



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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

19 November 2019

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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 THIRD QUARTER ENDED 30 SEPTEMBER 2019**

(These figures have not been audited)

RM'000	Note	Current quarter 3 months ended 30.09.2019	30.09.2018	Cumulative quarter 9 months ended 30.09.2019	30.09.2018
Revenue	A7	16,802	20,209	62,514	57,864
Cost of sales		(10,230)	(12,812)	(40,587)	(37,837)
Gross profit		6,572	7,397	21,927	20,027
Other income		585	615	2,100	1,868
Selling and distribution expenses		(332)	(164)	(910)	(557)
Administration expenses		(2,462)	(2,168)	(7,045)	(6,002)
Other expenses		(60)	(182)	(699)	(912)
Finance costs		(4)	(3)	(10)	(9)
Profit before tax	B13	4,299	5,495	15,363	14,415
Tax expense	B5	(806)	(1,361)	(3,463)	(3,434)
Profit for the period		3,493	4,134	11,900	10,981
Other comprehensive income		-	-	-	-
Total comprehensive income		3,493	4,134	11,900	10,981
Profit attributable to:					
Owners of the Company		3,501	3,938	11,116	10,619
Non-controlling interests		(8)	196	784	362
Profit for the period		3,493	4,134	11,900	10,981
Total comprehensive income attributable to:					
Owners of the Company		3,501	3,938	11,116	10,619
Non-controlling interests		(8)	196	784	362
Total comprehensive income		3,493	4,134	11,900	10,981
Earnings per share attributable to owners of the Company:					
Basic (sen)	B10	1.2	1.3	3.7	3.6
Diluted (sen)	B10	1.0	1.1	3.0	3.1

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 SEPTEMBER 2019

RM'000	Note	As at 30.09.2019 Unaudited	As at 31.12.2018 Audited
Assets			
Property, plant and equipment		30,702	30,958
Investment property		1,091	1,107
Deferred tax assets		187	187
Non-current assets		31,980	32,252
Inventories		26,155	28,217
Trade and other receivables		18,162	25,521
Tax recoverable		135	226
Cash and cash equivalents		60,816	49,188
Current assets		105,268	103,152
Total assets		137,248	135,404
Equity and liabilities			
Share capital		68,835	67,034
Merger deficit		(41,477)	(41,477)
Other reserves		(9)	(9)
Retained earnings		98,085	92,289
Equity attributable to owners of the Company		125,434	117,837
Non-controlling interests		2,762	1,778
Total equity		128,196	119,615
Borrowings (secured)	B7	817	1,210
Deferred tax liabilities		101	101
Non-current liabilities		918	1,311
Trade and other payables		6,850	12,398
Borrowings (secured)	B7	692	725
Tax liabilities		592	1,355
Current liabilities		8,134	14,478
Total liabilities		9,052	15,789
Total equity and liabilities		137,248	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 THIRD QUARTER ENDED 30 SEPTEMBER 2019

(These figures have not been audited)

	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Non-Distributable	Distributable					
RM'000	Share capital	Merger deficit	Other reserves	Retained earnings			
At 1 January 2019	67,034	(41,477)	(9)	92,289	117,837	1,778	119,615
Total comprehensive income	-	-	-	11,116	11,116	784	11,900
Issuance of shares by the Company	1,801	-	-	-	1,801	-	1,801
Issuance of shares by a subsidiary	-	-	-	-	-	200	200
Dividend	-	-	-	(5,320)	(5,320)	-	(5,320)
At 30 September 2019	68,835	(41,477)	(9)	98,085	125,434	2,762	128,196
At 1 January 2018	67,034	(41,477)	(9)	82,057	107,605	1,510	109,115
Total comprehensive income	-	-	-	10,619	10,619	362	10,981
Non-controlling interest arising from the acquisition of subsidiary	-	-	-	-	-	112	112
Dividend	-	-	-	(4,470)	(4,470)	-	(4,470)
At 30 September 2018	67,034	(41,477)	(9)	88,206	113,754	1,984	115,738

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 THIRD QUARTER ENDED 30 SEPTEMBER 2019
(These figures have not been audited)

RM'000	9 months ended	
	30.09.2019	30.09.2018
Operating activities		
Profit before tax	15,363	14,415
Adjustments for:		
Non-cash items	817	934
Non-operating items	(17)	-
Interest income	(1,112)	(870)
Interest expense	10	9
Operating profit before working capital changes	15,061	14,488
Changes in working capital:		
Inventories	2,062	(823)
Receivables	7,385	(4,273)
Payables	(5,570)	(585)
Cash generated from operations	18,938	8,807
Tax paid	(4,135)	(2,893)
Net cash from operating activities	14,803	5,914
Investing activities		
Interest received	1,112	870
Placement of fixed deposits	(13,437)	(578)
Purchase of property, plant and equipment	(550)	(445)
Proceeds from disposal of property, plant and equipment	17	-
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(133)
Net cash used in investing activities	(12,858)	(286)
Financing activities		
Dividend paid	(5,320)	(4,470)
Proceeds from issuance of shares	1,801	-
Subscription of new shares in a subsidiary by a non-controlling interest	200	-
Interest paid	(10)	(9)
Placement of pledged fixed deposits	(49)	(38)
Repayment of borrowings	(426)	(540)
Net cash used in financing activities	(3,804)	(5,057)
Net changes in cash and cash equivalents	(1,859)	571
Translation differences	1	(34)
Cash and cash equivalents at the beginning of financial year	30,379	21,216
Cash and cash equivalents at the end of reporting period	28,521	21,753
Analysis of cash and cash equivalents		
Fixed deposits with licensed banks	36,968	29,014
Cash and bank balances	23,848	21,119
	60,816	50,133
Less: Fixed deposits pledged to licensed bank	(1,996)	(1,920)
Less: Fixed deposits as investing purposes	(30,299)	(26,460)
	28,521	21,753

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 5,000 new ordinary shares on 24 July 2019 arising from the exercise of 5,000 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. The enlarged share capital of the Company (pursuant to the issuance and listing of the said 5,000 new ordinary shares) comprises 304,010,000 ordinary shares.

A6 Dividends Paid

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

	30.09.2019	30.09.2018
For the financial year ended	31 December 2019	31 December 2018
Approved and declared on	20 August 2019	16 August 2018
Date paid	25 September 2019	28 September 2018
Number of ordinary shares on which dividends were paid	304,010,000	298,005,000
Dividend per share (single-tier)	0.75 sen	0.75 sen
Net dividend paid (RM)	2,280,075	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			9 months ended		
	30.09.2019	30.09.2018	Changes	30.09.2019	30.09.2018	Changes
Malaysia	13,679	14,598	(919)	45,950	43,183	2,767
Indonesia	2,967	4,105	(1,138)	10,117	11,551	(1,434)
Others	156	1,506	(1,350)	6,447	3,130	3,317
Total	16,802	20,209	(3,407)	62,514	57,864	4,650

A8 Related Party Disclosures

Related party transactions of the Group are as follows:

RM'000	3 months ended		9 months ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Companies in which certain Directors of the Company have interests:				
Sales of goods	64	-	183	2
Professional fees	-	6	-	6
Companies in which certain Directors of a subsidiary of the Company have interests:				
Sales of goods	-	-	5,746	-
Purchase of goods	-	-	3,859	-

All the 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 30.09.2019
Arbitration claim by a building contractor against a subsidiary	428

A12 Changes in Composition of the Group

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).

Save as disclosed above, there were no other changes in the composition of the Group during the current quarter under review.

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 MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B1 Performance Review - Comparison with Preceding Year Corresponding Quarter

RM'000	3 months ended		Changes	9 months ended		Changes
	30.09.2019	30.09.2018		30.09.2019	30.09.2018	
Revenue	16,802	20,209	(3,407)	62,514	57,864	4,650
Profit before tax	4,299	5,495	(1,196)	15,363	14,415	948

The Group's revenue decreased by 16.9% from RM20.21 million in the corresponding quarter of the preceding year to RM16.80 million in the current quarter under review, mainly due to lower sales orders from the water and waste water industry and the palm oil and oleochemicals industry. In line with the lower revenue, coupled with higher operating expenses arising from higher staff costs and selling and distribution expenses, the Group recorded lower profit before tax in the current quarter under review.

The Group recorded an increase in revenue of 8.0% from RM57.86 million in the corresponding nine (9) - month period of the preceding year to RM62.51 million in the nine (9) - month period of the current year, mainly due to the revenue contribution from our 55%-owned subsidiary, Arah Edar (M) Sdn Bhd, for the supply of products for a project in Indonesia. This was partly offset by lower sales orders from the water and waste water industry. In line with the increase in revenue and notwithstanding the higher operating expenses, the Group recorded an increase in profit before tax of RM0.95 million (equivalent to 6.6%) in the nine (9) - month period of the current year.

B2 Comparison with Immediate Preceding Quarter

RM'000	3 months ended		Changes
	30.09.2019	30.06.2019	
Revenue	16,802	19,630	(2,828)
Profit before tax	4,299	5,067	(768)

The Group's revenue decreased by 14.4% in the current quarter under review vis-à-vis the immediate preceding quarter mainly due to lower sales orders from the water and waste water industry and the palm oil and oleochemicals industry. In line with the lower revenue, coupled with higher operating expenses, the Group recorded lower profit before tax 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 in revenue and profit before tax of 8.0% and 6.6% respectively for the nine (9) - month period ended 30 September 2019. Nonetheless, the Group foresees that the market will remain challenging for the remaining quarter of the financial year ending 31 December 2019. In this regard, the Group will continue to strive to pursue sales in the remaining quarter.

Premised on the above and barring any unforeseen circumstances, the Group remains 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		9 months ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Income tax	806	1,361	3,463	3,434
Total tax expense	806	1,361	3,463	3,434

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

The effective tax rate of the Group for the current quarter under review was lower than the statutory tax rate mainly due to the write-back of the over-provision of income tax in prior years of RM0.23 million.

B6 Corporate Proposals

As at the date of this report, there are no corporate proposals announced but not completed by the Company.

B7 Borrowings (secured)

RM'000	As at	As at
	30.09.2019	31.12.2018
Hire purchase	72	24
Term loan	745	1,186
Long term borrowings	817	1,210
Hire purchase	104	137
Term loan	588	588
Short term borrowings	692	725
Total borrowings	1,509	1,935

All the borrowings are denominated in Ringgit Malaysia. Overall, the decrease in the borrowings of RM0.43 million were due to the repayment instalments of borrowings.

The weighted average interest rate of the hire purchase based on fixed interest rate is approximately 1.88%. No interest was incurred for the term loan which is under a 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 10 February 2020 to 14 February 2020. 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

No dividend has been declared or recommended for payment during the current quarter under review.

B10 Earnings Per Share ("EPS")

	3 months ended		9 months ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Profit attributable to owners of the Company (RM'000)	3,501	3,938	11,116	10,619
Weighted average number of ordinary shares in issue ('000)	304,009	298,005	301,039	298,005
Effects of warrants outstanding ('000)	61,798	46,012	66,793	40,781
Weighted average number of ordinary shares assumed in issue ('000)	365,807	344,017	367,832	338,786
Basic EPS (sen)	1.2	1.3	3.7	3.6
Diluted EPS (sen)	1.0	1.1	3.0	3.1

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		9 months ended	
	30.09.2019	30.09.2018	30.09.2019	30.09.2018
Profit before tax is arrived at after crediting/(charging):				
Interest income	253	231	1,112	870
Interest expense	(4)	(3)	(10)	(9)
Depreciation	(279)	(248)	(822)	(686)
Gain on disposal of property, plant and equipment	-	-	17	-
Provision for expected credit losses	-	(73)	(23)	(164)
Realised gain/(loss) on foreign exchange	23	(66)	9	(94)
Unrealised gain on foreign exchange	69	83	28	52

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.