NOTES TO THE INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 30 JUNE 2018

PART A – EXPLANATORY NOTES ON COMPLIANCE WITH MALAYSIAN FINANCIAL REPORTING

A1. BASIS OF PREPARATION

The interim financial statements of the Group 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 2017.

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 2017.

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. SEASONALITY OR CYCLICALITY OF OPERATIONS

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. CHANGES IN 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. DIVIDENDS PAID

On 11 May 2018, a first interim single-tier dividend of 0.5 sen per ordinary share amounting to RM2,154,460.75 was paid in respect of the financial year ended 30 June 2018.

A8. SEGMENT 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 June 2018 and for the current financial year ended 30 June 2018, the basis of segmentation is as follows:

Current year quarter 30 June 2018 RM'000	Revenue RM'000	Elimination RM'000	Total RM'000
Revenue			
External sales	11,870	-	11,870
Inter-segment sales	5,657	(5,657)	-
Total revenue	17,527	(5,657)	11,870
Profit from operation			623

Current year to date 30 June 2018 RM'000	Revenue RM'000	Elimination RM'000	Total RM'000
Revenue			
External sales	47,793	-	47,793
Inter-segment sales	22,139	(22,139)	-
Total revenue	69,932	(22,139)	47,793
Profit from operation			6,189

A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE CURRENT FINANCIAL QUARTER

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

A10. 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.

A11. 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.

A12. CAPITAL COMMITMENTS

Amounts contracted but not provided for capital expenditure as at 30 June 2018 amounted to RM1.7 million.

A13. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

B1. PERFORMANCE REVIEW

The Group generated revenue of RM11.9 million for the current financial quarter ("CFQ"), a decrease of 9.8% from that of RM13.2 million recorded in the preceding year financial quarter ("PFQ"). This decrease was caused by a 5.9% drop in total sales volume predominantly from sales in the local market. This decline which were due to market conditions (resulting in margin compression) caused the gross profit margin to decrease from 52.6% achieved in the PFQ to 45.5% for the CFQ.

Group's profit before taxation ("PBT") for the CFQ was RM2.0 million, a drop of RM0.9 million from that of RM2.9 million recorded in the PFQ. The lower PBT was mainly due to the lower sales volume recorded and the gross margin contraction as mentioned above and foreign exchange differences (realised and unrealised) which turned from a gain of RM546,000 in the PFQ to a loss of RM405,000 for the CFQ, a negative movement of RM951,000. This disparity in foreign exchange differences was attributed to the fact that 54.1% of the Group's revenue for the CFQ (51.1% in the PFQ) was export sales denominated in United States Dollar ("USD") and USD:RM exchange rate for the CFQ was 6.0% lower than that of the PFQ.

The Group's post-tax profit for the CFQ of RM623,000 was 76.9% lower than that of RM2.7 million recorded in the PFQ. This drop was not in line with the above percentage decline in PBT due to the high tax charge of RM1.4 million for the CFQ. This charge was significantly higher than the Malaysian statutory tax rate of 24% due to (i) income and deferred taxes under provided in prior years of RM180,000; and (ii) expenses not deductible for tax purposes. In this respect, it must be noted that low tax expense in the PFQ was due to the fact that the business income of the Company was not taxable until 30 May 2017 when its pioneer status under the Promotion of Investment Act, 1986 ("PIA") expired.

As for profit attributable to the owners of the parent, it declined from RM2.6 million in the PFQ to RM494,000 for the CFQ, a drop of 81.2%. This drop was consistent with the percentage drop in post-tax profit as disclosed above with the differential due to non-controlling interest.

For the current financial year ("CFY"), Group's revenue of RM47.8 million declined by 5.2% from the preceding financial year's ("PFY") revenue of RM50.4 million. With average selling prices more or less the same, the drop in revenue was due to the 4.5% decrease in total sales volume in the CFY from that of the PFY. As a consequence of this drop in volume and margin compression as mentioned earlier, the Group's gross profit margin for the CFY dropped to 48.7% from that of 52.6% attained in the PFY.

As for the Group's PBT, it declined from RM13.4 million in the PFY to RM9.7 million for the CFY, a drop of 27.6%. The main factor causing this decline was the drop in gross profit margin as mentioned above as well as foreign exchange differences (realised and unrealised) which turned from a gain of RM594,000 in the PFY to a loss of RM404,000 for the CFY, a negative movement of RM998,000 . This disparity in foreign exchange differences was attributed to the fact that 48.8% of the Group's revenue for the CFY (43.7% in the PFY) was export sales denominated in United States Dollar ("USD") and USD depreciated 6.0% against RM in the CFY as opposed to it appreciating by 6.8% against RM in the PFY.

The Group's post-tax profit for the CFY and profit attributable to the owners of the parent decreased by 44.1% and 45.0% respectively to RM6.2 million and RM6.0 million. The non-correlation between these items and PBT was mainly due to the fact that the Company's pioneer status under the PIA expired on 30 May 2017. The tax effect of this tax incentive in the PFY based on the Malaysian statutory tax rate of 24% was RM1.2 million and if this was disregarded, the declines in the profit for the CFY and profit attributable to the owners of the parent would be 37.4% and 38.1% respectively which were in line with the 38.1% drop in PBT as disclosed above.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's revenue for the CFQ of RM11.9 million was 22.7% higher than that of RM9.7 million achieved in the immediate preceding financial quarter. This increase in revenue was achieved mainly on the back of the increase in sales volume of 16.8% quarter-on-quarter ("QoQ"). The major factors contributing to this increase were increased level of export sales (54.1% of total revenue for the CFQ (as compared to 47.1% in the immediate preceding financial quarter) and a 4.6% appreciation in USD against RM QoQ.

As a consequence of the higher sales volume and higher revenue (in RM terms), gross margin increased from 43.4% in the immediate preceding financial quarter to 45.5% for the CFQ. With net operating expenses for the CFQ higher by merely RM302,000 QoQ, the improved gross margin caused the Group's PBT for the CFQ to increase to RM2.0 million from that of RM1.2 million for the immediate preceding financial quarter.

Despite the increase in PBT QoQ, the Group's post-tax profit for the CFQ declined to RM494,000 from that of RM840,000 recorded in the immediate preceding financial quarter, a decrease of 41.1%. This drop in post-tax profit was due to the high tax expense for the CFQ, the reasons for which had been detailed in Note B1 above.

As for profit attributable to the owners of the parent, it declined by 38.5% to RM494,000 for the CFQ from that of RM804,000 in the immediate preceding financial quarter. This is in line with the QoQ percentage drop in post-tax profit with the differential due to non-controlling interest.

B3. COMMENTARY ON PROSPECTS

Malaysia's economy for 2018 is expected to grow at 5%, albeit slightly lower than the earlier projection of between 5.5% and 6;0% and is expected to take cues from the United States of America's trade war with the People's Republic of China, according to Bank Negara Malaysia ("BNM"). BNM also said that it has observed growth projection weaknesses but these are confined to specific sectors and not on the general economy as a whole.

The Group has in the year past, proved its resilience as despite varying market conditions, it had remained profitable for the CFY albeit with a marginal decline in sales volume as compared with the PFY. On a positive note, the Group managed to sustain the selling prices of its products during the CFY at the same level as those of the PFY.

Going forward, the Group will be focusing on growing its X Series of protective relays, digital power meters and power factor regulators which are network enabled. These devices which were launched in January 2018 run on "Mikrosafe" a proprietary integrated software suite designed by the Group to monitor and control of electrical protection and energy consumption in commercial and industrial buildings.

The Group has successfully expanded its footprint overseas especially in Vietnam, Indonesia and the Indian sub-continent with 48.8% of its revenue for CFY coming from these countries. As these exports are denominated in USD, ceteris paribus, the movement of the RM versus the USD will have an impact on the Group's results.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

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

B5. TAX EXPENSE

	Current year quarter 30 June 2018 RM'000	Current year to date 30 June 2018 RM'000
Estimated income tax :		
Malaysia income tax	1,412	3,553
Foreign income tax	-	-
	1,412	3,553

The tax expense is derived based on management best's estimate of the tax rate for the year.

B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED

Save as disclosed below, there were no other corporate proposals announced but not completed as at 21 August 2018 being a date not earlier than 7 days from the date of issuance of the quarterly report :-

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

	Proposed Utilisation RM'000	Amount utilised as at 21 August 2018 RM'000	Amount outstanding RM'000	Expected time frame for utilisation by
Renovation and refurbishment expenses	2,000	(2,000)	-	N/A
Purchase of manufacturing / testing machineries and equipment	2,000	-	2,000	End 2018
Working capital *	4,094	(4,094)	-	N/A
Estimated expenses in relation to the Proposed Private Placement	370	(370)	-	N/A
Total	8,464	(5,947)	2,517	

* *Difference between the proposed proceeds and the actual proceeds raised shall be adjusted from/to the working capital*

B7. BORROWINGS AND DEBT SECURITIES

The borrowings of the Group as at 30 June 2018 are as follows:-

	As at 30 June 2018 RM'000
Secured	
Current liabilities:	
Hire purchase creditors	366
Flexi loan *	351
	717
Secured	
Non-current liabilities	
Hire purchase creditors	416
Flexi loan *	8,830
	9,246
Total Borrowings	9,963

* *The flexi loan of the Group is obtained for the purchase of freehold land and factory building*

B8. MATERIAL LITIGATION

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

B9. DIVIDEND PAYABLE

The Directors have recommended a final single tier dividend of 0.5 sen per ordinary share in respect of the financial year ended 30th June 2018, which is subject to the approval of the shareholders at the Company's forthcoming AGM.

B10. EARNINGS PER SHARE

a) Basic earnings per share

Basic earnings per ordinary share is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

	Note	Current year quarter 30 June 2018	Current year to date 30 June 2018
Profit attributable to equity holders of the parent (RM ′000)	1	494	5,977
Weighted average number of ordinary shares in issue (′000)		423,768	423,768
Basic earnings per share (sen)		0.12	1.41

b) Diluted earnings per share

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

	Note	Current year quarter 30 June 2018	Current year to date 30 June 2018
Profit attributable to equity holders of the parent (RM ′000)	1	494	5,977
Weighted average number of ordinary shares in issue applicable to basic earnings per ordinary share (′000)		423,768	423,768
Effect of dilution in ESOS (′000)		1,305	1,305
Adjusted weighted average number of ordinary shares applicable to diluted earnings per ordinary share (′000)		425,073	425,073
Diluted earnings per share (sen)		0.12	1.41

B10. EARNINGS PER SHARE (continued)

Note 1	**Current year quarter 30 June 2018**	**Current year to date 30 June 2018**
Profit after taxation (RM´000)	623	6,189
Profit attributable to:		
Owners of the parent (RM´000)	494	5,977
Non-controlling interest (RM´000)	129	212

By order of the Board

M.Chandrasegaran A/L S. Murugasu
Company Secretary

29 August 2018