



DANCOMECH HOLDINGS BERHAD
Registration No. 201301020455 (1050285-U)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2020

3 June 2020

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DANCOMECH HOLDINGS BERHAD
Registration No. 201301020455 (1050285-U)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE FIRST QUARTER ENDED 31 MARCH 2020
(These figures have not been audited)

RM'000	Note	Current quarter 3 months ended		Cumulative quarter 3 months ended	
		31.03.2020	31.03.2019	31.03.2020	31.03.2019
Revenue	A7	19,689	25,913	19,689	25,913
Cost of sales		(13,113)	(17,194)	(13,113)	(17,194)
Gross profit		6,576	8,719	6,576	8,719
Other income		739	485	739	485
Selling and distribution expenses		(273)	(319)	(273)	(319)
Administration expenses		(2,691)	(2,400)	(2,691)	(2,400)
Other expenses		(301)	(487)	(301)	(487)
Finance costs		(3)	(1)	(3)	(1)
Profit before tax	B13	4,047	5,997	4,047	5,997
Tax expense	B5	(1,083)	(1,472)	(1,083)	(1,472)
Profit for the period		2,964	4,525	2,964	4,525
Other comprehensive income		-	-	-	-
Total comprehensive income		2,964	4,525	2,964	4,525
Profit attributable to:					
Owners of the Company		3,099	3,857	3,099	3,857
Non-controlling interests		(135)	668	(135)	668
Profit for the period		2,964	4,525	2,964	4,525
Total comprehensive income attributable to:					
Owners of the Company		3,099	3,857	3,099	3,857
Non-controlling interests		(135)	668	(135)	668
Total comprehensive income		2,964	4,525	2,964	4,525
Earnings per share attributable to owners of the Company:					
Basic (sen)	B10	1.0	1.3	1.0	1.3
Diluted (sen)	B10	0.9	1.1	0.9	1.1

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.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

RM'000	Note	As at 31.03.2020 Unaudited	As at 31.12.2019 Audited
Assets			
Property, plant and equipment		30,694	30,992
Investment property		1,080	1,085
Deferred tax assets		153	193
Non-current assets		31,927	32,270
Inventories		23,806	27,584
Trade and other receivables		26,306	19,887
Tax recoverable		110	55
Financial asset at fair value through profit or loss		3,562	2,038
Cash and cash equivalents		60,739	62,027
Current assets		114,523	111,591
Total assets		146,450	143,861
Equity and liabilities			
Share capital		68,835	68,835
Merger deficit		(41,477)	(41,477)
Other reserves		(9)	(9)
Retained earnings		101,284	101,225
Equity attributable to owners of the Company		128,633	128,574
Non-controlling interests		2,376	2,511
Total equity		131,009	131,085
Borrowings (secured)	B7	707	933
Deferred tax liabilities		111	151
Non-current liabilities		818	1,084
Trade and other payables		13,016	10,042
Borrowings (secured)	B7	807	786
Tax liabilities		800	864
Current liabilities		14,623	11,692
Total liabilities		15,441	12,776
Total equity and liabilities		146,450	143,861
Net assets per share attributable to owners of the Company (RM)		0.42	0.42

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
Registration No. 201301020455 (1050285-U)
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FIRST QUARTER ENDED 31 MARCH 2020

(These figures have not been audited)

	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Share capital	Merger deficit	Other reserves	Retained earnings			
RM'000							
At 1 January 2020	68,835	(41,477)	(9)	101,225	128,574	2,511	131,085
Total comprehensive income	-	-	-	3,099	3,099	(135)	2,964
Dividend	-	-	-	(3,040)	(3,040)	-	(3,040)
At 31 March 2020	68,835	(41,477)	(9)	101,284	128,633	2,376	131,009
At 1 January 2019	67,034	(41,477)	(9)	92,289	117,837	1,778	119,615
Total comprehensive income	-	-	-	3,857	3,857	668	4,525
At 31 March 2019	67,034	(41,477)	(9)	96,146	121,694	2,446	124,140

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
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FIRST QUARTER ENDED 31 MARCH 2020
(These figures have not been audited)

RM'000	3 months ended	
	31.03.2020	31.03.2019
Cash flows from operating activities		
Profit before tax	4,047	5,997
Adjustments for:		
Non-cash items	134	410
Non-operating items	(17)	(17)
Interest income	(298)	(188)
Interest expense	3	1
Operating profit before working capital changes	3,869	6,203
Changes in working capital:		
Inventories	3,778	2,898
Receivables	(6,088)	1,487
Payables	2,718	(4,430)
Cash generated from operations	4,277	6,158
Tax paid	(1,202)	(1,100)
Net cash from operating activities	3,075	5,058
Cash flows from investing activities		
Interest received	298	188
Withdrawal/(Placement) of fixed deposits	16,430	(11,795)
Placement of financial asset at fair value through profit or loss	(1,524)	-
Purchase of property, plant and equipment	(5)	(134)
Proceeds from disposal of property, plant and equipment	17	17
Net cash from/(used) in investing activities	15,216	(11,724)
Cash flows from financing activities		
Dividend paid	(3,040)	-
Interest paid	(3)	(1)
Placement of pledged fixed deposits	-	(6)
Repayment of borrowings	(205)	(181)
Net cash used in financing activities	(3,248)	(188)
Net changes in cash and cash equivalents	15,043	(6,854)
Translation differences	99	(26)
Cash and cash equivalents at the beginning of financial period	25,148	30,379
Cash and cash equivalents at the end of financial period	40,290	23,499
Analysis of cash and cash equivalents		
Fixed deposits with licensed banks	33,619	34,491
Cash and bank balances	27,120	19,618
	60,739	54,109
Less: Fixed deposits pledged to licensed bank	(2,011)	(1,953)
Less: Fixed deposits as investing purposes	(18,438)	(28,657)
	40,290	23,499

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

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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 2019.

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 2019 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 2020:

- Amendments to MFRS 3, Business Combinations - Definition of a Business
- Amendments to MFRS 101, Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material
- Amendments to MFRS 9, Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement and MFRS 7, Financial Instruments: Disclosures - Interest Rate Benchmark Reform

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

A2 Seasonal or Cyclicity of Operations

The business operations of the Group were not materially affected by any seasonal or cyclical factors 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

There were no issuances, repurchases or repayments of debt and equity securities during the current quarter under review.

A6 Dividends Paid

	31.03.2020	31.03.2019
For the financial year ended	31 December 2019	-
Approved and declared on	27 February 2020	-
Date of payment	31 March 2020	-
Number of ordinary shares on which dividends were paid	304,010,000	-
Dividend per share (single-tier)	1 sen	-
Net dividend paid (RM)	3,040,100	-

A7 Segmental Information

The Group is principally involved in (i) the trading and distribution of process control equipment, measurement instruments and industrial pumps ("Trading"); (ii) the manufacture of industrial pumps ("Manufacturing"); and (iii) the provision of material handling system solutions ("MHS Solutions").

The segmental information of the Group by business activity is as follows:

Current financial quarter/year-to-date ended 31 March 2020

RM'000	MHS				Total
	Trading	Manufacturing	Solutions	Elimination	
Revenue	19,559	430	6	(306)	19,689
Cost of sales	(13,012)	(402)	(5)	306	(13,113)
Gross profit	6,547	28	1	-	6,576
Add/(Less):					
Other income					739
Selling and distribution expenses					(273)
Administration expenses					(2,691)
Other expenses					(301)
Finance costs					(3)
Profit before tax					4,047

Preceding financial year's corresponding quarter/year-to-date ended 31 March 2019

RM'000	MHS				Total
	Trading	Manufacturing	Solutions	Elimination	
Revenue	19,521	962	5,746	(316)	25,913
Cost of sales	(12,575)	(883)	(4,052)	316	(17,194)
Gross profit	6,946	79	1,694	-	8,719
Add/(Less):					
Other income					485
Selling and distribution expenses					(319)
Administration expenses					(2,400)
Other expenses					(487)
Finance costs					(1)
Profit before tax					5,997

A breakdown of the Group's revenue by geographical location of the sales derived from, is as follows:

RM'000	3 months ended		
	31.03.2020	31.03.2019	Changes
Malaysia	13,752	14,961	(1,209)
Indonesia	2,920	4,672	(1,752)
Others	3,017	6,280	(3,263)
Total	19,689	25,913	(6,224)

A8 Related Party Disclosures

Related party transactions of the Group are as follows:

RM'000	3 months ended	
	31.03.2020	31.03.2019
Companies in which certain Directors of the Company have interests:		
Sales of goods	41	39
Companies in which certain Directors of the subsidiaries of the Company have interests:		
Sales of goods	-	5,746
Purchase of goods	5	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, as follows:

Contingent liability	As at
RM'000	31.03.2020
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.

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's Corresponding Quarter

RM'000	3 months ended		Changes
	31.03.2020	31.03.2019	
Revenue	19,689	25,913	(6,224)
Profit before tax	4,047	5,997	(1,950)

The Group recorded a lower revenue of RM19.7 million for the current quarter under review as compared to RM25.9 million recorded for the same quarter of the preceding year. The decrease in revenue was mainly due to the drop in revenue of RM5.7 million from the provision of material handling system solutions via our 55%-owned subsidiary, Arah Edar (M) Sdn Bhd ("Arah Edar"), and lower sales orders for our products in the trading segment from the water and waste water industry in Malaysia and the palm oil/oleochemicals industry in Indonesia. However, this was partly offset by higher sales orders for our products from the palm oil/oleochemicals industry in Malaysia and the oil and gas industry overseas. The drop in Arah Edar's revenue was due to the completion of delivery for an overseas project in the preceding year's corresponding quarter.

In line with the lower revenue, while total operating expenses remained relatively unchanged at RM3.3 million, the Group's profit before tax decreased by RM2.0 million in the current quarter under review as compared to that of the preceding year's corresponding quarter.

B2 Comparison with Immediate Preceding Quarter

RM'000	3 months ended		Changes
	31.03.2020	31.12.2019	
Revenue	19,689	19,083	606
Profit before tax	4,047	4,567	(520)

The Group's revenue showed an increase of RM0.6 million (equivalent to 3.2%) for the current quarter under review as compared to that of the immediate preceding quarter, mainly due to higher sales orders for our products in the trading segment from the oil and gas industry.

However, notwithstanding the increase in revenue, the Group recorded a decrease in profit before tax of RM0.5 million for the current quarter under review as compared to that of the immediate preceding quarter, mainly due to higher operating expenses incurred by the Group.

B3 Commentary on Prospects

The Covid-19 pandemic has resulted in high uncertainties in the global and domestic economic and financial conditions, and any prolonged impact of the pandemic will only cause greater uncertainties to the global and domestic markets.

Nonetheless, the Group will continue to strive hard to pursue sales in the domestic and overseas markets, where circumstances permit. In addition, the Group will continue to seek and explore potential opportunities for acquisitions and collaborations in order to enhance our profitability.

Premised on the above and barring any unforeseen circumstances, the Group expects our prospects and performance for the financial year ending 31 December 2020 to be satisfactory, given the uncertainties we are currently facing.

B4 Profit Forecast

Not applicable.

B5 Tax Expense

RM'000	3 months ended	
	31.03.2020	31.03.2019
Income tax	1,083	1,472
Total tax expense	1,083	1,472

The effective tax rate of the Group for the current quarter under review is higher than the statutory tax rate of 24% mainly due to tax losses for which no deferred tax asset is provided.

B6 Status of Corporate Proposals and Utilisation of Proceeds

As at the date of this report:

(i) Acquisition of 70% equity interest in MTL Engineering Sdn Bhd

The Company has, on 2 March 2020, entered into a share acquisition agreement ("SAA") with Tan Moon Chuan, Heah Choon Kwong and Mun Peng Foong to acquire 1,400,000 ordinary shares representing 70% equity interest in MTL Engineering Sdn Bhd ("MTL") for a cash consideration of RM23,800,000, subject to the terms and conditions in the SAA ("Proposed Acquisition").

In conjunction with the Proposed Acquisition, the Company proposes to diversify the principal activities of the Group to include the business of producing metal stamping parts and components, and the design and manufacture of tools and dies ("Proposed Diversification").

Upon completion of the Proposed Acquisition, MTL will become a 70%-owned subsidiary of the Company.

The Proposed Acquisition and Proposed Diversification are currently pending completion.

(ii) all proceeds from corporate proposals implemented by the Company in the past have been fully utilised.

B7 Borrowings (secured)

RM'000	As at	As at
	31.03.2020	31.12.2019
	Unaudited	Audited
Lease liabilities	256	335
Term loan	451	598
Non-current borrowings	707	933
Lease liabilities	219	198
Term loan	588	588
Current borrowings	807	786
Total borrowings	1,514	1,719

All borrowings are denominated in Ringgit Malaysia. Overall, the decrease in borrowings of RM0.2 million was due to the repayment instalments of the 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 was held for a total of 31 days between the period from 26 April 2016 to 12 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 Adjudication Amount plus interest and costs to SGV.

The pending arbitration award 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 27 February 2020, the Board of Directors of the Company declared and approved the payment of a second single-tier dividend of 1 sen per ordinary share in respect of the financial year ended 31 December 2019. The dividend was paid on 31 March 2020. Please refer to Note A6 above for further details on the dividend.

B10 Earnings per Share ("EPS")

	3 months ended	
	31.03.2020	31.03.2019
Profit attributable to owners of the Company (RM'000)	3,099	3,857
Weighted average number of ordinary shares in issue ('000)	304,010	298,005
Effect of warrants outstanding ('000)	46,400	64,006
Weighted average number of ordinary shares assumed in issue ('000)	350,410	362,011
Basic EPS (sen)	1.0	1.3
Diluted EPS (sen)	0.9	1.1

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 of the Group for the financial year ended 31 December 2019 was unqualified.

B13 Profit Before Tax

RM'000	3 months ended	
	31.03.2020	31.03.2019
Profit before tax is arrived at after crediting/(charging):		
Interest income	298	188
Depreciation	(308)	(262)
Interest expense	(3)	(1)
Gain on disposal of property, plant and equipment	17	17
Provision for expected credit losses	-	(73)
Realised gain/(loss) in foreign exchange	15	(38)
Unrealised gain/(loss) in foreign exchange	174	(75)

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.