

MIKRO BERHAD
(formerly known as Industri Teknologi Mikro Berhad)
(Company no. 423468-T)
(Incorporated in Malaysia)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2006

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134 (FORMERLY MASB 26)

A1. BASIS OF PREPARATION

The interim financial report of Mikro Berhad (formerly known as Industri Teknologi Mikro Berhad) (“Mikro” or “Company”) and its subsidiary (“Mikro Group” or “Group”) is unaudited and is prepared in accordance with the requirements of the Financial Reporting Standard (FRS) 134: Interim Financial Reporting (previously known as MASB 26) issued by Malaysian Accounting Standards Board (“MASB”) and Rule 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) for the MESDAQ Market. The interim financial report should be read in conjunction with Group’s audited financial statements for the financial year ended 30 June 2006.

The accounting policies and methods of computation adopted in the Group’s annual audited financial statements for the financial year ended 30 June 2006 have been consistently adopted in the preparation of the interim financial statements except for the adoption of the following new and revised FRS issued by MASB that are effective for the Group for the financial period beginning 1 July 2006:-

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Presentation of Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 107	Cash Flow Statements
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 112	Income Taxes
FRS 114	Segment Reporting
FRS 116	Property, plant and equipment
FRS 117	Leases #
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 121	The Effect of Changes in Foreign Exchange Rates
FRS 123	Borrowing cost
FRS 124	Related Party Disclosures #
FRS 126	Accounting and Reporting by Retirement Benefit Plans
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earning Per Share
FRS 136	Impairment of Assets
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
FRS 138	Intangible Assets
FRS 139	Financial Instruments : Recognition and Measurement @
FRS 140	Investment Properties

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With effective 1 October 2006 onwards

@ Not adopted as Malaysian Accounting Standards Board postponed the effective date of adoption

The adoption of the above standards does not have significant financial impact on the Group save for the following:-

FRS 2 Share-based Payment

This FRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

The Company has an Employee Share Option Scheme (“ESOS”). Prior to 1 January 2006, no compensation expenses were recognized in profit or loss for share options granted. With the adoption of FRS 2, the compensation expenses relating to share options are recognized in profit or loss over the vesting periods of the grants with a corresponding increase in equity. The total amount to be recognized as compensation expenses is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested date. The fair value of the share option is computed using a binomial model. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in profit or loss and a corresponding adjustment to equity over the remaining vesting period.

A2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements was not subject to any qualification.

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 quarter under review.

A4. SEASONAL OR CYCLICAL FACTORS

The business of the Group was not affected by any significant seasonal or cyclical factors.

A5. CHANGES IN ESTIMATES

There were no changes in estimates of amounts reported during this quarter.

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A6. DEBT AND EQUITY SECURITIES

There was no issuance or repayment of debt and equity securities, share buy-back, share cancellations, shares held as treasury shares and resale of treasury shares during the current quarter.

A7. DIVIDEND PAID

On 8 December 2006, a final dividend of 8% less 28% tax per ordinary share amounting RM691,200 was paid in respect of the financial year ended 30 June 2006.

A8. SEGMENTAL INFORMATION

The business of the Group is generated from the sales of analogue, digital and computer-controlled electronic devices and there was only one business segment identified.

Segmental revenue in geographical areas of the Group for the current quarter and current year to date 31 December 2006 is as follows:

	Current Year Quarter 31 December 2006 RM'000	Current Year To Date 31 December 2006 RM'000
Segment Revenue		
Domestic	2,212	4,329
Foreign	754	1,544
Total revenue	2,966	5,873

Segmental total assets in geographical areas of the Group are as follows:

	Current Year Quarter 31 December 2006 RM'000	As at preceding Financial Year Ended 30 June 2006 RM'000
Total assets		
Domestic	19,644	19,553
Foreign	-	-
Total assets	19,644	19,553

A9. CARRYING AMOUNT OF REVALUED ASSETS

The Company did not revalue any of its property, plant and equipment during the quarter.

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A10. SUBSEQUENT EVENTS

There were no material events subsequent to the end of the current quarter.

A11. CHANGES IN COMPOSITION OF THE GROUP

There is no change in the composition of the Group including business combinations, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations for the current financial year to date.

A12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the last annual balance sheet as at 30 June 2006 up to 13 February 2007.

A13. CAPITAL COMMITMENTS

There are no material commitments which require disclosure during the quarter except for the following:

	As at 31/12/2006
	RM'000
<u>Capital expenditure:</u>	
Acquisition of 1 ½ storey terrace factory	880

A14. SIGNIFICANT RELATED PARTY TRANSACTION

There were no significant related party transactions as at 13 February 2007.

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PART B – EXPLANATORY NOTES PURSUANT TO RULE 9.22 OF THE LISTING REQUIREMENTS OF BURSA SECURITIES FOR THE MESDAQ MARKET

B1. PERFORMANCE REVIEW

The Group recorded a consolidated profit after taxation of RM0.68 million on the back of revenue of RM2.97 million for the current quarter under review, whilst, for the 6 months financial period ended 31 December 2006, the Group achieved a consolidated profit after taxation of RM1.49 million and revenue of RM5.87 million. The Group has shown slight improvement in revenue and profitability as compared to the preceding year corresponding period ended 31 December 2005. The revenue and profit after tax of the Group has increased by 22.1% and 14.5% respectively from the amount recorded in the said preceding year corresponding period ended 31 December 2005.

B2. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

In terms of profit before tax, the Group recorded a decrease of RM0.10 million in the current quarter from RM1.07 million recorded in the immediate preceding quarter. The decrease was mainly due to the higher amount of cost of sales resulting from increase in the prices of raw materials during the current quarter under review.

B3. COMMENTARY ON PROSPECTS

The Group expects positive growth from the domestic as well as the overseas sales especially in the Asia Pacific region.

The Group will also continue its effort in expanding its overseas market share and expects positive contributions from these markets. Additionally, in order to maintain its competitive edge, the Group will continue to focus on research & development to further develop and to enhance its products offerings.

B4. PROFIT FORECAST AND PROFIT GUARANTEE

Not Applicable.

B5. TAXATION

	Current year quarter 31 December 2006 RM'000	Current year to date 31 December 2006 RM'000
Estimated income tax :		
Malaysia income tax	282	540
Foreign income tax	-	-
	282	540

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The Group's effective tax rate is higher than the Malaysian statutory tax rate of 27% due to certain expenses that are not deductible for taxation purpose.

B6. SALE OF UNQUOTED INVESTMENT AND/OR PROPERTIES

There was no sale of unquoted investments and/or properties during the current quarter and financial year to date.

B7. QUOTED SECURITIES

The group does not have any investments in quoted securities as at 31 December 2006. There was no acquisition or disposal of quoted securities for the current quarter and financial year to date.

B8. STATUS OF CORPORATE PROPOSALS AS AT 13 FEBRUARY 2007

Save as disclosed below, there were no other corporate proposals announced but not completed as at 13 February 2007:-

The status of utilisation of proceeds to be raised from the Rights Issue and Public Issue is as follows:-

	Proposed Utilisation *	Amount utilised as at 13 February 2007	Transfer **	Amount outstanding	Expected time frame for utilisation by *
	RM'000	RM'000		RM'000	
R&D expenses	3,500	(821)	-	2,679	Mid 2009
Land and factory building	3,500	(88)	-	3,412	Mid 2008
Working capital	1,520	(1,103)	(417)**	-	End 2006
Estimated listing expenses	1,200	(1,617)	417**	-	Early 2006
Total	9,720	(3,629)	-	6,091	

* As set out in Mikro's prospectus dated 5 December 2005.

** As set out in Mikro's prospectus dated 5 December 2005, in the event that additional listing expenses are incurred, the additional amounts will be utilised from the proceeds raised for its working capital requirements. Hence, the additional listing expenses incurred were paid out of amount proposed for working capital.

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B9. BORROWINGS

The borrowing of the Company as at 31 December 2006 are as follows:-

	As at 31 December 2006 RM'000
Secured Short-term [due within 12 months]:	
Hire purchase payables	42
	<u>42</u>
Secured Long-term [due after 12 months] :	
Hire purchase payables	205
	<u>205</u>
Total Borrowings	<u>274</u>

There are no unsecured borrowings for the current quarter.

B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

During the current year, Mikro granted 8,040,000 options under its employees' share option scheme ("ESOS") to the Directors and eligible employees of the Group ("Eligible Persons") in conjunction with Mikro's Listing, which are exercisable to ordinary shares at an exercise price of RM0.22 per share subject to the By-Laws for the ESOS as disclosed in the prospectus dated 5 December 2005.

B11. MATERIAL LITIGATION

Since the last annual balance sheet date up to 13 February 2007, the Directors are not aware of any changes in material litigations or claims against the Group and Company.

B12. DIVIDEND PAYABLE

There is no dividend declared or payable for the current quarter under review.

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B13. EARNINGS PER SHARE

a) Basic earnings per share

The basic earnings per share is calculated based on the Group's profit after taxation for the current year quarter and current year to date, and divided by the respective weighted average number of ordinary shares in issue as at 31 December 2006 as follows:-

	Current year quarter 31 December 2006	Current year to date 31 December 2006
Profit after tax (RM '000)	684	1,494
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Basic earnings per share (sen)	0.57	1.24

b) Diluted earnings per share

	Current year quarter 31 December 2006	Current year to date 31 December 2006
Profit after tax (RM '000)	684	1,494
Weighted average number of ordinary shares in issue ('000)	120,000	120,000
Adjusted for share options granted ('000)	1,104	965
Adjusted weighted average number of ordinary shares ('000)	121,104	120,965
Diluted earnings per share (sen)	0.57	1.23