.36 million for the purchase of an automatic balance hydraulic full head cutting machine. Both are expected to take place in the first half of calender year 2001 also in order to meet the expected growth in demand of the central region of Peninsular Malaysia.

A tabulation the Group's production capacity, existing and future (i.e. upon completion of the purchase of new machinery and equipments) are as follows:-

Category	***Product***	***Existing Capacity****	***Additional Capacity***	***Total Future Capacity***
Cleanroom	*HSA*	*1.7 million units per annum*	*-*	*1.7 million units per annum*
	Drive Filter	*-*	*5 million units per month*	*5 million units per month*
PCBA	*SMT*	*30 million points per month*	*36 million points per month*	*66 million points per month*
	Auto Insertion	*-*	*22 million points per month*	*22 million points per month*
OEM Final Assembly	*Hi Fi*	*15,000 units per month*	*15,000 units per month*	*30,000 units per month*
	Electronic Toys Car	*30,000 units per month*	*30,000 units per month*	*60,000 units per month*
	Transmitter	*30,000 units per month*	*30,000 units per month*	*60,000 units per month*

5. DETAILS OF THE PUBLIC AND SPECIAL ISSUES (*cont'd*)

* *The production capacity of each facility is based on the respective working shifts and production lines as depicted in Section 7.4.11.*

(2) Repayment of bank borrowings

The Group will be utilising approximately RM6.7 million of the gross proceeds to repay or retire certain existing term loans and hire purchase of the Group as follows:-

Facilities	***Bank***	***Amount RM'000***	***Purpose***	***Settlement***
Term Loan	*Wah Tat Bank Bhd*	*2,519*	*Purchase of a factory*	*March 2001*
	Public Bank Bhd	*2,145*	*Purchase of a factory and a factory lot*	*March 2001*
	Public Bank Bhd	*284*	*Purchase of two office lot*	*March 2001*
	MBF Finance Bhd	*90*	*Purchase of a Condominium**	*March 2001*
Hire Purchase	*Asia Commercial Finance Bhd*	*976*	*Purchase of machinery*	*March 2001*
	PLC Credit and Factoring Sdn Bhd	*438*	*Purchase of machinery*	*March 2001*
	PLC Credit and Factoring Sdn Bhd	*265*	*Purchase of machinery*	*March 2001*
		6,717		

* *For staff accommodation purposes*

(3) Working capital

RM1.506 million will be reserved for general working capital requirements of the Group. In view of the expected higher turnover, the level of trade debtor will increase accordingly. Therefore, the proceeds for the working capital would ease the Group's holding cost in these trade debts.

(4) Estimated listing expenses

The breakdown of the estimated listing expenses amounting to RM1.5 million are as follows:

Type of expenses	***RM'000***
Fees and disbursements to advisers	*660*
Brokerage and underwriting commission	*315*
Advertisement, issuing and printing of Prospectus, application forms and share certificates	*268*
Fees to authorities	*80*
Others	*177*
	1,500

The estimated listing expenses are expected to be fully utilised immediately upon completion of the flotation exercise of D'nonce Technology.

By utilising the proceeds from the Rights Issue, Public and Special Issues for repayment of bank borrowings, the Group will be able to have an interest savings of approximately RM1 million per annum. The purchase of new machinery and equipment via the above gross proceeds is also expected to enhance the Group's future earnings substantially.

5.8 BROKERAGE AND UNDERWRITING COMMISSION

Brokerage relating to the Public Issue Shares will be paid by the Company at the rate of 1.00% of the issue price of RM2.00 per Public Issue Share in respect of successful applications bearing the stamp of either Hwang-DBS, a member company of KLSE, a member of the Association of Banks in Malaysia, a member of the Association of Merchant Banks in Malaysia or MIH.

The Underwriters have agreed to underwrite the 7,000,000 new D'nonce Technology Shares which are available for application by the Malaysian Public. Underwriting commission is payable by the Company at the rate of 1.25% of the issue price of RM2.00 per Share. Based on 7,000,000 Public Issues Shares, the underwriting commission would amount to RM175,000.

The Salient Terms of the Underwriting Agreement

In accordance with the underwriting agreement entered into between the Company and the Underwriters on 29 November 2000 ("Underwriting Agreement"), any of the Underwriters may be entitled, on or before the closing date of the Public Issue, upon any material breach of the warranties and undertakings as stated in the Underwriting Agreement or upon the Company's withholding of information of a material nature from the Underwriters by notice to the Company elect to treat such breach as releasing or discharging the Underwriters from their obligations under the Underwriting Agreement.

The Managing Underwriter and the Company may at any time before the closing date of the Public Issue by mutual agreement terminate their obligations under the Underwriting Agreement if in their reasonable opinion there shall have been such a change in national or international, monetary, financial, political or economic conditions or exchange control or currency exchange rates as would in the reasonable opinion prejudice the success of the Public Issue or seriously affect the business of the Group.

The Underwriters shall further have the right to terminate the Underwriting Agreement upon the expiry of six (6) weeks from the date of issuance of the Prospectus or the application to the KLSE for the listing of and quotation for all the D'nonce Technology Shares shall not have been approved or shall have been rejected, as the case may be, whichever is earlier.

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6. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

6.1 INDUSTRY OVERVIEW

The Global Economy

Global economic and financial conditions have improved significantly since the 1997-98 slowdown in the world economy. In 1999, the world output expanded at 3.4% with a growth in major industrial countries by 3.0%.

In 2000, the outlook for the global economy has continued to strengthen with the world output is expected to grow to 4.7%. The growth is reflected by the continued strength in the USA economy, a robust expansion in Europe economy, a nascent recovery in Japan, a rapid recovery in Asia economy, rebounds from the slowdown in emerging markets in Latin America, the Middle East and improved economic activity in Russia.

In line with this improved world economic outlook, the world trade volume is expected to increase to 10% (1999: 5.1%) in 2000. The real GDP growth in major industrial countries as a group is expected to stabilise at 3.9% (1999: 3.0%). Meanwhile, real GDP growth in developing countries as a group is expected to expand to 5.6% (1999: 3.8%), reflecting improved economic activities in Latin America, Middle East and Asia.

The continued expansion in the USA economy plays as a critical role in supporting the global economy. In 2000, the USA's output is expected to increase from 4.2% in 1999 to 5.2% which was underpinned by a strong labour productivity growth. However, a soft landing is forecast for USA economy, which is expected to record a growth rate of 3.2% in year 2001, with monetary policy tightening to control inflationary pressures. It is also anticipated that the contractionary effect arising from the appreciation of USA dollar and higher oil prices would slow down economic activity.

The Asia economy is expected to rebound from the 1997 Asian Financial Crisis by achieving a continual growth of 6.7% in 2000 (1999: 5.9%). The ASEAN, especially the Indonesia, Philippine, Thailand and Malaysia, four (4) of the countries whichever suffered from the impact of Asian Financial Crisis are expected to achieve moderate regional growth within 4% to 7.5% (1999: 0.3% to 5.8%). The growth was fueled by the increase in regional export as well as in the domestic demand. Increase in the global demand for electronic products have further strengthened the export demand in Malaysia, Singapore and Thailand.

Real GDP (%)	**1999**	**2000*e***	**2001*f***
Industrial countries	3.0	3.9	3.0
USA	4.2	5.2	3.2
Japan	0.2	1.4	1.8
Germany	1.6	2.9	3.3
UK	2.1	3.1	2.8

The global economic outlook is projected to remain positive and stable in 2001 despite the risks inherent and uncertainties which many restrain the global growth. In 2001, a sustainable world growth of 4.2% (2000: 4.7%) is projected, with a moderate growth of 3% is expected from the major industrial countries whilst the developing countries as a group is targeted at 5.7%. In line with the favourable world growth, the world trade volume is forecast at 7.8% in 2001.

(Source: Economic Report 2000/2001)

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The Malaysian Economy

The Malaysian economy rebounded strongly in 2000 by charting an impressive 'V-shaped' recovery with real GDP rebounded from a contraction of 7.4% in 1998 to a growth of 5.8% in 1999. The economic turnaround, which began in the second quarter of 1999, was underpinned by the return of confidence and a more stable economic environment achieved under the introduction of selective capital controls and the pegging of Ringgit Malaysia. The economic recovery, initially led by the strong performance of external demand, has become broad-based, driven by the increase in aggregate domestic demand following the impact of expansionary fiscal and accommodative monetary policy.

In 2000, real GDP registered a growth of 10.3% in the first half, based on a growth of 11.9% in the first quarter and 8.8% in the second quarter. It is expected that the strong external demand will be sustained and domestic demand will be strengthen further. Based on these trend, real GDP for 2000 as a whole is expected to register a growth of 7.5%, higher than the estimate of 5.8% as announced during the 2000 Budget in February 2000.

The growth in the Malaysian economy was impressive as it is achieved in an environment of low inflation, with Consumer Price Index (CPI) is expected to remain low at 1.9% (1999: 2.8%). In 2000, the Gross National Product (GNP) is expected to increase to 7.2% (1999: 3.8%), with GNP per capita is forecast to grow at 4.7% (1999: 1.4%) or RM12,883 (US$3,390) (1999: RM12,305 or US$3,238). In terms of purchasing power parity, per capita income is estimated to increase by 6% to US$7,716 (1999: US$7,277).

The favourable economic performance in 2000 was spearheaded by the continual growth in the manufacturing and services sector. Value added of the manufacturing sector is expected to register a strong growth of 17% in 2000 (2Q00: 22% and 1999: 13.5%), which equally prevalent in both export- and domestic-oriented industries. In the second quarter of 2000, the export-oriented industries recorded a 30% year-on-year growth whilst the domestic-oriented industries grew at 19.4% year-on-year. It is expected that manufacturing sector will remain as the main contributor to the GDP growth in 2000, with its share expected at 32.6% (1999: 30%). Meanwhile, services sector is expected to expand at 4.9% (1999: 3.3%).

Following the impact of expansionary fiscal and accommodative monetary policies, aggregate domestic demand at current prices is expected to expand strongly by 16% in 2000 (1999: 1%). It is expected a robust growth of 17.6% to be achieved from the private sector (1999: -3.3%) and a sustainable growth of 12.4% from the public sector (1999: 12.5%).

The economic outlook for 2001 continues to be favourable. The international economic environment is expected to be conductive with world growth remaining at 4.2% (2000: 4.7%). Despite the slower growth anticipated for USA at 3.2%, it is expected that Malaysia's other major trading partners i.e. Japan and the European Union are likely to enjoy a sustainable growth at 1.8% and 3.4% respectively. Regional growth is expected to moderate but remain strong at 6% (2000: 6.5%). Growth in world trade is expected to continue to be robust at 7.8%. In consistent with the favourable external outlook, real GDP growth in Malaysia is forecast at 7.0% in 2001.

(Source: Economic Report 2000/2001)

Based on the Bank Negara Malaysia's Quarterly Bulletin for the third quarter of 2000, the Malaysian economy continued to perform strongly in the third quarter of 2000. Real GDP increased by 7.7%, which was underpinned by the strong external and domestic demand. The growth was supported mainly by further expansion in the manufacturing and services sectors. In the third quarter of 2000, the value added of the manufacturing sector grew at 20.3% and value added of the services sector grew at 4.1%. It is also reported in the third quarter of 2000 that the overall growth in the export-orientated industries was sustained at a high lever of 31.7% whilst the growth in the domestic-oriented industries grew at 14.4%.

The Electronics Industry in Malaysia

(a) History and Development

The electronics sector in Malaysia started in the early 1970's when the Government shifted its emphasis from import substitution to export oriented strategy to promote industrial development. At the same time, rationalisation of the electronics sector in the USA, Europe and Japan provided the impetus for major MNCs to relocate their operations to lower cost and labour surplus countries including Malaysia.

Since the establishment of the first semiconductor plant in Penang in 1972, the export oriented electronics sector has rapidly developed to become the major industrial sector within the manufacturing industry. In terms of employment, output, investment, value-added and export, the electronics sector is the largest in Malaysia's manufacturing sector. From a total of 196,000 employees and a total output of RM37.6 billion in 1994, the sector has expanded to comprise of 269,120 employees with a total output of RM84.5 billion in 1999, this represents a growth of 225% in the period of six (6) years.

(Source:IMP2, 1996-2005)

Today, the electronics industry in Malaysia comprises four (4) key sub-sectors namely semiconductors and other components, computers and peripherals, telecommunication equipment and consumer electronics.

Sub-sector	**Products**
Semiconductors and other components	Microprocessor, memory device, transistor, diode, logic gate, microcontroller, application specific integrated circuit (ASIC), liquid crystal display (LCD), capacitor, resistor, PCB, fabricated wafer, silicon wafer, leadframe, cassette mechanism, magnetic head and cathode ray tube.
Computers and peripherals	Desktop computer, notebook computer, central processing unit (CPU), monitor, motherboard, memory board, disk drive, CD-ROM, power supply unit, UPS, LAN & WAN network device, printer, computer cable & connector, scanner and keyboard.
Telecommunication equipment	Switching & transmission equipment, cordless phone & smartphone, key-telephone system, walkie-talkie, private automatic branch exchange (PABXs, modem, fax machine, cable, fibre optic, antenna, transreceiver and satellite receiver.
Consumer electronics	Television receiver, video player, video cassette recorder, video camera and audio products electronic game.

(Source: IMP2, 1996-2005)

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6. INDUSTRY OVERVIEW AND FUTURE PROSPECTS *(Cont'd)*

(b) Government Policies and Strategic Directions

The Government's policies and strategic directions for the electrical and electronics industry are summarised as follows:

(i) Developing the value chain

Malaysia has been successful in attracting some of the world's best electronics companies to re-locate a major portion of their manufacturing activities in this country. Most of these are in testing and assembly operations. In order to encourage MNCs to increase their value-added activities in Malaysia, the Government's strategy is to encourage the establishment of integrated manufacturing centers, and to review various laws and policies which, in the past, have hindered this development.

(ii) Deepening the supply chain

In order to strengthen the supply chain, it is pertinent to develop domestic capabilities in various points of the value chain. The Government has been working toward strengthening the supply chain vertically and horizontally, to enhance cluster linkages and to review certain equity and export policies.

(iii) Moving into higher technology plane

Malaysia has to move into a higher technology plane to sustain its competitive advantage and to effectively participate in the internationally linked electronics cluster. Therefore, the local electronics industry is encouraged to acquire technology to design and fabricate wafer, to develop their own technological capabilities and to provide specialised technology parks for high-tech industries.

(iv) Establishing wafer fabrication facilities

Malaysia has to move into wafer fabrication to sustain its competitive position in the semiconductor industry. To encourage this move, the support provided by the Government includes provision for quality electricity and water supply for wafer fabrication facilities, tax incentives and other financial assistance, such as, training grants and others.

(v) Developing world class Malaysian owned companies

Through working closely with MNCs, Malaysian owned companies have acquired product quality of international standards and this could provide the foundation to nurture world class and world scale producers and suppliers. The next phase of development will be for Malaysia to take a larger share in the electronic cluster value chain and to develop indigenous MNCs in this sector. To encourage this, the Government is considering incentives to develop skills in high value-added activities, such as, R&D, design, branding and marketing.

(vi) Developing IT and multimedia industry

The MSC is expected to be the next engine of growth in the electronics industry. The Government is considering to offer incentives for MSC-status companies, such as, ten (10) year pioneer status, investment tax allowance of 100% on capital expenditure, 100% foreign ownership, no restriction on the number of imported skilled workers and special expedited immigration processes for foreign expatriates.

(Source: IMP2, 1996-2005)

6. INDUSTRY OVERVIEW AND FUTURE PROSPECTS *(Cont'd)*

(c) Outlook

In 2000, the manufacturing sector is expected to be positioned as the main contributor to the GDP growth by registering a value-added growth at 17% (1999: 13.5%). Following the good economic prospect in Malaysia in year 2001, the outlook of manufacturing sector remains encouraging. It is projected to retain as the leading sector in the economy by registering double-digit growth of 12% (2000: 17%). Despite concerns that the growth of export-oriented industries might be slacken due to a slowdown in USA economy and sales of personal computers, output of Malaysia's export-oriented industries is expected to expand by 12.3% (2000: 22.4%) given the continued growth in demand anticipated from Malaysia's other trading partners. The projected growth is reflected by the continued global demand for electronic products as a result of rapid growth in information and communication technology (ICT) infrastructure and wireless telecommunication sector.

(Source: Economic Report 2000/2001)

For the period January – November 2000, Malaysia's total export earnings amounted to RM343.1 billion, registered an increase of 19.3% or RM55.6 billion as against RM287.5 billion achieved in the same period of 1999. The electrical and electronic products, continued to be Malaysia's largest commodity export earner, netting receipts of RM201.6 billion or 58.8% of the country's total export revenue during the first eleven months period of the year 2000.

(Source: "Malaysian External Trade Statistics", Department of Statistics, Malaysia, November 2000)

Malaysia is now home to MNCs from USA, Japan, Europe, Taiwan and Korea, manufacturing products ranging from semiconductor devices to consumer and industrial electronics. Malaysia is among the world's leading sites for semiconductor assembly, testing and packaging, with industry names such as Intel, Motorola, Agilent, AMD, National Semiconductor, Fairchild, Hitachi, NEC, Fujitsu, Toshiba, Siemens and STMicroelectronics among the MNCs based in the country. The semiconductor industry plays a major part in Malaysia's electronics industry and now has even move towards backwards integration.

(Source: "Malaysian External Trade Statistics", Department of Statistics, Malaysia, November 2000)

The computer and computer peripherals industry has become one of the fastest growing sectors in Malaysia with the establishment of manufacturing facilities by global players like Dell, Gateway, NEC, Samsung, Acer, Fujitsu and Mitsumi. Malaysia is also emerging as a major disk drive manufacturer in the Asian region. Seagate, Western Digital and Iomega manufacture hard disk drives, the disk drive industry has benefited from the presence of a strong supplier base in Malaysia. Several important components required for disk drive manufacturing are disk media, magnetic heads, heads gimbal assemblies, voice coil motors and others.

(Source: "An Introduction to Malaysia's Electronics Industry", Malaysian Industrial Development Authority, March 2000)

The modernisation of the telecommunications infrastructure in Malaysia and the Asian Region is providing further impetus for fast expanding telecommunications equipment sector. The mainstay of the telecommunications equipment industry in Malaysia today is the manufacture of telephones, switching and transmission equipment and mobile communication equipment.

(Source : "An Introduction to Malaysia's Electronics Industry", Malaysian Industrial Development Authority, March 2000)

The Supporting Sub-sectors of the Electronics Industry

The electronics industry requires various supporting sub-sectors to supply the necessary components, packaging materials, machinery, and services. Below is the list of key supplier categories for the supporting sub-sectors of the local electronics industry:

Category	Products
Tool & die	Jig & fixture, tool, mould and die.
Packaging	Paper, plastic, tape and reel.
Metal stamping/casting/machining	Metal stamped part, diecasting and machined part.
Chemicals	Polymer, precision injection, moulded plastic part, gas and chemical.
Machinery & equipment	Fabrication of material handling equipment, e.g. conveyor system and limited fabrication of automation equipment.
Services	Clean room, software house and teletext info-service.

(Source: IMP2,1996-2005)

Industry Players and Competition

Malaysia's contract manufacturing companies provide vital support to the semiconductor, consumer electronics, computer and peripherals, and data storage industries. The world's leading contract manufacturers like Solectron, SCI, Jabil, Dovatron and MCMS have major operations in Malaysia. Others include Malaysian companies such as Carsem, Unisem, Globetronics and AIC in semiconductor assembly and testing; Unico Technology and Trans Capital Electronics in computer and peripherals; and Capetronics, TKR, Pensanko and Asahi in audio-visual products.

(Source : "An Introduction to Malaysia's Electronics Industry", Malaysian Industrial Development Authority, March 2000)

6.2 FUTURE PLANS AND PROSPECTS

As set out in IMP2, a key Government strategy for developing the electronics industry in Malaysia includes the nurturing of Malaysian owned 'world class and world scale producers and suppliers' for the global electronics industry. To achieve this, the Government anticipates that the next phase of development will be for Malaysia to take a larger share in the electronics cluster value chain and to develop indigenous MNCs in the electronics industry.

Towards its goal of becoming a world class and world scale producer and supplier for the electronics industry, the Group has adopted the two-fold strategies. Firstly, to become a 'one-stop' supplier for companies in the electronics industry and secondly, to be an integral part of the Government's strategy for developing the electronics industry i.e to become world scale producer and supplier in the future.

(a) Being a 'one-stop' supplier to MNCs in the electronics industry

Prior to 1997, the Group was primarily involved in the designing, converting, sourcing and supplying of a wide range of products to companies involved in the electronics industry. Since December 1997, the Group has added facilities to provide contract manufacturing services to its customers. With this, the Group is today well positioned both as a producer and supplier or a 'one-stop' supplier to its customers. The Group will continue to strengthen these activities through the following:

(i) *Integration of manufacturing facilities*

To take advantage of the increasing trend by MNCs to outsource their manufacturing process, the Group will continue to broaden its contract manufacturing capabilities. The successful relationship with MNCs has demonstrated the Group's ability to acquire and achieve the necessary standards and quality required by MNCs. With the new plant in Bukit Tengah, Penang, which includes clean room and controlled room facilities and SMT equipment, the Group will have integrated and inter-related manufacturing facilities capable of taking it to its next phase of growth. With these facilities, the Group can also service customers in other sub-sectors of the electronics industry such as PCs, audio products, telecommunications and etc.

(ii) *Design & Conversion*

The success of Design & Conversion is based on the Group's ability to maintain close communication with its customers and thereby being able to quickly identify and respond to the latter's needs. To provide its customers with better support and services, the Group has, in addition to Penang, since 1998 expanded its facilities to Kuala Lumpur and Johore Bahru to service customers in the regions where there exist a concentration of electronic companies. Through this strategic move, the Group is in a better position to further widen its customer base.

(iii) *Sales & Distribution*

The Group's goal is to position itself as a 'one-stop' supplier for all its MNC customers' indirect materials purchases. In order to provide better customer service, the Group currently has approximately 20 marketing managers and executives located throughout Peninsular Malaysia as well as a sales representative office in Philipines.

With an existing customer base of approximately 732, predominantly in the electronics industry, there exists numerous opportunities for cross-selling of products and services amongst the three business activities. The Group currently has several marketing teams to specifically identify and capitalise on such opportunities.

(b) To be an integral part of the Government's strategy for the electronics industry

Having been a player in the supporting sub-sectors of the electronics industry for more than a decade, the Directors believe that the Group is well positioned to be an integral part of the strategy by the Government to develop "home grown" world class and world scale producer and supplier for the electronics industry as outlined under IMP2. The cluster-based industrial development approach of IMP2 emphasises not only the growth of the manufacturing sector but also the concomitant growth of the supporting industries. As the electronics industry has grown, so has the supporting industries. This trend will accelerate with the Government's moves to encourage MNCs to increase their value-added activities in Malaysia and develop new industries such as wafer fabrication. More MNCs are moving to develop supporting industries as part of their vendor development programmes and to encourage the merger of companies in the supporting industry to form systems suppliers. This has created opportunities for cluster linkages.

Khazanah is a substantial shareholder of the Company. It is the investment holding arm of the Government entrusted to manage assets held by the Government and to undertake strategic investments particularly in high technology projects. Its corporate mission, inter alia, is to enhance the value of its investments and be a catalyst in the development of strategic and high-technology projects, especially in the semi-conductor and IT related businesses. The Directors view Khazanah's involvement in the Group as an endorsement of its efforts to be a key player in the supporting sub-sectors of the electronics industry. As such, the Group works closely with Khazanah towards achieving its goal of becoming a world class producer and supplier for the electronics industry.

The Directors are of the opinion that the long-term prospects for the Group are good for the following reasons:

(a) Strong growth in the electronics industry

The Group is already an established player in the supporting sub-sectors of the electronics industry. As such, it is well positioned to benefit from the expected strong growth in the electronics industry.

(b) Increased presence of MNCs in the Asia Pacific region

Over the past 20 years, an increasing number of MNCs has penetrated the Asia-Pacific region to take advantage of the lower costs of production and tax incentives. As the number of MNCs in Malaysia has grown, so has the Group's businesses. Today, the Group's customers are predominantly companies, including MNCs, in the electronics industry. The Directors believe that as existing and new MNCs continue to expand their presence in the Asia-Pacific region, the Group's business will continue to grow.

(c) Increased outsourcing by OEMs

OEMs are increasingly focusing on their core competencies of design and marketing, and outsourcing more of the manufacturing and service elements of their businesses. This increased outsourcing activities by OEMs gives the Group an opportunity to further broaden its customer base, and hence increase its sales revenues.

Spurred by intensifying competition, the need to reduce manufacturing costs and speed of production time to market, computer makers and other OEMs are increasingly outsourcing much of what they formerly produced internally; i.e from PCBs to motherboards and chassis. Profiting from this strategy is a class of companies whose fortunes and market reach have risen dramatically in recent years; i.e contract manufacturers.

(d) The Government's commitment to further develop the electronics industry

With the Government's commitment to further develop the electronics industry in Malaysia, the supporting sub-sectors of the electronics industry will also benefit in the long run. In this respect, the Group, being an established player in the supporting sub-sectors of the electronics industry, has and will continue to strategically position itself to be part of this effort.

(e) Versatile and committed management team

The committed management with necessary knowledge, technical expertise and experience is not only capable of managing the existing business of the group but also able to meet the future challenges arising from the future plans of the Group.