



DANCOMECH HOLDINGS BERHAD (1050285-U)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SECOND QUARTER ENDED 30 JUNE 2019

20 August 2019

Dancomech Holdings Berhad
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DANCOMECH HOLDINGS BERHAD (1050285-U)
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SECOND QUARTER ENDED 30 JUNE 2019**

(These figures have not been audited)

RM'000	Note	Current quarter 3 months ended		Cumulative quarter 6 months ended	
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
Revenue	A7	19,630	19,860	45,712	37,655
Cost of sales		(12,994)	(13,378)	(30,357)	(25,025)
Gross profit		6,636	6,482	15,355	12,630
Other income		1,030	804	1,515	1,253
Selling and distribution expenses		(203)	(234)	(578)	(393)
Administration expenses		(2,239)	(1,889)	(4,583)	(3,834)
Other expenses		(152)	(240)	(639)	(730)
Finance costs		(5)	(3)	(6)	(6)
Profit before tax	B13	5,067	4,920	11,064	8,920
Tax expense	B5	(1,185)	(1,112)	(2,657)	(2,073)
Profit for the period		3,882	3,808	8,407	6,847
Other comprehensive income		-	-	-	-
Total comprehensive income		3,882	3,808	8,407	6,847
Profit attributable to:					
Owners of the Company		3,757	3,679	7,614	6,681
Non-controlling interests		125	129	793	166
Profit for the period		3,882	3,808	8,407	6,847
Total comprehensive income attributable to:					
Owners of the Company		3,757	3,679	7,614	6,681
Non-controlling interests		125	129	793	166
Total comprehensive income		3,882	3,808	8,407	6,847
Earnings per share attributable to owners of the Company:					
Basic (sen)	B10	1.2	1.2	2.5	2.2
Diluted (sen)	B10	1.0	1.1	2.1	2.0

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

DANCOMECH HOLDINGS BERHAD (1050285-U)
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

RM'000	Note	As at 30.06.2019	As at 31.12.2018
		Unaudited	Audited
Assets			
Property, plant and equipment		30,963	30,958
Investment property		1,096	1,107
Deferred tax assets		187	187
Non-current assets		32,246	32,252
Inventories		25,139	28,217
Trade and other receivables		22,717	25,521
Tax recoverable		135	226
Cash and cash equivalents		56,632	49,188
Current assets		104,623	103,152
Total assets		136,869	135,404
Equity and liabilities			
Share capital		68,834	67,034
Merger deficit		(41,477)	(41,477)
Other reserves		(9)	(9)
Retained earnings		96,863	92,289
Equity attributable to owners of the Company		124,211	117,837
Non-controlling interests		2,571	1,778
Total equity		126,782	119,615
Borrowings (secured)	B7	976	1,210
Deferred tax liabilities		101	101
Non-current liabilities		1,077	1,311
Trade and other payables		6,502	12,398
Borrowings (secured)	B7	726	725
Tax liabilities		1,782	1,355
Current liabilities		9,010	14,478
Total liabilities		10,087	15,789
Total equity and liabilities		136,869	135,404
Net assets per share attributable to owners of the Company (RM)		0.41	0.40

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

DANCOMECH HOLDINGS BERHAD (1050285-U)
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SECOND QUARTER ENDED 30 JUNE 2019**

(These figures have not been audited)

RM'000	Attributable to Owners of the Company						Non-controlling interests	Total equity
	Share capital	Merger deficit	Other reserves	Retained earnings	Total	Non-controlling interests		
At 1 January 2019	67,034	(41,477)	(9)	92,289	117,837	1,778	119,615	
Total comprehensive income	-	-	-	7,614	7,614	793	8,407	
Issuance of shares	1,800	-	-	-	1,800	-	1,800	
Dividend	-	-	-	(3,040)	(3,040)	-	(3,040)	
At 30 June 2019	68,834	(41,477)	(9)	96,863	124,211	2,571	126,782	
At 1 January 2018	67,034	(41,477)	(9)	82,057	107,605	1,510	109,115	
Total comprehensive income	-	-	-	6,681	6,681	166	6,847	
Dividend	-	-	-	(2,235)	(2,235)	-	(2,235)	
At 30 June 2018	67,034	(41,477)	(9)	86,503	112,051	1,676	113,727	

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

DANCOMECH HOLDINGS BERHAD (1050285-U)
(Incorporated in Malaysia)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SECOND QUARTER ENDED 30 JUNE 2019
(These figures have not been audited)

RM'000	6 months ended	
	30.06.2019	30.06.2018
Operating activities		
Profit before tax	11,064	8,920
Adjustments for:		
Non-cash items	607	473
Non-operating items	(17)	-
Interest income	(859)	(639)
Interest expense	6	6
Operating profit before working capital changes	10,801	8,760
Changes in working capital:		
Inventories	3,078	485
Receivables	2,792	(3,959)
Payables	(5,925)	(367)
Cash generated from operations	10,746	4,919
Tax paid	(2,139)	(1,826)
Net cash from operating activities	8,607	3,093
Investing activities		
Interest received	859	639
Placement of fixed deposits	(9,328)	(383)
Purchase of property, plant and equipment	(537)	(195)
Proceeds from disposal of property, plant and equipment	17	-
Net cash (used in)/from investing activities	(8,989)	61
Financing activities		
Dividend paid	(3,040)	(2,235)
Interest paid	(6)	(6)
Proceeds from issuance of shares	1,800	-
Placement of pledged fixed deposits	(23)	(22)
Repayment of borrowings	(233)	(360)
Net cash used in financing activities	(1,502)	(2,623)
Net changes in cash and cash equivalents	(1,884)	531
Translation differences	(23)	(38)
Cash and cash equivalents at the beginning of financial period	30,379	21,216
Cash and cash equivalents at the end of financial period	28,472	21,709
Analysis of cash and cash equivalents		
Fixed deposits with licensed banks	30,812	28,797
Cash and bank balances	25,820	21,081
	56,632	49,878
Less: Fixed deposits pledged to licensed bank	(1,970)	(1,904)
Less: Fixed deposits as investing purposes	(26,190)	(26,265)
	28,472	21,709

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these interim financial statements.

DANCOMECH HOLDINGS BERHAD (1050285-U)
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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1 Basis of Preparation

These unaudited interim financial statements have been prepared in accordance with MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the audited financial statements of the Company for the financial year ended 31 December 2018.

The accounting policies adopted by the Group in these interim financial statements are consistent with those adopted in the audited financial statements of the Company for the financial year ended 31 December 2018 except for the adoption of the following new MFRS, Amendments to MFRS and IC Interpretations that are mandatory for annual financial periods beginning on or after 1 January 2019:

MFRS 16, Leases
IC Interpretations 23, Uncertainty over Income Tax Treatments
Amendments to MFRS 128, Long-term Interests in Associates and Joint Ventures
Amendments to MFRS 9, Prepayment Features with Negative Compensation
Amendments to MFRS 3, Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)
Amendments to MFRS 11, Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)
Amendments to MFRS 112, Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
Amendments to MFRS 123, Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)
Amendments to MFRS 119, Employee Benefits (Plan Amendment, Curtailment or Settlement)

The adoption of the above MFRS, Amendments and IC Interpretations does not have any material impact on the financial statements of the Group.

A2 Seasonality or Cyclicity of Operations

The business operations of the Group were not materially affected by any seasonal or cyclical factor during the current quarter under review.

A3 Unusual Items due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter under review.

A4 Significant Estimates and Changes in Estimates

There were no changes in estimates that had any material effects during the current quarter under review.

A5 Debt and Equity Securities

Save for the issuance and listing of 6,000,000 new ordinary shares on 16 May 2019 arising from the exercise of 6,000,000 warrants by a shareholder, there were no other issuances, repurchases or repayments of debt and equity securities by the Company during the current quarter under review.

A6 Dividend Paid

The following dividends were paid during the current and previous corresponding financial quarter ended:

Final dividend	30.06.2019	30.06.2018
For the financial year ended	31 December 2018	31 December 2017
Date of shareholders' approval	29 May 2019	25 April 2018
Date of payment	24 June 2019	11 May 2018
Number of ordinary shares on which dividends were paid	304,005,000	298,005,000
Dividend per share (single-tier)	1.00 sen	0.75 sen
Net dividend paid (RM)	3,040,050	2,235,037

A7 Segmental Information

The Group is principally involved in (i) the trading and distribution of process control equipment and measurement instruments; (ii) manufacturing of all types of industrial machinery; and (iii) provision of material handling system solutions. The Group did not prepare any segmental information by principal activity as the Group's revenue was mainly derived from the trading and distribution of process control equipment and measurement instruments (more than 90% revenue contribution for the financial years ended 31 December 2017 and 31 December 2018).

Geographical information on the Group's non-current assets is not presented as its operations are wholly located in Malaysia.

Geographical information on the Group's revenue is as follows:

RM'000	3 months ended			6 months ended		
	30.06.2019	30.06.2018	Changes	30.06.2019	30.06.2018	Changes
Malaysia	17,159	14,946	2,213	32,271	28,585	3,686
Indonesia	2,475	3,768	(1,293)	7,150	7,446	(296)
Others	(4)	1,146	(1,150)	6,291	1,624	4,667
Total	19,630	19,860	(230)	45,712	37,655	8,057

A8 Related Party Disclosures

Related party transactions of the Group are as follows:

RM'000	3 months ended		6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Companies in which certain Directors of the Company have interests:				
Sales of goods	80	1	119	2
Companies in which certain Directors of the subsidiaries of the Company have interests:				
Sales of goods	-	-	5,746	-
Purchase of goods	-	-	3,859	-

All related party transactions had been entered into in the ordinary course of business and were carried out on normal commercial terms.

A9 Valuation of Property, Plant and Equipment

There were no valuations on property, plant and equipment during the current quarter under review.

A10 Capital Commitments

There were no material capital commitments in respect of property, plant and equipment as at the end of the current quarter under review.

A11 Contingent Assets and Liabilities

There were no changes in contingent liabilities and contingent assets since the end of last financial year other than those disclosed as follows:

Contingent liability RM'000	As at 30.06.2019
Arbitration claim by a building contractor against a subsidiary	428

A12 Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter under review. Nevertheless, the Company had, on 25 July 2019, incorporated a new subsidiary, Mechpump Sdn Bhd, in which the Company holds 300,000 ordinary shares (equivalent to 60% equity interest).

A13 Material Events Subsequent to the End of the Current Quarter

There were no material events subsequent to the end of the current quarter under review.

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**PART B: EXPLANATORY NOTES PURSUANT TO THE MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B1 Performance Review - Comparison with Preceding Year Corresponding Quarter

RM'000	3 months ended		6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Revenue	19,630	19,860	45,712	37,655
Profit before tax	5,067	4,920	11,064	8,920

The Group recorded a marginal decrease in revenue of 1.2% from RM19.86 million in the corresponding quarter of the preceding year to RM19.63 in the current quarter under review, which was mainly due to the lower demand for our products from the water industry. Notwithstanding the marginal decrease in revenue, the Group recorded a marginally higher profit before tax in the current quarter under review (i.e. increased by 3.0% from RM4.92 million in the corresponding quarter of the preceding year to RM5.07 million in the current quarter under review). The marginal increase in profit before tax was mainly due to the higher gross profit margin recorded by the Group (Current quarter: 33.8%; Corresponding quarter: 32.6%) and higher interest income, partly offset by the increase in staff salaries and the consolidation of the expenses of our 55%-owned subsidiary, Arah Edar (M) Sdn Bhd ("Arah Edar"), which was acquired on 18 July 2018.

The Group recorded an increase in revenue of 21.4% from RM37.65 million in the corresponding six (6) - month period of the preceding year to RM45.71 million in the six (6) - month period of the current year. The increase in revenue was mainly due to the revenue contribution from Arah Edar and higher sales to the water industry and palm oil/oleochemicals industry. Arising mainly from the increase in revenue, the Group recorded higher profit before tax in the six (6) - month period of the current year vis-a-vis that of the corresponding six (6) - month period of the preceding year (an increase of RM2.14 million, equivalent to 24.0%).

B2 Comparison with Immediate Preceding Quarter

RM'000	3 months ended		Changes
	30.06.2019	31.03.2019	
Revenue	19,630	26,082	(6,452)
Profit before tax	5,067	5,997	(930)

The Group recorded a 24.7% decrease in revenue in the current quarter under review vis-à-vis the immediate preceding quarter mainly due to the revenue contribution from Arah Edar of RM5.75 million arising from the sales of its products for a project in Indonesia in the immediate preceding quarter. The delivery for the project has since been completed. In line with the decrease in revenue, the Group's profit before tax decreased by 15.5% in the current quarter under review vis-a-vis the immediate preceding quarter.

B3 Commentary on Prospects

Despite the challenging business environment, the Group has recorded growth of 21.4% and 24.0% in revenue and profit before tax respectively for the six (6) - month period ended 30 June 2019. In this regard, the Group will continue to (i) strive to increase our market share in the domestic and overseas markets, especially Indonesia; (ii) seek and explore acquisition and collaboration opportunities; and (iii) focus on further improving our operational efficiency, for the remaining period of the financial year ending 31 December 2019.

Premised on the above and barring any unforeseen circumstances, the Group is cautiously positive of our prospects and performance for the financial year ending 31 December 2019.

B4 Profit Forecast

Not applicable.

B5 Tax Expense

RM'000	3 months ended		6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Income tax	1,185	1,112	2,657	2,073
Total tax expense	1,185	1,112	2,657	2,073

Income tax is calculated at the statutory tax rate of 24% of the estimated assessable profit for the period.

B6 Status of Corporate Proposals and Utilisation of Proceeds

As at the date of this report:

- (i) There are no corporate proposals announced but not completed by the Company; and
- (ii) The proceeds from the initial public offering of the Company on 21 July 2016 have been fully utilised.

B7 Borrowings (secured)

RM'000	As at	As at
	30.06.2019	31.12.2018
Hire purchases	84	24
Term loans	892	1,186
Long term borrowings	976	1,210
Hire purchases	138	137
Term loans	588	588
Short term borrowings	726	725
Total borrowings	1,702	1,935

All borrowings are denominated in Ringgit Malaysia. Overall, the decrease in the borrowings of RM0.2 million was mainly due to the repayment instalments of the borrowings.

The weighted average interest rate of the hire purchases based on fixed interest rate is approximately 1.88%. No interest was incurred for the term loan which is under flexi loan arrangement.

B8 Changes in Material Litigation

On 20 May 2014, SGV Builders Sdn Bhd ("SGV") initiated arbitration proceedings against a wholly owned subsidiary of the Company, Dancomech Engineering Sdn Bhd ("DESB"), for non-payment of RM741,808.05 pursuant to the construction of the Group's head office at Lot 19, Jalan Pelukis U1/46, Seksyen U1, 40150 Shah Alam, Selangor Darul Ehsan. The non-payment by DESB was due to the alleged failure of SGV in completing the construction project within the stipulated timeframe as per the terms and conditions of the contract between DESB and SGV dated 18 May 2012. SGV subsequently amended its points of claim by, among others, increasing the amount claimed for loss and expenses incurred and disregarding the retention sum held by SGV. As a result, the total amount claimed by SGV under this arbitration proceedings increased to RM1,401,169.95 ("SGV's Amended Claim").

On 6 June 2014, DESB served a reply to the Notice of Arbitration and filed a counter-claim against SGV for a sum of RM461,000.00 ("Counter Claim"). The hearing for this matter commenced on 26 April 2016 and 27 April 2016 and, since then, numerous hearing sessions have been held. The next hearing dates have been fixed for 21, 22, 23, 29, 30, and 31 October 2019. DESB's solicitors are of the view that DESB has a 50:50 chance in defending the SGV's Amended Claim and succeeding in the Counter Claim.

In addition to the aforesaid arbitration proceedings, on 22 September 2015, SGV initiated an adjudication proceedings against DESB on substantially the same subject matter set out in the arbitration proceedings above. On 24 February 2016, the adjudicator has awarded SGV ("Adjudication Award") among others, RM919,308.05 ("Adjudication Amount") which forms part of SGV's Amended Claim. DESB has complied with the Adjudication Award which includes payment of the Adjudicated Amount plus interest and costs to SGV.

The outcome of the arbitration proceedings will prevail over the Adjudication Award, and will be the final award for the matter.

Save as disclosed above, there were no other material litigations against the Group as at the date of this report.

B9 Proposed Dividend

On 20 August 2019, the Board has declared and approved the payment of an interim single-tier dividend of 0.75 sen per ordinary share in respect of the financial year ending 31 December 2019. The interim dividend will be paid on 25 September 2019 to shareholders registered in the Record of Depositors as at 5 September 2019.

B10 Earnings per Share ("EPS")

	3 months ended		6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Profit attributable to owners of the Company (RM'000)	3,757	3,679	7,614	6,681
Weighted average number of ordinary shares in issue ('000)	301,038	298,005	299,530	298,005
Effect of warrants outstanding ('000)	72,846	35,099	67,919	37,989
Weighted average number of ordinary shares assumed in issue ('000)	373,884	333,104	367,449	335,994
Basic EPS (sen)	1.2	1.2	2.5	2.2
Diluted EPS (sen)	1.0	1.1	2.1	2.0

B11 Financial Instruments

As at the date of this report, the Group has not entered into any derivatives.

B12 Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 31 December 2018 was unqualified.

B13 Profit Before Tax

RM'000	3 months ended		6 months ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
Profit before tax is arrived at after crediting/(charging):				
Interest income	671	415	859	639
Depreciation	(281)	(215)	(543)	(438)
Interest expense	(5)	(3)	(6)	(6)
Gain on disposal of property, plant and equipment	-	-	17	-
Reversal/(Provision) for expected credit losses	50	(38)	(23)	(91)
Realised gain/(loss) on foreign exchange	24	62	(14)	(28)
Unrealised gain/(loss) on foreign exchange	34	36	(41)	(31)

Save as disclosed above, there were no material provision for and write off of inventories, gain or loss on disposal of quoted or unquoted investment or real properties, impairment of assets, gain or loss on derivatives and exceptional items for the current quarter under review.