

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

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**NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT**  
**FOR THE THIRD QUARTER ENDED 31 MARCH 2016**

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**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.

<b>Title</b>	<b>Effective Date</b>
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**

On 30 March 2016, a first interim single tier dividend of 6% per ordinary share of RM0.10 each amounting to RM1,834,044.48 was paid in respect of the financial year ended 30 June 2015.

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

	<b>Revenue</b> <b>RM'000</b>	<b>Elimination</b> <b>RM'000</b>	<b>Total</b> <b>RM'000</b>
<b>Revenue</b>			
External sales	11,314		11,314
Inter-segment sales	4,771	(4,771)	-
Total revenue	<u>16,085</u>	<u>(4,771)</u>	<u>11,314</u>
Profit from operation			<u>2,009</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 RM11.31 million for the current quarter under review, representing an 8.03% increase in comparison to the revenue of approximately RM10.47 million recorded in the preceding quarter year corresponding period (“PYCP”). The Group recorded a higher proportion of sales to our Overseas market. It recorded a higher Gross Profit of RM5.99 million as compared to RM5.40 million in the PYCP, an increase of 10.94%. In the same period comparison, revenue increased by 8.03% whilst costs of sales increased by 4.92% and Gross margin improved by 1.39%. However, it achieved a profit before taxation (“PBT”) of approximately RM2.11 million for the current quarter ended 31 March 2016 representing a 22.19% decrease compared to PBT of approximately RM2.71 million recorded for the PYCP. The decrease in PBT was primary due to unrealised losses in foreign exchange of RM0.54 million.

**B2. COMPARISON WITH PRECEDING QUARTER’S RESULTS**

The Group’s revenue for the current quarter under review of approximately RM11.31 million was lower as compared to approximately RM13.74 million achieved in the immediate preceding quarter ended 31 December 2015, representing a decrease of about RM2.43 million or 17.67%. The Group recorded a PBT of RM2.11 million for the current quarter ended 31 March 2016 as compared to PBT of RM4.41 million in the preceding quarter. The decrease in PBT was mainly due to lower revenue recorded in current quarter and the unrealised foreign exchange losses as mentioned above.

The current quarter is traditionally a lower sales quarter due to the effects of the Chinese New Year holidays and the carried forward effects of the New Year celebrations.

**B3. COMMENTARY ON PROSPECTS**

The Group is encouraged by the current performance to date wherein revenue has increased by RM7.22 million to RM35.59 million from RM28.37 million which was recorded in the nine months ended 31 March 2015. This was an increase of 25.46%. PAT increased in line with the increase in revenue by RM1.70 million or 26.54% from RM6.40 million to RM8.09 million for the 9-month period.

In terms of total units sold, there has been an overall increase of 12.68% as compared to that recorded in the 9 months ended 31 March 2015 indicating continued acceptance of the Group’s products.

The pricing policies of the Group’s products, the current favourable USD to RM exchange rate in respect of our Overseas market sales and the acceptance of the Group’s products in its targeted markets continue to have a positive impact on the financial performance of the Group.

The Group recognizes that it is a research based Group wherein its products are researched and developed in-house and then commercialized. It is thus self-sufficient in the research and development of new products and solutions. As such, research and development activities will continue to be emphasized to support the continued future growth of the Group.

The Group’s order and enquiries continue to be encouraging and it thus expect the full year financial results for the year ending 30 June 2016 to be positive.

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**B4. PROFIT FORECAST AND PROFIT GUARANTEE**

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

**B5. TAXATION**

	<b>Current year quarter 31 March 2016 RM'000</b>	<b>Current year to date 31 March 2016 RM'000</b>
Estimated income tax :		
Malaysia income tax	97	1,808
Foreign income tax	-	-
	97	1,808

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.

**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**").

On 1 December 2015, the Company announced to undertake a Proposed Private Placement of up to 10% of the issued and paid-up share capital of Mikro to third party investor(s) to be identified.

On 7 December 2015, the Company announced that Bursa Malaysia Securities Berhad had approved the listing and quotation of up to 28,182,930 Placement Shares to be issued pursuant to the Proposed Private Placement.

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On 9 December 2015, the Company announced to fix the issue price at RM0.355 per Placement Share. The issue price of RM0.355 per Placement Share represents a discount of approximately 9.72% to the five (5)-day volume weighted average market price of Mikro Shares, up to including 8 December 2015 of RM0.3932 per Mikro Share.

On 17 December 2015, the Company announced that the Proposed Acquisition has been completed.

On 22 December 2015, the Company announced that the Proposed Private Placement has been completed following the listing of and quotation for 23,845,000 Placement Shares on the ACE Market of Bursa Malaysia Securities Berhad.

The status of utilisation of proceeds raised from Company's private placement is as follows:-

	<b>Proposed Utilisation</b>	<b>Amount utilised as at 31 March 2016</b>	<b>Transfer *</b>	<b>Amount outstanding</b>	<b>Expected time frame for utilisation by *</b>
	<b>RM'000</b>	<b>RM'000</b>		<b>RM'000</b>	
Renovation and refurbishment expenses	2,000	-	-	2,000	End 2017
Purchase of manufacturing / testing machineries and equipment	2,000	-	-	2,000	End 2018
Working capital	6,903	(2,976)	(609)	3,318	End 2018
Estimated expenses in relation to the Proposed Private Placement	370	(979)	609		Mid 2016
<b>Total</b>	<b>11,273</b>	<b>(3,955)</b>	<b>-</b>	<b>7,318</b>	

\* *The additional Proposed Private Placement expenses incurred were paid out of amount proposed for working capital.*

## **B9. BORROWINGS**

The borrowings of the Company as at 31 March 2016 are as follows:-

	<b>As at 31 March 2016 RM'000</b>
Secured Current:	
Hire purchase payables	277
Biz loan	762

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Secured Non-current:	
Hire purchase payables	505
Biz loan	9,159
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Total Borrowings	<hr/> <hr/> 10,703

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.

**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 March 2016 as follows:-

	<b>Current year quarter 31 March 2016</b>	<b>Current year to date 31 March 2016</b>
Profit after tax	1,996	7,968
(RM '000)		
Weighted average number of ordinary shares in issue ('000)	285,461	288,689
Basic earnings per share (sen)	<hr/> <hr/> 0.70	<hr/> <hr/> 2.76

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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.

	<b>Current year quarter 31 March 2016</b>	<b>Current year to date 31 March 2016</b>
Profit after tax (RM '000)	1,996	7,968
Adjusted weighted average number of ordinary shares in issue applicable to diluted earnings per share ('000)	286,212	289,362
Diluted earnings per share (sen)	<u>0.70</u>	<u>2.75</u>

**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 27 May 2016.

**BY ORDER OF THE BOARD**  
**MIKRO MSC BERHAD**