



## DUFU TECHNOLOGY CORP. BERHAD

(Company No. 581612-A)  
(Incorporated in Malaysia)

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### INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

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#### NOTES TO THE INTERIM FINANCIAL REPORT

#### PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

##### 1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). These interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2016. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2016.

##### 2. Significant accounting policies

The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2016 except for the adoption of the following new MFRSs and Interpretations, and amendments to certain MFRSs and Interpretations with effect from 1 January 2017:

- Amendments to MFRS 12: Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 107: Statement of Cash Flows: Disclosure Initiative
- Amendments to MFRS 112: Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the above standards and interpretations did not have any material effect on the financial performance or position of the Group.



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The standards and interpretations that are issued but not yet effective up to the date of issuance of these condensed consolidated interim financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 128: Investments in Associates and Joint Ventures	1 January 2018
Amendments to MFRS 1: First-Time Adoption of Malaysian Financial Reporting Standards	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 15: Clarifications to MFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 16: Leases	1 January 2019
IC Interpretation 23: Uncertainty Over Income Tax Treatments	1 January 2019
MFRS 17: Insurance Contracts	1 January 2021

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application other than for MFRS 15 Revenue from Contracts with Customers, and MFRS 9 Financial Instruments. The Group is still in the progress of assessing the financial impact of MFRS 15 and MFRS 9.

### 3. Significant Accounting Estimates And Judgements

#### (a) Critical Judgements Made in Applying Accounting Policies

There are no critical judgements made by management in the process of applying the Group's accounting policies that have significant effect on the amounts recognised in the financial statements.

#### (b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material



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adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Depreciation of plant and equipment**

The cost of Computer Numerical Control (“CNC”) machining is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be within ten years. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**4. Auditors' Report on Preceding Annual Financial Statements**

The auditors' report on the financial statements for the year ended 31 December 2016 was not subject to any audit qualification.

**5. Seasonal or cyclical factors**

The Group's business operations were not materially affected by any major seasonal or cyclical factors.

**6. Unusual items**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the current financial period except for other long term investment where on 26 June 2017, the company has entered into a shareholders agreement to invest in Superior Plating Technology (Thailand) Co., Ltd. (“SPTT”), a new start-up company in Thailand of which the intended principal activity of SPTT is the provision of surface treatment and plating services. The total cash consideration of RM6.144 million representing 19.6% equity interest in SPTT was fully paid on 28 June 2017.

**7. Changes in estimates**

There were no material changes in estimates of amount reported in prior interim period or financial period that have a material effect in the current year.

**8. Debt and equity securities**

There was no issuance or repayment of debt and equity securities, share buy-backs and share cancellations for the current financial period.



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As of 30 June 2017, the total number of issued shares of the Company is 175,470,370 Ordinary Shares (“Shares”), inclusive of 8,651,900 Shares held as treasury shares. Hence, the number of outstanding Ordinary Shares in issue is 166,818,470 Shares. Shares purchased were stated at cost.

#### **9. Dividend paid**

A single tier final dividend of 3.5 sen in respect of the financial year ended 31 December 2016 has been approved by the shareholders at the Annual General Meeting held on 24 May 2017 and was paid on 20 June 2017.

#### **10. Valuation of property, plant and equipment**

There was no valuation of property, plant and equipment in the current quarter under review and financial year-to-date.

#### **11. Significant and subsequent events to the balance sheet date**

There were no significant material and subsequent events at the end of the financial period ended 30 June 2017 that have not been reflected in the interim financial statements as at the date of this report.

#### **12. Changes in the composition of the Group**

There were no significant changes in the composition of the Group for the current financial quarter and financial period to date.

#### **13. Changes in corporate guarantees, contingent liabilities or contingent assets**

As at 30 June 2017, the Group has no material contingent liabilities save for corporate guarantee of RM81 million issued by the Company in respect of banking facilities granted to the subsidiary companies.

#### **14. Related party transactions**

The Board are of the opinion that there is no related party transaction which would have a material impact on the financial position and the business of the Group for the current financial period.

#### **15. Segment reporting**

Information about operating segments has not been reported separately as the Group’s revenue, profit or loss, assets and liabilities are mainly confined to single operating segment, namely precision machining of industrial products and manufacturing of high quality computer disk-drive related components.

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The segmental information of the group is presented by geographical segments. The geographical segments are based on the location of the assets and these are:

- (i) Malaysia
- (ii) Singapore
- (iii) China

Segment information for the period ended 30 June 2017 are as follows:

	<b>Malaysia RM'000</b>	<b>Singapore RM'000</b>	<b>China RM'000</b>	<b>Eliminations RM'000</b>	<b>Total RM'000</b>
Revenue	80,492	65,224	24,160	(82,515)	87,361
EBDITA *	18,228	855	3,486	26	22,595
Depreciation	(3,390)	(46)	(1,444)	-	(4,880)
Profit from operation	14,838	809	2,042	26	17,715
Finance costs	(264)	(5)	(6)	-	(275)
PBT **	14,574	804	2,036	26	17,440

**As at 31 March 2017**

Total assets	196,282	43,108	44,785	(111,332)	172,843
Total liabilities	64,753	24,733	5,762	(59,475)	35,773

Segment information for the period ended 30 June 2016 are as follows:

	<b>Malaysia RM'000</b>	<b>Singapore RM'000</b>	<b>China RM'000</b>	<b>Eliminations RM'000</b>	<b>Total RM'000</b>
Revenue	63,087	62,401	14,080	(60,476)	79,092
EBDITA *	9,774	1,430	1,935	474	13,613
Depreciation	(3,457)	(45)	(1,390)	-	(4,892)
Profit from operation	6,317	1,385	545	474	8,721
Finance costs	(584)	(12)	(21)	-	(617)
PBT **	5,733	1,373	524	474	8,104

**As at 30 June 2016**

Total assets	187,856	37,531	49,552	(121,087)	153,852
Total liabilities	73,542	24,782	10,042	(70,588)	37,778

\* EBDITA - Earning Before Depreciation, Interest expenses, Tax and Amortisation

\*\* PBT - Profit Before Tax

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REQUIREMENTS: CHAPTER 9, APPENDIX 9B, PART A****16. Review of performance**

i) Comparison between current year quarter with corresponding quarter

Current Year Quarter – 30 June 2017

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	37,968	29,741	12,651	(39,390)	40,970
EBDITA *	8,990	491	2,309	(93)	11,697
Depreciation	(1,653)	(22)	(674)	-	(2,349)
Profit					
from operation	7,337	469	1,635	(93)	9,348
Finance costs	(155)	(3)	33	-	(125)
PBT **	7,182	466	1,668	(93)	9,223

Preceding Year Quarter – 30 June 2016

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	29,271	30,930	6,742	(28,878)	38,065
EBDITA *	3,429	1,198	820	76	5,523
Depreciation	(1,657)	(24)	(805)	-	(2,486)
Profit					
from operation	1,772	1,174	15	76	3,037
Finance costs	(257)	(7)	-	-	(264)
PBT **	1,515	1,167	15	76	2,773

\* EBDITA - Earning Before Depreciation, Interest expenses, Tax and Amortisation

\*\* P/(L)BT - Profit/(Loss) Before Tax

**Group**

Group revenue for the quarter ended 30 June 2017 was RM41.0 million compared with RM38.1 million for the quarter ended 30 June 2016, an increase of 7.6%. The increase in revenue was mainly due to the increase in demand related to Hard Disk Drives (“HDD”). The Group’s profit before taxation for the quarter ended 30 June 2017 improved to RM9.2 million compared to RM2.8 million registered in the previous financial quarter ended 30 June 2016. The increase in profit before taxation was mainly due to higher revenue, favourable product mix and foreign exchange due to the strengthening of United States Dollar against Ringgit and as well as improvement in operational efficiency due to economies of scale in the current financial period. Prior quarter’s result was also impacted by the impairment of receivables amounted to RM1.7 million.



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ii) Comparison between current period with corresponding period

Current Period – 30 June 2017

	<b>Malaysia RM'000</b>	<b>Singapore RM'000</b>	<b>China RM'000</b>	<b>Eliminations RM'000</b>	<b>Total RM'000</b>
Revenue	80,492	65,224	24,160	(82,515)	87,361
EBDITA *	18,228	855	3,486	26	22,595
Depreciation	(3,390)	(46)	(1,444)	-	(4,880)
Profit from operation	14,838	809	2,042	26	17,715
Finance costs	(264)	(5)	(6)	-	(275)
PBT **	14,574	804	2,036	26	17,440

Preceding Period – 30 June 2016

	<b>Malaysia RM'000</b>	<b>Singapore RM'000</b>	<b>China RM'000</b>	<b>Eliminations RM'000</b>	<b>Total RM'000</b>
Revenue	63,087	62,401	14,080	(60,476)	79,092
EBDITA *	9,774	1,430	1,935	474	13,613
Depreciation	(3,457)	(45)	(1,390)	-	(4,892)
Profit from operation	6,317	1,385	545	474	8,721
Finance costs	(584)	(12)	(21)	-	(617)
PBT **	5,733	1,373	524	474	8,104

\* EBDITA - Earning Before Depreciation, Interest expenses, Tax and Amortisation

\*\* P/(L)BT - Profit/(Loss) Before Tax

**Group**

Group revenue for the period ended 30 June 2017 was RM87.4 million compared with RM79.1 million for the period ended 30 June 2016, an increase of 10.5%. The increase in revenue was mainly due to the increase in demand related to Hard Disk Drives (“HDD”). The Group’s profit before taxation for the period ended 30 June 2017 improved to RM17.4 million from RM8.1 million registered in the previous financial period ended 30 June 2016. The increase in profit before taxation was mainly due to higher revenue, favourable product mix and foreign exchange due to the strengthening of United States Dollar against Ringgit and as well as improvement in operational efficiency due to economies of scale in the current financial period. Prior period’s result was also impacted by the impairment of receivables amounted to RM1.7 million.



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#### 17. Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance	
	30.06.2017	31.03.2017		
	RM'000	RM'000	RM'000	%
Revenue	40,970	46,391	(5,421)	(11.7)
Profit before tax	9,223	8,216	1,007	12.3

Revenue for the quarter ended 30 June 2017 decreased by RM5.4 million or 11.7% while profit before taxation increased by RM1.0 million or 12.3% for the current quarter as compared to the preceding quarter. The decrease in revenue was due to the softening in demand in the HDD segment after a strong demand in the first quarter of this year. Despite the decrease in revenue, profit before tax improve to RM9.2 million mainly due to favourable product mix and continuing improvement in operation efficiency.

#### 18. Prospects

We expect sales to continue to remain firm in the second half of 2017 as our major product is driven by the growth in high-capacity nearline HDDs as well as stabilization of client storage demand. NAND flash memory is likely to face supply constraint throughout 2017 due to the strong growth in demand for smart phones and other mobile devices, and therefore may also affect SSD ("Solid State Drive") supply.

The long-term future of HDDs are likely rests with high capacity HDDs, particularly in data centers serving cloud storage applications. The demand for high capacity storage drives, enhanced performance, and lower storage cost is set to rise. Global internet penetration, the rise in e-commerce in emerging markets, and the current trend for high-resolution media standards are the likely drivers for the continuing rise in global data storage demand.

Nevertheless, the Group will continue to improve its operational efficiency and keep a tight rein on costs to ensure price competitiveness on its products. The Group is also working closely with existing and new customers in creating value to their supply chain, and will continue to seek opportunity to venture into new business segments that can synergizes with the Group's current business model. With this in place and considering the continuing stable demand based on the current market trend and assuming that there is no volatility in the United States Dollar ("USD") currency against Ringgit, the Group is optimistic about its earnings and growth in the coming quarters.





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**19. Variance of actual profit from profit forecast**

Not applicable.

**20. Taxation**

	<b>Current Quarter 3 months ended 30 June 2017 RM'000</b>	<b>Year-to-date 6 months ended 30 June 2017 RM'000</b>
Income tax		
Current year	2,337	4,206
Prior year	31	31
	<hr/>	<hr/>
	2,368	4,237
Deferred tax		
Current year	(21)	12
Prior year	-	-
	<hr/>	<hr/>
	2,347	4,249

**21. Status on corporate proposals**

There were no significant corporate proposals for the current financial period to date saved as disclosed below:

On 20 March 2017, after taking into consideration the recommendation of DUFU's principal adviser, Affin Hwang Investment Bank Berhad, the Board has resolved not to proceed with the Proposals as depicted in Note 21(A)(i) to Note 21(A)(iv) and will evaluate alternative options to achieve the Company's objectives previously envisaged under the Proposals.

- (i) proposed consolidation of every two (2) existing ordinary shares of RM0.50 each in Dufu Technology Corp. Berhad ("DUFU") ("Existing Share(s)") into one (1) ordinary share of RM1.00 each in DUFU ("Consolidated Share(s)" or "DUFU Share(s)" or "Share(s)") ("Proposed Share Consolidation");
- (ii) proposed establishment of an executives' share option scheme of up to fifteen percent (15%) of the issued and paid-up share capital (excluding treasury shares) of DUFU at any point of time during the duration of the scheme for eligible executive Directors and employees of DUFU and its subsidiaries (excluding subsidiaries which are dormant) (excluding Lee, Hui-Ta also known as Li Hui Ta and Khoo Lay Tatt who have voluntarily relinquished their eligibility to the executives' share option scheme) ("Proposed ESOS" or "Scheme");



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- (iii) proposed increase in the authorised share capital of DUFU from RM100,000,000 comprising 200,000,000 Existing Shares to RM200,000,000 comprising 200,000,000 Consolidated Shares (“Proposed Increase in Authorised Share Capital”); and
- (iv) proposed amendment to the Memorandum of Association of DUFU (“Proposed Amendment”).

#### 22. Group borrowings

The Group’s borrowings as at the end of the reporting quarter are as follows:

	Short-term (Secured)	Long-term (Secured)	Total borrowing (Secured)
	RM’000	RM’000	RM’000
Bank Overdraft	-	-	-
Hire purchase	1,701	1,576	3,277
Term Loans	1,454	3,165	4,619
Total	<u>3,155</u>	<u>4,741</u>	<u>7,896</u>

The Group borrowings are dominated in the following currencies:

	RM’000
Ringgit Malaysia	7,653
US Dollar	243
Total borrowings	<u>7,896</u>

#### 23. Derivatives financial instruments

There were no outstanding derivatives financial instruments entered into by the Group as at the date of this quarterly report.

#### 24. Material litigation

There was no pending material litigation as at the date of this quarterly report.



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**25. Dividend**

A single tier interim dividend of 2 sen in respect of the financial year ending 31 December 2017 has been declared on 28 August 2017. However, the entitlement date and date of payment of the dividend have yet to be finalized at the date of the issuance of this interim financial report.

A single tier final dividend of 3.5 sen in respect of the financial year ended 31 December 2016 has been approved by the shareholders at the Annual General Meeting held on 24 May 2017 and was paid on 20 June 2017. In the corresponding period, a single tier final dividend of 1.1 sen was paid to shareholders on 15 June 2016.

**26. Earnings per share**

**Basic earnings per share**

Basic earnings per share is calculated by dividing the net profit for the quarter/period by the weighted average number of ordinary shares during the financial quarter/period.

	<b>3 Months Period Ended 30 June</b>		<b>6 Months Period Ended 30 June</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net profit attributable to shareholders (RM'000)	6,876	1,637	13,191	6,204
Weighted average number of ordinary shares in issue ('000)	166,818	170,295	166,818	170,295
Basic earnings per share (sen)	4.1	1.0	7.9	3.6

Diluted

The Group does not have any convertible shares or financial instruments for the current financial quarter and financial year to-date.



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**27. Realised and Unrealised Profits/Losses**

The retained profits of the Group are analysed as follows: -

	<b>As at 30.06.2017 RM'000</b>	<b>As at 31.12.2016 RM'000</b>
Total retained profits of the Company and its subsidiaries: -		
-Realised	65,767	56,830
-Unrealised	(416)	1,183
	<hr/> 65,351	<hr/> 58,013
Add/(Less): Consolidation adjustments	5,704	5,690
Total group retained profits as per consolidated accounts	<hr/> 71,055	<hr/> 63,703

**DATED THIS 28<sup>th</sup> DAY OF AUGUST, 2017.**