

RESPONSES AND CLARIFICATIONS TO QUESTIONS RECEIVED FOR THE FIFTH ANNUAL GENERAL MEETING

Operational & Financial Matters

- 1) In response to higher raw material prices, the Group had increased its selling prices in 3QFY22 in order to preserve profit margins (page 14 of AR2022). Despite the increase in selling prices, the Group's profit margins have been trending lower (as reported in 4QFY22 and 1QFY23).

- a) Please explain your views on the impact of raw material prices (as well as other key costs and expenses) on profit margins and balancing between selling price increases and profit margins. What is your strategy for improving profit margins and when do you expect a recovery?

A: Solvent a by-product of petroleum is a major raw material used in our products. The solvent price is subject to fluctuation of the crude oil prices. The weakening Ringgit against other global currencies has caused an increase in the packaging costs also. With the prolong of Russia-Ukraine war at this juncture and global supply chain disruption, the raw material prices and other key costs will maintain high in the near future. We did experience increases in freight costs in 2022 financial year ended 31 May 2022. However, the freight costs have stabilised lately partly due to worldwide demand for seas transportation.

Some of the expenses have also increased due to employment of professionals to strengthen our marketing and factory management team. This form parts of our Company succession planning with the aim to improve our core team capabilities and to prepare for expanding into overseas markets more dynamically in the future.

Though we wish to increase our products selling price whenever the cost increased, we have to strike a balance between preserving our profit margin and the possibility in losing market share especially during this economic downturn period.

With the reopening of the border and intensified travel is resuming, we shall intensify our overseas marketing and branding efforts to promote our OBM products to overseas customers. Our OBM products are considered relatively cheap when we are selling in overseas markets after taking into account the weakening Ringgit against other currency which gives us some rooms to increase our OBM products selling price. We are also in the midst of developing new niche products to improve our Company profit margin in the future. It is rather difficult to forecast when a full recovery will take place exactly as the global economic growth is foreseen to face slowdown.

- b) Do you expect raw material price increases to moderate or stabilize goin forward? Please give us your outlook for the raw material market conditions.

A: Our Group foresees that the cost **will** remain high in the foreseeable future mainly due to high solvent prices and the weakened Ringgit Malaysia.

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Operational & Financial Matters (Cont'd)

- c) What is the current average selling price (ASP) and cost per can of your aerosol spray paints, and how much have they changed since 3QFY22?

A: We are unable to disclose the ASP and cost per can of our aerosol spray paints as there is a risk of losing competitive advantage.

We have quite a range of standard and premium products, so it is difficult for us to provide a general ASP. A rough estimate of the ASP would be between 7-8 ringgit per can.

- d) How do your ASPs compare to that of your competitors and what are your competitive pricing strategies?

A: Our prices are similar to our closest competitors in the local market. However, there are lots of cheaper and inferior products produced by other competitors but we do not venture into that sector as our products are considered a premium product.

- 2) The Group expects to commission the operation of its new factory by the end of 2022, subject to the final approval of the local authority (page 18 of AR2022).

- a) What is the current status of the new factory? Is the factory still expected to commence operations by end-2022? If not, what is the targeted date of commencement?

A: The new factory is completed but is pending the final approval and certification by the local authorities. The targeted date of commencement will probably be within third quarter (Dec'2022 to Feb'2023) of FYE 31.5.2023.

- b) What is the Group's current production capacity and utilisation rate? What is the capacity of the new factory? How much additional capacity will come from the ongoing upgrades of existing aerosol filling lines?

A: Right now our full production capacity is at 10 million cans. We are currently at 65% due to the current market conditions. Full volume is not attainable as we have a high mix of different product specifications and colors. With the addition of 2 new automated lines we are expecting the production capacity to increase by 30% to 50%. These lines are expected to improve efficiency and reduce labor required. Some of the old production lines are also going to be reconfigured to produce new products not in the current range.

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Operational & Financial Matters (Cont'd)

- c) How much of the new capacity will be taken up in the short-term? Are there already pre-committed buyers? When do you expect the new factory to run at full capacity and where will demand come from?

A: We have pending discussions with some MNC brand owners as the world reopens, we need to get ourself prepared for the new opportunities. Besides that, there is a big shift in the supply chain from China so we believe there are opportunities from reopening of aviation and some industry sector products.

- d) Will the new capacity be catered more towards OEM products (which generally generates lower profit margins) or your high margin OBM products? How will this affect profitability? What is your long term OBM/OEM mix target?

A: The new capacity will cater more towards OBM products where our long term OBM/OEM mix target is skewed towards 65% OBM and 35% OEM. Generally, there is no significant disparity in term of profit margin in between OBM and OEM segment. This is because OEM business is operated under the cost-plus model where we earn a fixed percentage of profit margin without incur any marketing, advertising and promotion cost.

The general impression given to our shareholders and investors is that, our OBM products will generate higher profit margin. However, factually this may not be true. After taking into consideration additional advertising and promotion cost to promote our OBM products, the ultimate profit margin is almost the same as selling our OEM products to our overseas private label customers.

- e) What was the Group's annual sales volume (in terms of number of cans of aerosol products) in the past five financial years. What is your sales volume target for FY23?

A: The annual sales volume (measured by cans) in the past five financial years ranged from 4.5 million cans to 7.4 million cans per year. Given the current less inspiring global economy outlook, we forecast the financial year 2023 sales volume to remain the same as financial year 2022 sales volume of approximately 5 million cans. Nevertheless, we are increasing production and having more engagements with our aerosol products local end users.

This can be achieved by having various promotional and brand awareness activities and to secure more overseas potential new customers to cushion further slide during this economic downturn.

- f) What is the breakdown in sales volume in terms of end-markets segments (automotive, industrial and consumer). Please give us your outlook on the market conditions for each segment.

A: We do not have the data because we sell to our distributors mainly from hardware shops. Our distributors then sell our products to a diversified end market segment or end users.

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FIFTH ANNUAL GENERAL MEETING (CONT'D)**

Operational & Financial Matters (Cont'd)

- g) What are your plans for the unutilised balance of IPO proceeds for capital expenditure and expansion?

A: The unutilised balance of IPO proceeds will be planned for activities below:-
- Marketing and branding
- Merger and acquisition activities, which can improve our overall business capabilities in terms of new product development or distribution channels.

- 3) On 30 September 2022, DPI Holdings entered a Memorandum of Understanding with the intention to acquire 90% equity interest in Zeus Chemical Products Pty Ltd to form a strategic collaboration to invest in the aerosol business in Australia.

Please shed some light on this acquisition including the estimated acquisition cost and valuation, sales and profitability, and potential earnings contribution to the Group.

A: Subject to due diligence to be conducted in Zeus, the tentative purchase consideration for the 90% equity interest in Zeus, including all the assets and stocks, equipment and tools owned by Zeus that are used in, or necessary for the conduct of its business activities, is around AUD4.5 million.

- 4) A strong competitor to your OBM aerosol products is a Malaysia-based company listed on the Singapore Exchange. This company's digital presence including online sales channels (e.g. Shopee) and social media (e.g. Facebook), appears to be significantly more dominant than that of DPI Holdings. This competitor also has seen notable sales growth in Indonesia where its products target the 2-wheelers segment.

What are the Group's strategies and challenges faced in bridging the gap between this competitor?

A: This is an area that we have been stepping up. This Competitor has started its marketing strategies much earlier before our listing exercise. After listing in 2019, our marketing strategies hindered and hampered by the 2020-2022 Covid-19 pandemic. Nevertheless, after the opening of the borders, we have been progressively active in both online and offline initiatives locally, at the same time actively engaging with end user groups and putting our presence on more digital platforms. We are also re-looking into potential overseas opportunities in ASEAN to establish strategic partnerships.

DPI HOLDINGS BERHAD

Registration No.: 201701035607 (1249778-M)

Fifth Annual General Meeting held on 15 November 2022

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Operational & Financial Matters (Cont'd)

- 5) Our Group is exposed to currency risk arising from transactions that are denominated in foreign currency, primarily SGD, USD and JPY (page 18 of AR2022).

What percentage of the Group's revenue and cost of sales are denominated in SGD, USD and JPY?
Given the strong movements in those currencies, how will profitability be impacted?

A: The sales or revenue denominated in SGD and USD represents 3.4% and 18.8% respectively.

Whereas the Cost of Sales denominated in SGD, USD and JPY represents 2.6%, 2.8% and 16.9% respectively.

The strong movement does not give much negative impact on the group profitability as our purchases are mostly sourced from local suppliers.

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Corporate Governance Matters

- 1) Practice 1.3 of the Malaysian Code on Corporate Governance 2021 advocates a separation of the positions of the chairman and MD in order to promote accountability and facilitate the division of responsibilities between them. A chairman leads the board in overseeing the management team, including deciding on the appointment, compensation and replacement of MD, while the MD focuses on the business and day-to-day management of the company. As such, a separation of the roles of the chairman and the MD increases the board's independence from management and thus leads to better monitoring and oversight.

What measures have been put in place to ensure the independence of the board in overseeing the management team especially since the chairman who leads the board is also the MD of the Company?

- A:** Our Board has taken the following appropriate measures and practices to meet and adhere the objectives of the MCCG as close as possible:
- i. Our Board comprises a majority of Independent Directors. This will facilitate greater objectivity to the oversight function of our Board and curtail the executive power within the Board;
 - ii. Datuk Seri Nurmala Binti Abd. Rahim is appointed as the Senior Independent Non-Executive Director of our Board:
 - She serves as a sounding board to our Executive Chairman and will lead the performance evaluation of our Executive Chairman;
 - Her appointment is meant to diminish any concentration of powers vested in our Executive Chairman;
 - She is the Chairman of the Board Nomination Committee and a Member of the Board Remuneration Committee. This will ensure there are checks and balances in the areas of, amongst others, performance evaluation, executive remuneration, succession planning and appointment of new directors.
 - iii. The terms of reference of the Executive Chairman, Managing Director and Senior Independent Non-Executive Director have been established to clearly set out the respective functions and demarcate the roles and boundaries of these positions in our Board Charter.