

# D'NONCE TECHNOLOGY BHD.

(503292-K)

Notes to the unaudited results of the Group for the third quarter ended 31 May 2008.

## 1 Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 August 2007. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 August 2007.

## 2 Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 August 2007 except for the adoption of the following new/revised Financial Reporting Standards ("FRS") effective for financial period beginning 1 September 2007:

FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 117	Leases
FRS 118	Revenue
Amendments to FRS 119 <sub>2004</sub>	Employees Benefits-Actuarial Gains and Losses, Group Plans and Disclosures
FRS 120	Accounting for Government Grants and Disclosures of Government Assistance
FRS 124	Related Party Disclosures
Amendments to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

FRS 6, FRS 111, FRS 120 are not relevant to the Group's operations and the adoption of FRS 107, FRS 112, FRS 118, Amendment to FRS 119<sub>2004</sub>, FRS 124, Amendments to FRS 121, FRS 134 and FRS 137 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of FRS 117 are discussed below:

### FRS 117 : Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold land. The upfront payments made for the leasehold land represents prepaid lease payments and are amortised on a straight line basis over the lease term. A lease of land and building is apportioned into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prior to 1<sup>st</sup> September 2007, leasehold land was classified as property, plant equipment and investment properties and was stated at cost less accumulated depreciation and impairment losses.

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The following comparative amounts have been restated due to the adoption of revised FRS:

	Previously stated	Effect of adoption of FRS 117	As restated
	(RM'000)	(RM'000)	(RM'000)
<b>Balance Sheet as at 31 August 2007</b>			
Property, Plant and Equipment	38,309	(1,086)	37,223
Investment properties	6,973	(1,013)	5,960
Prepaid land lease payment	-	2,099	2,099

### **3 Audit Report of the Preceding Annual Financial Statements**

The audit report of the Group's annual financial statements for the year ended 31 August 2007 was not subjected to any qualification.

### **4 Seasonality and Cyclical Operations**

The Group is subjected to the cyclical effects of the electronic industry as a result of the volatility of demand.

### **5 Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flow that are Unusual Because of Their Nature, Size or Incidence.**

There were no items affecting assets, liabilities, equity, net income or cash flow that are unusual because of their nature, size or incidence for the current quarter and financial year to date.

### **6 Material Changes in Accounting Estimates**

There were no changes in accounting estimates of amounts reported in prior interim periods or the current financial period or changes in estimates of amounts reported in prior financial years.

### **7 Issuances, Cancellations, Repurchases, Resale and Repayments of Debt and Equity Securities**

There were no issuances or repayment of debt and equity securities, share buy-back, share cancellations, shares held as treasury shares or resale of treasury shares for the current financial period.

### **8 Dividend Paid**

No dividend was paid during the financial year to date.

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**9 Segmental Reporting**

The Group's segmental analysis is as follows:

<b>9 months period ended 31 May 2008</b>	<b>Integrated Supply Chain Products And Services</b>	<b>Contract Manufacturing Services</b>	<b>Supply of Packaging Materials</b>	<b>Eliminations</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>REVENUE</b>					
External revenue	30,254	18,964	71,720	-	120,938
Inter-segment revenue	56	235	13,343	(13,634)	-
<b>Total segment revenue</b>	<b>30,310</b>	<b>19,199</b>	<b>85,063</b>	<b>(13,634)</b>	<b>120,938</b>
<b>RESULTS</b>					
<b>Segment results</b>	<b>(16)</b>	<b>993</b>	<b>1,261</b>	<b>-</b>	<b>2,238</b>
Unallocated corporate expenses					(1,263)
Operating profit					975
Finance costs, net					(1,570)
Loss before taxation					(595)
Taxation					(335)
Loss after taxation					(930)
<b>9 months period ended 31 May 2007</b>	<b>Integrated Supply Chain Products And Services</b>	<b>Contract Manufacturing Services</b>	<b>Supply of Packaging Materials</b>	<b>Eliminations</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>REVENUE</b>					
External revenue	46,704	15,877	58,561	-	121,142
Inter-segment revenue	1,668	1,137	10,937	(13,742)	-
<b>Total segment revenue</b>	<b>48,372</b>	<b>17,014</b>	<b>69,498</b>	<b>(13,742)</b>	<b>121,142</b>
<b>RESULTS</b>					
<b>Segment results</b>	<b>1,237</b>	<b>1,510</b>	<b>(743)</b>	<b>-</b>	<b>2,004</b>
Unallocated corporate expenses					(1,518)
Operating profit					486
Finance costs, net					(1,121)
Loss before taxation					(635)
Taxation					(532)
Loss after taxation					(1,167)

**10 Valuation of Property, Plant and Equipment**

The valuations of the property, plant and equipment have been brought forward without any amendments from the previous audited financial statement.

**11 Subsequent Material Events**

There were no material events that have been taken place subsequent to the Balance Sheet date.

**12 Changes in the Composition of the Group**

There were no changes in the composition of the Group during the current quarter.

**13 Changes in Contingent Liabilities and Assets**

The Company provided corporate guarantees amounting to RM20,151,000 for the banking facilities granted to certain subsidiary companies.

**14 Capital Commitment**

The were no capital commitment of the Group during the current quarter.

**15 Review of Performance of the Group**

Revenue for current quarter is RM1.4 million lower than the same quarter of the preceding year due to softer demand from our key customer arising from stiff market competition. Current quarter result registered a loss before taxation of RM859,000 as compared to loss before taxation of RM2.8 million in the same quarter of the preceding year. The high variance was mainly attributed to high losses of a Thai subsidiary due to product quality issues and inventory write off in a Malaysian subsidiary in the same quarter of the preceding year.

**16 Material Changes in Profit Before Taxation Against Preceding Quarter**

Current quarter revenue is 2% lower than the immediate preceding quarter. The Group result for current quarter is RM223,000 lower than the immediately preceding quarter. Despite lower revenue as compared to the immediate preceding quarter, current quarter operating expenses is RM435,000 lower than the immediate preceding quarter that attributed to better overall performance.

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**17 Prospects**

Despite the challenging years that the Group has experienced, the Group is proactively improving on the costs and processes and focusing on high margin products. The rising cost in raw materials and the impact of the increased utility and fuel costs has continued to erode the Group's margin despite the cost management measures that the Group has undertaken. However, to overcome this position, the Group is actively pursuing to explore other new businesses with higher margin and penetrate into new market to increase the earnings base such as further expansion in the manufacturing sector in Thailand and the various trading, manufacturing and retail activities with Indonesia.

Barring unforeseen circumstances, the management is of the opinion that the business outlook, although challenging in the coming years, would still provide the Group with various opportunities for growth.

**18 Profit Forecast and Profit Guarantee**

Not applicable.

**19 Taxation**

	Current Quarter		Cumulative Quarter	
	31 May 2008 RM'000	31 May 2007 RM'000	31 May 2008 RM'000	31 May 2007 RM'000
Income tax:				
Current period	84	129	317	478
Under provision in prior year	-	-	-	3
Deferred tax:				
Current period	16	(35)	(9)	(35)
Provision no longer required	(55)	-	(42)	86
Withholding tax:				
Current period	69	-	69	-
<b>Total tax expenses</b>	<b>114</b>	<b>94</b>	<b>335</b>	<b>532</b>

The effective taxation rate is higher than statutory taxation rate primarily due to the losses of certain subsidiaries that cannot be off set against taxable profit made by other subsidiaries.

**20 Sales of Un-quoted Investments and/or Properties**

There were no sales of un-quoted investments and/or properties for the current quarter and financial year to date.

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**21 Quoted Investments**

- (a) There were no purchases or disposal of quoted securities for the current quarter and financial year to date and;
- (b) The Company had no investment in quoted securities as at the end of this reporting period.

**22 Corporate Proposal**

**22(a) Status of Corporate Proposals**

There were no corporate proposals announced but not yet completed as at the date of this report except as follows:-

- Employees' Share Option Scheme (ESOS)

<b>ESOS</b>	<b>First Tranche</b>	<b>Second Tranche</b>	<b>Total</b>
Grant Date	20 Nov 2003	16 March 2004	
Expiry Date	26 May 2013	26 May 2013	
As at 1 Sep 2007	2,169,000	177,000	2,346,000
Granted	-	-	-
Exercised	-	-	-
Foregone	1,041,000	88,000	1,129,000
As at 31 May 2008	1,128,000	89,000	1,217,000
Option price per Ordinary Share (RM)	1.00	1.34	

**22(b) Status of Utilization of Proceeds from the ESOS**

There were no proceeds during the current financial period.

**23 Group Borrowings and Debt Securities**

The Group Borrowings as at the end of the reporting period comprised secured term loan, bank overdrafts, bills payable and hire purchases denominated in Ringgit Malaysia payable in the following manner:-

	<b>As At 31 May 2008 RM'000</b>	<b>As At 31 Aug 2007 RM'000</b>
<b>Secured:</b>		
Short Term	15,476	14,907
Long Term	12,233	12,737
<b>Total</b>	<b>27,709</b>	<b>27,644</b>
<b>Unsecured:</b>		
Short Term	-	-
Long Term	5	5
<b>Total</b>	<b>5</b>	<b>5</b>
<b>Grand Total</b>	<b>27,714</b>	<b>27,649</b>

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**24 Off Balance Sheet Financial Instrument**

As at 22 July 2008, the foreign exchange contracts that have been entered into by the Group to hedge its trade receivables and payables are as follows:-

<b>Financial Instruments (Matured Within 6 months)</b>	<b>Contract Amount (USD'000)</b>	<b>Equivalent Amount (RM'000)</b>
Foreign Exchange Contract	767	2,384

The instrument above is viewed as a risk management tool by the Group and is not used for trading and speculative purposes. The gain and losses on foreign exchange contracts are recognized in the income statements upon realization.

**25 Material Litigation**

The Group is not engaged in any material litigation as at 22 July 2008 except for the following:-

Mr. Goh Hong Lim (“GHL”), the ex Managing Director of D’nonce Technology Bhd (“DTB”) filed an industrial claim through the Industrial Court Case No. 9/4-2896/2006 seeking monetary compensation due to wrongful termination. GHL’s position in DTB ceased due to his non re-election to the Board of Directors of DTB. The estimated claim is about RM577,296 if the Industrial Court rules in favor of GHL, which is 24 months of his last drawn salary. DTB’s legal advisers have advised that there is a likelihood that GHL’s claim may not succeed.

No provision has been made by the directors of D’nonce for any further liabilities that may arise relating to the above claim.

**26 Dividend**

The Directors will not be recommending any dividend for the current financial period.

**27 Earnings Per Share**

<b>Basic</b>	<b>Current Quarter</b>		<b>Cumulative Quarter</b>	
	<b>31 May 2008</b>	<b>31 May 2007</b>	<b>31 May 2008</b>	<b>31 May 2007</b>
Loss attributable to ordinary equity holders of the parent (RM'000)	(853)	(2,849)	(1,464)	(2,155)
Weighted average number of ordinary shares in issue ('000)	45,101	45,101	45,101	45,101
<b>Basic loss per share (sen)</b>	<b>(1.89)</b>	<b>(6.32)</b>	<b>(3.25)</b>	<b>(4.78)</b>

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	Current Quarter		Cumulative Quarter	
	31 May 2008	31 May 2007	31 May 2008	31 May 2007
<b>Diluted</b>				
Loss attributable to ordinary equity holders of the parent (RM'000)	(853)	(2,849)	(1,464)	(2,155)
Weighted average number of ordinary shares in issue ('000)	45,101	45,101	45,101	45,101
Effect of dilution : share options ('000)	-	-	-	-
<b>Adjusted weighted average number of ordinary shares in issue and issuable('000)</b>	<b>45,101</b>	<b>45,101</b>	<b>45,101</b>	<b>45,101</b>
<b>Diluted loss per share (sen)</b>	<b>(1.89)</b>	<b>(6.32)</b>	<b>(3.25)</b>	<b>(4.78)</b>

**27 Authorisation For Issue**

The Board of Directors authorised the issue of this unaudited interim financial statements on 28 July 2008.

By Order of the Board  
**Gunn Chit Geok**  
**Yeap Kok Leong**  
 Company Secretaries  
 28 July 2008  
 Pulau Pinang