



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

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

23 November 2020

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020
(These figures have not been audited)

RM'000	Note	Current quarter 3 months ended		Cumulative quarter 9 months ended	
		30.09.2020	30.09.2019	30.09.2020	30.09.2019
Revenue	A7	36,708	16,610	76,394	61,822
Cost of sales		(27,698)	(10,038)	(54,718)	(39,895)
Gross profit		9,010	6,572	21,676	21,927
Other income		1,886	583	3,519	2,095
Selling and distribution expenses		(159)	(278)	(598)	(747)
Administration expenses		(3,010)	(2,470)	(7,767)	(7,012)
Other expenses		(322)	(106)	(1,177)	(895)
Finance costs		(51)	(2)	(58)	(5)
Profit before tax	B13	7,354	4,299	15,595	15,363
Tax expense	B5	(1,584)	(806)	(3,689)	(3,463)
Profit for the period		5,770	3,493	11,906	11,900
Other comprehensive income		-	-	-	-
Total comprehensive income		5,770	3,493	11,906	11,900
Profit attributable to:					
Owners of the Company		5,650	3,501	11,928	11,115
Non-controlling interests		120	(8)	(22)	785
Profit for the period		5,770	3,493	11,906	11,900
Total comprehensive income attributable to:					
Owners of the Company		5,650	3,501	11,928	11,115
Non-controlling interests		120	(8)	(22)	785
Total comprehensive income		5,770	3,493	11,906	11,900
Earnings per share attributable to owners of the Company:					
Basic (sen)	B10	1.9	1.2	3.9	3.7
Diluted (sen)	B10	1.6	1.0	3.4	3.0

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
Registration No. 201301020455 (1050285-U)
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

RM'000	Note	As at 30.09.2020 Unaudited	As at 31.12.2019 Audited
Assets			
Property, plant and equipment		63,147	30,992
Investment property		1,069	1,085
Deferred tax assets		165	193
Non-current assets		64,381	32,270
Inventories		35,728	27,584
Trade and other receivables		34,843	19,887
Tax recoverable		288	55
Financial asset at fair value through profit or loss		3,605	2,038
Cash and cash equivalents		47,156	62,027
Current assets		121,620	111,591
Total assets		186,001	143,861
Equity and liabilities			
Share capital		68,835	68,835
Merger deficit		(41,477)	(41,477)
Other reserves		(9)	(9)
Retained earnings		107,833	101,225
Equity attributable to owners of the Company		135,182	128,574
Non-controlling interests		12,883	2,511
Total equity		148,065	131,085
Borrowings (secured)	B7	9,226	933
Deferred tax liabilities		2,347	151
Non-current liabilities		11,573	1,084
Trade and other payables		21,639	10,042
Borrowings (secured)	B7	2,671	786
Tax liabilities		2,053	864
Current liabilities		26,363	11,692
Total liabilities		37,936	12,776
Total equity and liabilities		186,001	143,861
Net assets per share attributable to owners of the Company (RM)		0.44	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 THIRD QUARTER ENDED 30 SEPTEMBER 2020

(These figures have not been audited)

RM'000	Attributable to Owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Merger deficit	Other reserves	Retained earnings	Distributable			
At 1 January 2020	68,835	(41,477)	(9)	101,225	128,574	2,511	131,085	
Acquisition of subsidiaries	-	-	-	-	-	10,394	10,394	
Total comprehensive income	-	-	-	11,928	11,928	(22)	11,906	
Dividends	-	-	-	(5,320)	(5,320)	-	(5,320)	
At 30 September 2020	68,835	(41,477)	(9)	107,833	135,182	12,883	148,065	
At 1 January 2019	67,034	(41,477)	(9)	92,289	117,837	1,778	119,615	
Total comprehensive income	-	-	-	11,115	11,115	785	11,900	
Issuance of shares by the Company	1,801	-	-	-	1,801	-	1,801	
Issuance of shares by a subsidiary	-	-	-	-	-	200	200	
Dividends	-	-	-	(5,320)	(5,320)	-	(5,320)	
At 30 September 2019	68,835	(41,477)	(9)	98,084	125,433	2,763	128,196	

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
Registration No. 201301020455 (1050285-U)
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020
(These figures have not been audited)

RM'000	9 months ended	
	30.09.2020	30.09.2019
Operating activities		
Profit before tax	15,595	15,363
Adjustments for:		
Non-cash items	868	817
Non-operating items	(1,274)	(17)
Interest income	(1,140)	(1,112)
Interest expense	58	4
Operating profit before working capital changes	14,107	15,055
Changes in working capital:		
Inventories	667	2,062
Receivables	(1,041)	7,385
Payables	(2,204)	(5,570)
Cash generated from operations	11,529	18,932
Tax paid	(3,012)	(4,135)
Net cash from operating activities	8,517	14,797
Investing activities		
Interest received	1,140	1,112
Net withdrawal/(placement) of fixed deposits	22,610	(13,437)
Purchase of property, plant and equipment	(194)	(550)
Proceeds from disposal of property, plant and equipment	17	17
Placement of financial asset at fair value through profit or loss	(1,567)	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(16,936)	-
Net cash from/(used) in investing activities	5,070	(12,858)
Financing activities		
Subscription of new shares in a subsidiary by a non-controlling interest	-	200
Dividends paid	(5,320)	(5,320)
Proceeds from issuance of shares	-	1,801
Interest paid	(58)	(4)
Placement of pledged fixed deposits	(38)	(49)
Repayment of borrowings	(562)	(426)
Net cash used in financing activities	(5,978)	(3,798)
Net changes in cash and cash equivalents	7,609	(1,859)
Translation differences	92	1
Cash and cash equivalents at the beginning of financial period	25,148	30,379
Cash and cash equivalents at the end of reporting period	32,849	28,521
Analysis of cash and cash equivalents		
Fixed deposits with licensed banks	28,687	36,968
Cash and bank balances	18,469	23,848
	47,156	60,816
Less: Fixed deposits pledged with licensed banks	(2,049)	(1,996)
Less: Fixed deposits as investing purposes	(12,258)	(30,299)
	32,849	28,521

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 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

Save as disclosed in this report, 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

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

	30.09.2020	30.09.2019
For the financial year ended	31 December 2020	31 December 2019
Approved and declared on	19 August 2020	20 August 2019
Date paid	25 September 2020	25 September 2019
Number of ordinary shares on which dividends were paid	304,010,000	304,010,000
Dividend per share (single-tier)	0.75 sen	0.75 sen
Net dividend paid (RM)	2,280,075	2,280,075

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 ("Pump Manufacturing"); and (iii) the provision of material handling system solutions ("MHS Solutions"). With the completion of the acquisition of 70% equity interest in MTL Engineering Sdn Bhd on 3 August 2020 (as disclosed in Note A12 below), the Group is also now involved in the business of producing metal stamping parts and components, and design and manufacture of tools and dies ("Metal Stamping").

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

Current financial quarter ended 30 September 2020

RM'000	Trading	Pump Manufacturing	MHS Solutions	Metal Stamping	Elimination	Total
Revenue	23,425	873	-	13,033	(623)	36,708
Cost of sales	(16,081)	(793)	-	(11,447)	623	(27,698)
Gross profit	7,344	80	-	1,586	-	9,010
Add/(Less):						
Other income						1,886
Selling and distribution expenses						(159)
Administration expenses						(3,010)
Other expenses						(322)
Finance costs						(51)
Profit before tax						<u>7,354</u>

Preceding financial year's corresponding quarter ended 30 September 2019

RM'000	Trading	Pump Manufacturing	MHS Solutions	Elimination	Total
Revenue	15,748	960	277	(375)	16,610
Cost of sales	(9,391)	(750)	(272)	375	(10,038)
Gross profit	6,357	210	5	-	6,572
Add/(Less):					
Other income					583
Selling and distribution expenses					(278)
Administration expenses					(2,470)
Other expenses					(106)
Finance costs					(2)
Profit before tax					<u>4,299</u>

Current financial year-to-date ended 30 September 2020

RM'000	Trading	Pump Manufacturing	MHS Solutions	Metal Stamping	Elimination	Total
Revenue	62,695	1,993	6	13,033	(1,333)	76,394
Cost of sales	(42,970)	(1,629)	(5)	(11,447)	1,333	(54,718)
Gross profit	19,725	364	1	1,586	-	21,676
Add/(Less):						
Other income						3,519
Selling and distribution expenses						(598)
Administration expenses						(7,767)
Other expenses						(1,177)
Finance costs						(58)
Profit before tax						<u>15,595</u>

Preceding financial year's corresponding year-to-date ended 30 September 2019

RM'000	Trading	Pump Manufacturing	MHS Solutions	Elimination	Total
Revenue	53,568	3,192	6,023	(961)	61,822
Cost of sales	(34,023)	(2,509)	(4,324)	961	(39,895)
Gross profit	19,545	683	1,699	-	21,927
Add/(Less):					
Other income					2,095
Selling and distribution expenses					(747)
Administration expenses					(7,012)
Other expenses					(895)
Finance costs					(5)
Profit before tax					<u>15,363</u>

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

RM'000	3 months ended			9 months ended		
	30.09.2020	30.09.2019	Changes	30.09.2020	30.09.2019	Changes
Malaysia	32,487	13,501	18,986	59,912	45,323	14,589
Indonesia	3,822	2,965	857	10,278	10,082	196
Others	399	144	255	6,204	6,417	(213)
Total	36,708	16,610	20,098	76,394	61,822	14,572

A8 Related Party Disclosures

Related party transactions of the Group are as follows:

RM'000	3 months ended		9 months ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
Companies in which certain Directors of the Company have interests:				
Sales of goods	2	64	56	183
Companies in which certain Directors of subsidiaries of the Company have interests:				
Sales of goods and management fee	271	-	271	5,746
Purchase of goods	8	230	13	4,089

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

Save as disclosed below, there were no material capital commitments in respect of property, plant and equipment as at the end of the current quarter under review:

RM'000	As at 30.09.2020
Approved but not contracted for	9,070
Contracted but not provided for	241

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 30.09.2020
Arbitration claim by a building contractor against a subsidiary	428

A12 Changes in Composition of the Group

The Company has, on 3 August 2020, completed the acquisition of 1,400,000 ordinary shares (equivalent to 70% equity interest) in MTL Engineering Sdn Bhd ("MTL"). MTL has a 70%-owned subsidiary, i.e. Newexus Engineering Sdn Bhd ("Newexus") (Note: MTL and Newexus are herein collectively known as "the MTL Group").

The effects of the acquisition of 70% equity interest in MTL on the Group is as follows:

	RM'000	RM'000
Purchase consideration		23,800
Provisional fair value of the identifiable net assets of the MTL Group *	35,796	
(x) 70% equity interest	<u>70%</u>	
Share of provisional fair value of the identifiable net assets of the MTL Group		<u>(25,057)</u>
Bargain purchase gain *		<u>(1,257)</u>

Note:

* *The Group is currently undertaking a purchase price allocation exercise to determine the fair value of the identifiable assets and liabilities of the MTL Group. In this regard, the amount of bargain purchase gain is subject to changes pending the completion of the purchase price allocation exercise.*

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's Corresponding Quarter

RM'000	3 months ended			9 months ended		
	30.09.2020	30.09.2019	Changes	30.09.2020	30.09.2019	Changes
Revenue	36,708	16,610	20,098	76,394	61,822	14,572
Profit before tax	7,354	4,299	3,055	15,595	15,363	232

The Group's revenue increased by 121.0% from RM16.61 million in the corresponding quarter of the preceding year to RM36.71 million in the current quarter under review, mainly due to the revenue contribution from our newly acquired 70%-owned subsidiary, MTL, as disclosed in Note A12 above and higher sales to the palm oil and oleochemicals, and the oil and gas industries recorded by our Trading segment. In line with the higher revenue, coupled with the bargain purchase gain of RM1.26 million from the acquisition of 70% equity interest in MTL, the Group's profit before tax increased by 70.9% from RM4.30 million in the corresponding quarter of the preceding year to RM7.35 million in the current quarter under review.

The Group recorded an increase in revenue of 23.6% from RM61.82 million in the corresponding nine (9) - month period of the preceding year to RM76.40 million in the nine (9) - month period of the current year, mainly due to the revenue contribution from MTL and higher revenue recorded by our Trading segment. However, this was partly offset by the lower revenue recorded by our MHS Solutions and Pump Manufacturing segments as a result of the Covid-19 pandemic. In spite of the increase in revenue, the Group showed a marginal increase in profit before tax of RM0.23 million (equivalent to 1.5%) in the nine (9) - month period of the current year mainly due to lower gross profit margins recorded given the nature of the MTL Group's business and price competition in our Trading segment.

B2 Comparison with Immediate Preceding Quarter

RM'000	3 months ended		
	30.09.2020	30.06.2020	Changes
Revenue	36,708	19,997	16,711
Profit before tax	7,354	4,194	3,160

The Group's revenue increased by 83.6% in the current quarter under review vis-à-vis the immediate preceding quarter mainly due to the revenue contribution from MTL and higher revenue recorded by our Trading segment. In line with the higher revenue, coupled with the bargain purchase gain, the Group recorded higher profit before tax in the current quarter under review vis-a-vis the immediate preceding quarter.

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 has managed to record growth in revenue and profits in the current quarter under review and MTL (the newly acquired 70%-owned subsidiary of the Company) has immediately contributed positively to the Group and will continue to do so moving forward, barring any unforeseen circumstances. 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 remaining quarter of this financial year ending 31 December 2020 to be encouraging.

B4 Profit Forecast

Not applicable.

B5 Tax Expense

RM'000	3 months ended		9 months ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
Income tax	1,584	806	3,689	3,463
Total tax expense	1,584	806	3,689	3,463

The effective tax rate of the Group for the current quarter under review and the nine (9) - month period of the current financial year is lower than the statutory tax rate of 24% mainly due to certain income not subject to tax.

B6 Corporate Proposals

As at the date of this report:

- (i) there are no corporate proposals announced but not completed by the Company; and
- (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
	30.09.2020	31.12.2019
Lease liabilities	1,034	335
Term loans	8,192	598
Long term borrowings	9,226	933
Lease liabilities	951	198
Term loans	1,720	588
Short term borrowings	2,671	786
Total borrowings	11,897	1,719

All the borrowings are denominated in Ringgit Malaysia. Overall, the increase in the borrowings of RM10.18 million arose from the consolidation of the financial position of the MTL Group.

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

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	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
Profit attributable to owners of the Company (RM'000)	5,650	3,501	11,928	11,115
Weighted average number of ordinary shares in issue ('000)	304,010	304,009	304,010	301,039
Effects of warrants outstanding ('000)	51,342	61,798	44,680	66,793
Weighted average number of ordinary shares assumed in issue ("000)	355,352	365,807	348,690	367,832
Basic EPS (sen)	1.9	1.2	3.9	3.7
Diluted EPS (sen)	1.6	1.0	3.4	3.0

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

B13 Profit Before Tax

RM'000	3 months ended		9 months ended	
	30.09.2020	30.09.2019	30.09.2020	30.09.2019
Profit before tax is arrived at after crediting/(charging):				
Interest income	224	253	1,140	1,112
Interest expense	(51)	(1)	(58)	(4)
Depreciation	(721)	(279)	(1,335)	(822)
Gain on disposal of property, plant and equipment	-	-	17	17
Reversal/(Provision) for expected credit losses	563	-	298	(23)
Realised (loss)/gain on foreign exchange	(74)	23	(143)	9
Unrealised (loss)/gain on foreign exchange	(44)	69	169	28
Bargain purchase gain	1,257	-	1,257	-

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.