

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2015

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 2015.

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 2015.

Changes in accounting policies

The Group adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board (‘MASB’) during the financial year.

Title	Effective Date
Amendments to MFRS 10 <i>Consolidated Financial Statements: Investment Entities</i>	1 January 2014
Amendments to MFRS 12 <i>Disclosure of Interest in Other Entities: Investment Entities</i>	1 January 2014
Amendments to MFRS 127 <i>Separate Financial Statements (2011): Investment Entities</i>	1 January 2014
Amendments to MFRS 132 <i>Offsetting Financial Assets and Financial Liabilities</i>	1 January 2014
Amendments to MFRS 136 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	1 January 2014
Amendments to MFRS 139 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	1 January 2014
IC Interpretation 21 <i>Levies</i>	1 January 2014
Amendments to MFRS 119 <i>Defined Benefit Plans: Employee Contributions</i>	1 July 2014
Amendments to MFRSs <i>Annual Improvements 2010 – 2012 Cycle</i>	1 July 2014
Amendments to MFRSs <i>Annual Improvements 2011 – 2013 Cycle</i>	1 July 2014

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.

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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.

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 30 September 2015 and for the current financial year ending 30 June 2016, the basis of segmentation is as follows:

	Revenue RM'000	Elimination RM'000	Total RM'000
Revenue			
External sales	10,533		10,533
Inter-segment sales	4,183	(4,183)	-
Total revenue	<u>14,716</u>	<u>(4,183)</u>	<u>10,533</u>
Profit from operation			<u>2,845</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.

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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.

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 RM10.53 million for the current quarter under review, representing a 22.36% increase in comparison to the revenue of approximately RM8.61 million recorded in the preceding quarter year corresponding period (“PYCP”). The Group’s higher revenue was mainly due to increase in local sales. The Group achieved a profit before taxation (“PBT”) of approximately RM3.38 million for the current quarter ended 30 September 2015 representing a 23.97% increase compared to PBT of approximately RM2.73 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 RM10.53 million was lower as compared to approximately RM10.62 million achieved in the immediate preceding quarter ended 30 June 2015, representing a decrease of about RM0.08 million or 0.8%. However, the Group recorded a profit before tax of RM3.38 million for the current quarter ended 30 September 2015 as compared to PBT of RM2.58 million in the preceding quarter. An increase in PBT was mainly due to lower cost of sales.

B3. COMMENTARY ON PROSPECTS

The current weakening of ringgit against the US dollar is beneficial to the Group in near-term because the receivable in US dollar by the Group from overseas sales is higher than the payable in US dollar for the purchases. However, continuous weakening of ringgit and a slow economy of Malaysia may have an impact on the Group in the long run because 63% of the revenue of the company was derived from local sales for FYE2015.

Due to the nature of business of the Group, a slow economy of Malaysia will have a delayed effect of one to two years on the Group’s local sales. In addition to the above and the Group’s intensified effort to increase its overseas sales, the Board expects the Group to achieve satisfactory results in the coming financial year.

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 30 September 2015 RM’000	Current year to date 30 September 2015 RM’000
Estimated income tax :		
Malaysia income tax	539	539
Foreign income tax	-	-
	539	539

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 1 September 2015, the Company announced that Mikro Sdn Bhd (423468-T) (“**MSB**” or the **Purchaser**”), a wholly-owned subsidiary of MMSC, had on 1 September 2015 entered into a conditional sale and purchase agreement (“**SPA**”) with Alvano (M) Sdn Bhd (643475-D) (“**Alvano**” or “**Vendor**”) for the proposed acquisition of all that piece of freehold industrial land held under Geran 99184, Lot 69271, Mukim and District of Klang, Selangor Darul Ehsan measuring approximately 4,047 square meters in area, together with a single (1)-storey warehouse, with an annexed three (3)-storey office block, a guard house, a refuse chamber as well as a car park shed (collectively referred to as the “**Industrial Premises**”) bearing the postal address of No. 3, Jalan Anggerik Mokara 31/48, Kota Kemuning, Seksyen 31, 40460, Shah Alam, Selangor Darul Ehsan (“**Property**”) for a total cash consideration of RM11,720,000 (excluding Goods and Services Tax (“**GST**”)) (“**Proposed Acquisition**”).

B9. BORROWINGS

The borrowings of the Company as at 30 September 2015 are as follows:-

	As at 30 September 2015 RM'000
Secured Short-term [due within 12 months]: Hire purchase payables	<u>283</u>
Secured Long-term [due after 12 months]: Hire purchase payables	553
Total Borrowings	<u><u>836</u></u>

There are no unsecured borrowings for the current quarter.

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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.

B12. DIVIDEND PAYABLE

The Company has proposed a final single tier dividend of 5% per ordinary share of RM0.10 each in respect of the financial year ended 30 June 2015.

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 30 September 2015 as follows:-

	Current year quarter 30 September 2015	Current year to date 30 September 2015
Profit after tax (RM '000)	2,846	2,846
Weighted average number of ordinary shares in issue (‘000)	281,829	281,829
Basic earnings per share (sen)	<u>1.01</u>	<u>1.01</u>

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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 30 September 2015	Current year to date 30 September 2015
Profit after tax (RM '000)	2,846	2,846
Weighted average number of ordinary shares in issue applicable to basic earnings per share.(‘000)	281,829	281,829
Adjusted for share options granted (‘000)	(148)	(143)
Adjusted weighted average number of ordinary shares in issue applicable to diluted earnings per share (‘000)	281,681	281,686
Diluted earnings per share (sen)	1.01	1.01

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 30 November 2015.

BY ORDER OF THE BOARD
MIKRO MSC BERHAD