



DUFU TECHNOLOGY CORP. BERHAD

Registration No. 200201013949 (581612-A)
(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2021

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 2020. 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 2020.

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 2020 except for the adoption of the following new MFRSs and Interpretations, and amendments to certain MFRSs and Interpretations with effect from 1 January 2021:

Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 *Interest Rate Benchmark Reform – Phase 2*

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
<u>New MFRS</u>		
MFRS 17	Insurance Contracts	1 January 2023
<u>Amendments/Improvements to MFRSs</u>		
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 128	Investments in Associates and Joint Ventures	Deferred
MFRS 17	Insurance Contracts	1 January 2023
MFRS 3	Reference to the Conceptual Framework	1 January 2022
MFRS 101	Classification of Liabilities as Current or Non-current	1 January 2023
MFRS 116	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
MFRS 137	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to MFRS Standards 2018-2020		
MFRS 108	Definition of Accounting Estimates (Amendment to Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2023
MFRS 101	Disclosure of Accounting Policies (Amendment to Presentation of Financial Statements)	1 January 2023
MFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
MFRS 112	Deferred Tax related to Assets/ Liabilities arising from a Single Transaction	1 January 2023

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.

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 recognized in the financial statements.



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(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 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 2020 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 quarter and financial period.

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. As at 30 June 2021, the total number of issued shares of the Company is 535,166,734 Shares (“Shares”), inclusive of 13,792,488 Shares held as treasury shares. Hence, the number of outstanding Shares in issue is 521,374,246 Shares. Shares purchased were stated at cost.



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9. Dividend paid

A single tier final dividend of 3.75 sen per share for the year ended 31 December 2020 was paid on 16 June 2021.

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 2021 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 period to date.

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

As at 30 June 2021, the Group has no material contingent liabilities save for corporate guarantee of RM87 million issued by the Company in respect of banking facilities granted to the subsidiary companies.

14. Related party transactions

The Board is 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 year.

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.

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

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Segment information for the period ended 30 June 2021 are as follows:

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	145,329	137,555	26,154	(141,316)	167,722
EBDITA *	53,111	5,170	4,844	(12,451)	50,674
Depreciation	(3,833)	(36)	(1,421)	-	(5,290)
Profit					
from operation	49,278	5,134	3,423	(12,451)	45,384
Finance costs	(180)	-	-	-	(180)
Share of results of associate	897	-	-	-	897
PBT **	49,995	5,134	3,423	(12,451)	46,101

As at 30 June 2021

Total assets	349,555	112,092	73,165	(191,460)	343,352
Total liabilities	64,672	77,500	10,310	(85,079)	67,403

Segment information for the period ended 30 June 2020 are as follows:

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	124,979	115,091	25,548	(129,260)	136,358
EBDITA *	28,043	2,075	6,924	(276)	36,766
Depreciation	(4,023)	(48)	(1,126)	-	(5,197)
Profit					
from operation	24,020	2,027	5,798	(276)	31,569
Finance costs	(390)	(5)	-	-	(395)
Share of results of associate	453	-	-	-	453
PBT **	24,083	2,022	5,798	(276)	31,627

As at 30 June 2020

Total assets	319,422	96,686	68,899	(186,823)	298,184
Total liabilities	74,568	9,213	70,173	(81,661)	72,293

* EBDITA – Earnings/(Loss) Before Depreciation, Interest expenses, Tax and Amortisation

** PBT - Profit/(Loss) 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 2021

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	71,571	72,424	15,158	(70,932)	88,221
EBDITA *	26,985	4,108	3,676	(12,378)	22,391
Depreciation	(1,934)	(18)	(656)	-	(2,608)
Profit					
from operation	25,051	4,090	3,020	(12,378)	19,783
Finance costs	(86)	-	-	-	(86)
Share of results	592	-	-	-	592
of associate					
PBT **	25,557	4,090	3,020	(12,378)	20,289

Preceding Year Quarter – 30 June 2020

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	56,218	62,470	15,457	(60,735)	73,410
EBDITA *	9,105	791	5,447	(138)	15,205
Depreciation	(1,533)	55	(782)	-	(2,260)
Profit					
from operation	7,572	846	4,665	(138)	12,945
Finance costs	(230)	(2)	-	-	(232)
Share of results	224	-	-	-	224
of associate					
PBT **	7,566	844	4,665	(138)	12,937

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Group

Group revenue for the quarter ended 30 June 2021 was RM88.2 million compared with RM73.4 million for the quarter ended 30 June 2020, an increase of 20.2%. The increase in revenue was mainly due to the increase in volume loading by customers related to Hard Disk Drives (“HDD”) components. On top of this, the Group also registered a strong double-digit growth

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following the enormous demand for sheet metal welded assembly components and parts and the buoyant orders coming from control and sensors in the non-HDD segment.

The Group's Profit Before Taxation for the quarter ended 30 June 2021 increased to RM20.3 million from RM12.9 million registered in the previous year corresponding financial quarter ended 30 June 2020. The increase in profit before taxation was mainly due to the increased in revenue. On top of that, in the preceding year corresponding quarter, the manufacturing plants in Malaysia operated at a much-reduced level of workforce arising from government enforcements on Movement Control Order (MCO).

i. Comparison between current period with corresponding period:

Current Period – 30 June 2021

	Malaysia RM'000	Singapore RM'000	China RM'000	Eliminations RM'000	Total RM'000
Revenue	145,329	137,555	26,154	(141,316)	167,722
EBDITA *	53,111	5,170	4,844	(12,451)	50,674
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Preceding Period - 30 June 2020

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Group

The Group's revenue for the period ended 30 June 2021 was RM167.7 million compared with RM136.4 million for the period ended 30 June 2020, an increase of 23.0%. The increase in revenue was mainly due to the increase in volume loading by customers related to Hard Disk Drives ("HDD") components. On top of this, the Group also registered a strong double-digit growth following the enormous demand for sheet metal welded assembly components and parts and the buoyant orders coming from control and sensors in the non-HDD segment.

The Group's profit before taxation for the period ended 30 June 2021 increased to RM46.1 million from RM31.6 million registered in the previous financial period ended 30 June 2020. The increase in profit before taxation was mainly due to the increase in revenue and higher production output which has resulted in lower absorption fixed overhead costs in the current financial period as compared to the preceding period.

17. Comparison with immediate preceding quarter's results

	Individual quarter ended		Variance	
	30.06.2021	31.03.2021		
	RM'000	RM'000	RM'000	%
Revenue	88,221	79,501	8,720	11.0
Profit before tax	20,289	25,812	(5,523)	(21.4)

Revenue for the quarter ended 30 June 2021 increased by RM8.7 million or 11.0% while profit before taxation decreased by RM5.5 million or 21.4% for the current quarter as compared to the preceding quarter. Despite the increase in revenue, the decreased in profit before taxation was mainly due to the manufacturing environmental hostility of constantly adapting to operating at a much-reduced level of workforce arising from government enforcements on Movement Control Order (MCO) and adhering to the stricter Standard Operating Procedures (SOP) to prevent and/or mitigate the spread of Covid-19 risk in workplaces.

18. Prospects

The Group is seeing healthy order flow from existing customers, and coupled with confirmed orders from new customers. The demand from HDD business remains robust with cloud demand leading the charge to fuel the Group's growth. We are also positive on the Group's non-HDD segment as the semiconductor and tech hardware capital spending remains strong from domestic equipment exporters.



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All-in-all we are seeing strong visibility of orders for the second half of 2021 which should contribute positively towards the Group's earnings. Nevertheless, the multiple implementations and various phases of MCO in Malaysia have significantly impacted businesses, which are constantly adapting operations to a much-reduced level of workforce and adhering to the stricter SOP at all times to mitigate the risk of Covid-19 especially in workplaces.

On 10 and 11 July 2021, a total of 737 of the Group's employees were vaccinated as part of the Public-Private Partnership Immunisation Programme (PIKAS) initiated by the Ministry of International Trade and Industry (MITI). The Group will continue to adhere to all SOPs to safeguard the health and safety of all employees and to ensure its business continuity amid the ongoing Covid-19 pandemic.

In addition, the Group continues to streamline its business structure, improve on its processes and optimize its operations. Buoyed by the abovementioned positive developments for the Group vis-a-vis the associated risks on the unpredictability and uncertainty posed by Covid-19 pandemic on the Group's business operations and supply chain disruption, we are cautiously optimistic of the Group's financial performance in the coming third quarter of 2021.

19. Variance of actual profit from profit forecast

Not applicable.

20. Taxation

	Current Quarter 3 months ended 30 June 2021 RM'000	Year-to-date 6 months ended 30 June 2021 RM'000
Income tax		
Current year	5,505	11,799
Prior year	-	-
	<hr/> 5,505	<hr/> 11,799
Deferred tax		
Current year	(1,136)	(2,639)
Prior year	-	1,502
	<hr/> 4,369	<hr/> 10,662

21. Status on corporate proposals

There were no significant corporate proposals for the current financial period to date.



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22. Group borrowings

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

	Short-term (Unsecured) RM'000	Short-term (Secured) RM'000	Long-term (Secured) RM'000	Total borrowings RM'000
Finance lease liabilities	-	317	525	842
Term loans	-	1,411	8,470	9,881
Bankers' acceptances	5,448	-	-	5,448
Revolving term loan	3,246	-	-	3,246
Total	8,694	1,728	8,995	19,417

The Group borrowings are dominated in the following currencies:

	RM'000
Ringgit Malaysia	12,723
US Dollar	6,694
Total borrowings	19,417

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.

25. Dividend

A single tier interim dividend of 2.0 sen in respect of the financial year ending 31 December 2021 has been declared on 3 August 2021 and is to be paid on 24 September 2021 to depositors registered in the records of Depositors at the close of business on 30 August 2021. The interim report does not reflect this dividend. Such dividend will be accounted for in equity as appropriation of retained earnings in the quarter ending 30 September 2021. In the corresponding period, a single tier interim dividend of 1.25 sen in respect of the financial year ended 31 December 2020 was paid on 25 September 2020.

A single tier final dividend of 3.75 sen for the year ended 31 December 2020 was paid to shareholders on 16 June 2021. In the corresponding period, a single tier final dividend of 6 sen in respect of the financial year ended 31 December 2019 was paid to the shareholders on 15 July 2020.

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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.

	3 Months Quarter Ended 30 June		6 Months Period Ended 30 June	
	2021	2020	2021	2020
Net profit attributable to shareholders (RM'000)	15,920	9,897	35,439	24,041
Weighted average number of ordinary shares in issue ('000) for basic earnings per share	521,374	512,618	521,374	512,618
Basic earnings per share (sen)	3.1	1.9	6.8	4.7
Weighted average number of ordinary shares in issue ('000) for diluted earnings per share	528,871	514,778	528,871	514,778
Diluted earnings per share (sen)	3.0	1.9	6.7	4.7

* *Basic and diluted earnings per share are calculated based on the weighted average of ordinary shares which has been adjusted for bonus issue retrospectively.*

DATED THIS 3rd DAY OF AUGUST, 2021