

MIKRO MSC BERHAD
(Company no. 738171-M)
(Incorporated in Malaysia)

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 31 DECEMBER 2014

PART A – EXPLANATORY NOTES ON COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING

A1. BASIS OF PREPARATION

The interim financial statements of the Group are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard (“MFRS”) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2014.

The Group has adopted the Malaysian Financial Reporting Standards ("MFRS") framework issued by the Malaysian Accounting Standards Board ("MASB") commencing on 1 July 2012. This MFRS framework was introduced by the MASB in order to converge Malaysia's existing Financial Reporting Standards ("FRS") framework with the International Financial Reporting Standards ("IFRS") framework issued by the International Accounting Standards Board.

The accounting policies and methods of computation adopted by the Group in these quarterly financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 30 June 2014.

Changes in accounting policies

The significant accounting policies adopted in the unaudited interim financial statements are consistent with those of the audited financial statements for the financial year ended 30 June 2014 except for the MFRS and IC Interpretations to be applied by all Entities Other Than Private Entities for the financial period beginning on 1 July 2013:-

MFRSs	Descriptions
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards
MFRS 2	Share-based Payment
MFRS 3	Business Combinations
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations
MFRS 7	Financial Instruments: Disclosures
MFRS 8	Operating Segments
MFRS 101	Presentation of Financial Statements
MFRS 102	Inventories
MFRS 107	Statement of Cash Flows
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
MFRS 110	Events after the Reporting Period
MFRS 111	Construction Contracts
MFRS 112	Income Taxes
MFRS 116	Property, Plant and Equipment
MFRS 117	Leases
MFRS 118	Revenue
MFRS 119	Employee Benefits
MFRS 120	Accounting for Government Grants and Disclosure of Government Assistance
MFRS 121	The Effects of Changes in Foreign Exchange Rates

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MFRS 123	Borrowing Costs
MFRS 124	Related Party Disclosures
MFRS 127	Consolidated and Separate Financial Statements
MFRS 128	Investments in Associates
MFRS 131	Interests in Joint Ventures
MFRS 132	Financial Instruments: Presentation
MFRS 133	Earnings per Share
MFRS 136	Impairment of Assets
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
MFRS 138	Intangible Assets
MFRS 139	Financial Instruments: Recognition and Measurement
MFRS 140	Investment Property
MFRS 141	Agriculture
IC Int. 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Int. 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Int. 4	Determining Whether an Arrangement Contains a Lease
IC Int. 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Int. 6	Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
IC Int. 7	Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyperinflationary Economies
IC Int. 9	Reassessment of Embedded Derivatives
IC Int. 10	Interim Financial Reporting and Impairment
IC Int. 12	Service Concession Arrangements
IC Int. 13	Customer Loyalty Programmes
IC Int. 14	MFRS 119 –The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IC Int. 15	Agreements for the Construction of Real Estate
IC Int. 16	Hedges of a net Investment in a Foreign Operation
IC Int. 17	Distributions of Non-cash Assets to Owners
IC Int. 18	Transfers of Assets from Customers
IC Int. 19	Extinguishing Financial Liabilities with Equity Instruments
IC Int. 107	Introduction of the Euro
IC Int. 110	Government Assistance – No Specific Relation to Operating Activities
IC Int. 112	Consolidation – Special Purpose Entities
IC Int. 113	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
IC Int. 115	Operating Leases- Incentives
IC Int. 125	Income Taxes – Change in the Tax Status of an Entity or its Shareholders
IC Int. 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC Int. 129	Service Concession Arrangements: Disclosures
IC Int. 131	Revenue – Barter Transactions Involving Advertising Services
IC Int. 132	Intangible Assets – Web Site Costs

ADOPTION OF MALAYSIAN FINANCIAL REPORTING STANDARDS

The adoption of the above MFRSs and IC Interpretations did not result in any significant changes in the accounting policies and presentation of the financial results of the Group.

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The Group has not adopted the following MFRSs, Amendments to MFRSs and IC Interpretations which were in issue but not yet effective:

		Effective Date
MFRS 9	Financial Instruments	1 January 2015
MFRS 10	Consolidated Financial Statements	1 January 2013
MFRS 11	Joint Arrangements	1 January 2013
MFRS 12	Disclosure of Interest in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
MFRS 119	Employee Benefits	1 January 2013
MFRS 127 (revised)	Separate Financial Statements	1 January 2013
MFRS 128 (revised)	Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS 1	Government Loans	1 January 2013
Amendments to MFRS 7	Disclosure – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IC Int. 20	Stripping Costs in the Production Phase Of a Surface Mine	1 January 2013

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 significant changes in estimates of amounts reported during this quarter.

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.

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A7. DIVIDEND PAID

There were no dividends paid during the quarter under review.

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.

In the prior year's audited consolidated financial statements, the basis of segmentation was on primary format of business segments. In the current quarter ended 31 December 2014 and for the current financial year ending 30 June 2015, the basis of segmentation is as follows:

	Revenue	Elimination	Total
	RM'000	RM'000	RM'000
Revenue			
External sales	9,285		9,285
Inter-segment sales	3,740	(3,740)	-
Total revenue	<u>13,025</u>	<u>(3,740)</u>	<u>9,285</u>
Profit from Operation			<u>1,848</u>

A9. CARRYING AMOUNT OF REVALUED ASSETS

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

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.

A12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets as at to date of issue of this report.

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A13. CAPITAL COMMITMENTS

There are no material commitments which require disclosure during the quarter.

A14. SIGNIFICANT RELATED PARTY TRANSACTION

There were no related party transactions during the quarter under review.

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

B1. PERFORMANCE REVIEW

The Group generated revenue of approximately RM9.29 million for the current quarter under review, representing a 20.95% increase in comparison to the revenue of approximately RM7.68 million recorded in the preceding quarter year corresponding period (“PYCP”). The Group’s higher revenue was mainly due to increase in overseas and local sales. The Group achieved a profit before taxation (“PBT”) of approximately RM2.12 million for the current quarter ended 31 December 2014 representing a 34.73% increase compared to PBT of approximately RM1.58 million recorded for the PYCP. An increase in PBT was mainly due to increase in sales.

B2. COMPARISON WITH PRECEDING QUARTER’S RESULTS

The Group’s revenue for the current quarter under review of approximately RM9.29 million was higher as compared to approximately RM8.61 million achieved in the immediate preceding quarter ended 30 September 2014, representing an increase of about RM0.68 million or 7.86%. However, the Group recorded a profit before tax of RM2.12 million for the current quarter ended 31 December 2014 as compared to PBT of RM2.73 million in the preceding quarter. The decrease in PBT was mainly due to higher cost of sales.

B3. COMMENTARY ON PROSPECTS

The Board is of the view that the financial performance and prospects of the Group will be challenging in the remaining financial year. As a result, the Board will continue to exercise caution in managing the business.

B4. PROFIT FORECAST AND PROFIT GUARANTEE

Not applicable as the Company has not issued any profit forecast or profit guarantee.

B5. TAXATION

	Current year quarter 31 December 2014 RM’000	Current year to date 31 December 2014 RM’000
Estimated income tax :		
Malaysia income tax	276	583
Foreign income tax	-	-
	276	583

The Group’s effective tax rate is lower than the Malaysian statutory tax rate of 25%. This is primarily due to certain tax incentive enjoying by the Group.

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B6. SALE OF UNQUOTED INVESTMENT AND/OR PROPERTIES

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

B7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

The group does not have any investments in quoted securities for the current quarter under review and financial year to date. There was no acquisition or disposal of quoted securities for the current quarter under review and financial year to date.

B8. STATUS OF CORPORATE PROPOSALS

On 19 September 2014, the Company announced the following Proposals:

(i) proposed bonus issue of 93,943,100 new ordinary shares of RM0.10 each in the Company ("**MMSC Shares**" or "**Shares**") ("**Bonus Shares**"), to be credited as fully paid-up at par, on the basis of one (1) Bonus Share for every two (2) existing Shares held by the entitled shareholders of the Company whose names appear on the record of depositors of the Company ("**Entitled Shareholders**") on an entitlement date to be determined and announced later by the Board ("**Entitlement Date**") ("**Proposed Bonus Issue**");

(ii) proposed establishment of an employees' share option scheme ("**ESOS**") of up to fifteen percent (15%) of the issued and paid-up share capital of MMSC ("**Proposed ESOS**" or "**Scheme**");

(iii) proposed increase in the authorised share capital of the Company from RM25,000,000 comprising 250,000,000 MMSC Shares to RM100,000,000 comprising 1,000,000,000 MMSC Shares ("**Proposed Increase In Authorised Share Capital**"); and

(iv) proposed amendments to the Memorandum and Articles of Association ("**M&A**") of MMSC ("**Proposed M&A Amendments**").

(the Proposed Bonus Issue, Proposed ESOS, Proposed Increase in Authorised Share Capital and Proposed M&A Amendments are collectively referred to as "**the Proposals**")

On 3 November 2014, the company announced that Bursa Malaysia Securities Berhad ("**Bursa Securities**") has vide its letter dated 31 October 2014, approved the Company's listing application in respect of the Proposed Bonus Issue and Proposed ESOS. The aforesaid approval is subject to, inter-alia, the following conditions:

(a) MMSC and AmInvestment Bank Berhad ("**AmInvestment Bank**") must fully comply with the relevant provisions under the ACE Market Listing Requirements ("**Listing Requirements**") pertaining to the implementation of the Proposed Bonus Issue;

(b) MMSC and AmInvestment Bank to inform Bursa Securities upon the completion of Proposed Bonus Issue;

(c) MMSC to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Bonus Issue is completed;

(d) MMSC and AmInvestment Bank are required to make the relevant announcements pursuant to Rule 6.35(2)

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(a)&(b) and 6.35(4) of the Listing Requirements;

(e) AmInvestment Bank is required to submit a confirmation to Bursa Securities of full compliance of the Proposed ESOS pursuant to Rule 6.44(1) of the Listing Requirements and stating the effective date of implementation together with a certified true copy of the resolution passed by the shareholders in general meeting approving the Proposed ESOS; and

(f) MMSC is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of options, pursuant to the Proposed ESOS as at the end of each quarter together with a detailed computation of listing fee payable.

On 6 November 2014, the Company dispatched the circular to shareholders in relation to the Proposals and Notice of Extraordinary General meeting.

On 15 December 2014, the company announced that 93,943,100 Bonus Shares were issued and allotted.

On 16 December 2014, the company announced that the Bonus Issue has been completed following the listing and quotation of the Bonus Shares on the ACE Market of Bursa Malaysia Securities Berhad.

B9. BORROWINGS

The borrowings of the Company as at 31 December 2014 are as follows:-

	As at 31 December 2014 RM'000
Secured Short-term [due within 12 months]: Hire purchase payables	<u>69</u>
Secured Long-term [due after 12 months] : Hire purchase payables	255
Total Borrowings	<u><u>324</u></u>

There are no unsecured borrowings for the current quarter.

B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

The Company has no financial instruments with off balance sheet risk as at the date of issuance of this report.

B11. MATERIAL LITIGATION

There were no material litigations or pending material litigations involving the Group as at the date of issue of this report.

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B12. DIVIDEND PAYABLE

No dividend was declared for the current quarter under review.

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 2014 as follows:-

	Current year quarter 31 December 2014	Current year to date 31 December 2014
Profit after tax (RM '000)	1,848	4,270
Weighted average number of ordinary shares in issue ('000)	205,245	189,214
Basic earnings per share (sen)	0.89	2.24

b) Diluted earnings per share

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

	Current year quarter 31 December 2014	Current year to date 31 December 2014
Profit after tax (RM '000)	1,848	4,270
Weighted average number of ordinary shares in issue applicable to basic earnings per share.('000)	205,245	189,214
Adjusted for share options granted ('000)	227	86
Adjusted weighted average number of ordinary shares in issue applicable to diluted earnings per share ('000)	205,472	189,300
Diluted earnings per share (sen)	0.89	2.23

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B14. AUTHORISATION FOR ISSUE

The interim financial statements and the accompanying notes were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors passed on 13 February 2015

BY ORDER OF THE BOARD
MIKRO MSC BERHAD