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

NOTES TO THE INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 31 DECEMBER 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 (ñMFRSò) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (ñMASBò) 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 2018.

The accounting policies and methods of computation adopted by the Group in these interim financial report are consistent with those adopted in the most recent annual audited financial statements for the year ended 30 June 2018 except for the adoption of the following new/revised MFRSs and amendments to MFRSs:

Title			Effective Date
Amendments to MFRS 1	:	First-time Adoption of MFRS - Delection of short term exemptions for first-time adopters (Annual Improvements to MFRS Standards 2014-2016 Cycle)	1 January 2018
Amendments to MFRS 2	:	Classification and Meassurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 128	:	Investments in Associates and Joint Ventures ï Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (Annual Improvements 2014-2016 Cycle)	1 January 2018
Amendments to MFRS 140	:	Transfers of Investment Property	1 January 2018
IC Interpretation 22	:	Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 15	:	Revenue from Contracts with Customers	1 January 2018
MFRS 9	:	Financial Instruments	1 January 2018

The adoption of the above MFRSs, amendments to MFRSs and IC Interpretations do not have any significant financial impact on the results and the financial position of the Group for the current quarter except for the following:

MFRS 9 Financial Instruments

MFRS 9 replaces MFRS 139 and introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. MFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

MFRS 9 requires for a financial asset to be measured at amortised cost if the financial assets is held within a business model whose objective is to hold financial asset in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income (ñFVOCIò) if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets will be measured at fair value through profit or loss (ñFVTPLò) if the assets that are held for trading or such financial assets are qualify for neither held at amortised costs nor at FVOCL. Equity instruments that were not elected for FVOCI will be measured at FVTPL.

Classification and measurement of financial liabilities will remain largely unchanged.

Overall, there is no significant impact to the financial statements in the area of classification and measurement for financial assets and financial liabilities for the Group

Impairment MFRS 9 impairment requirements are based on an Expected Credit Loss (ñECLò) model that replaces the Incurred Loss model under MFRS 139. The ECL model applies to financial assets that are measured at amortised cost or at FVOCI and issued financial guarantee contracts, which will include trade receivables, advances to related companies and financial guarantee provided to third party in securing borrowings of related companies. The Group has elected to use the Simplified Approach and to apply the provisional matrix approach, flow-rate model, to calculate the ECL for third party trade receivables. For financial assets other than trade receivables, including related company loans, the Group applies the Three-stage General Approach, ECL model, which takes into effect the 12-Month ECL for assets that are within Stage 1, and lifetime ECL for all financial instruments for which there have been significant increases in credit risk. The initial application of the new ECL model does not have any significant impact on the financial statements of the Group.

MFRS 15 Revenue from Contracts with Customers MFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cashflows arising from an entityôs contracts with customers. MFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group has applied this standard using retrospective approach with cumulative effect method, the cumulative effect of initially applying this standard is an adjustment to the opening balance on initial application of MFRS 15 on 1 July 2018.

The principles in MFRS 15 requires for an entity to measure and recognise revenue through a five-step model as follows:

1) Identify the contract(s) with a customer;
2) Identify the performance obligation in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognise revenue when (or as) the entity satisfies a performance obligation.

The initial application of MFRS 15 does not have any significant impact on the financial statements of the Group

Financial Impact

The financial impact from the initial application of MFRS 9 and 15 as at 1 July 2018 are as follows:

Condensed Consolidated Statement of Financial Position

	As previously stated RM	Effects of adoption MFRS 9 RM	Effects of adoption MFRS 15 RM	As restated RM
As at 1 July 2018				
Assets				
Other non-current assets				
Trade & other receivables	14,415,684	(109,105)		14,306,579
Liabilities				
Equity				
Retained earnings	15,428,547	(109,105)		15,319,442

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 17 December 2018, a single-tier final dividend of 0.5 sen per ordinary share amounting to RM2,154,460.78 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 yearҫs audited consolidated financial statements, the basis of segmentation was on primary format of business segments. In the current quarter ended 31 December 2018 and for the current financial year ending 30 June 2019, the basis of segmentation is as follows:

Current year quarter 31 December 2018 RM'000	**Revenue RM'000**	**Elimination RM'000**	**Total RM'000**
Revenue			
External sales	12,836	-	12,836
Inter-segment sales	6,284	(6,284)	-
Total revenue	19,120	(6,284)	12,836
Profit from operation			1,957

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 31 December 2018 amounted to RM3.3 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 RM12.8 million for the current financial quarter (ñCFQò), a decrease of 2.2% from that of RM13.1 million recorded in the preceding year financial quarter (ñPFQò). This decrease was caused by 8.3% drop in the local market. This decline which were due to sales tax and market conditions (resulting in margin compression) caused the gross profit margin to decrease from 58% achieved in the PFQ to 50% for the CFQ.

Groupôs profit before taxation (ñPBTò) for the CFQ was RM2.7 million, a drop of RM0.45 million from that of RM3.2 million recorded in the PFQ. The lower PBT was mainly due to the lower sales volume recorded.

The Groupôs post-tax profit for the CFQ of RM2 million was 12% lower than that of RM2.2 million recorded in the PFQ. This drop was in line with the above percentage decline in PBT due to the high tax charge of RM0.74 million for the CFQ. This charge was significantly higher than the Malaysian statutory tax rate of 24% due to expenses not deductible for tax purposes.

As for profit attributable to the owners of the parent, it declined from RM2.2 million in the PFQ to RM1.9 million for the CFQ, a drop of 12%. This drop was consistent with the percentage drop in post-tax profit as disclosed above with the differential due to non-controlling interest.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

The Groupôs revenue for the CFQ of RM12.8 million was 23.7% higher than that of RM9.8 million achieved in the immediate preceding financial quarter. This increase in revenue was mainly on the back of the increase in sales volume of 22.4% quarter-on-quarter (ñQoQò). The major factors contributing to this increase was increased level of local sales 55.6% for the CFQ as compared to local sales 55.5% in the immediate preceding financial quarter

As a consequence of the higher sales volume and higher revenue (in RM terms), gross margin increased from 40% in the immediate preceding financial quarter to 50% for the CFQ. The Groupôs PBT for the CFQ increase to RM2.7 million from that of RM0.92 million for the immediate preceding financial quarter.

The Groupôs post-tax profit for the CFQ recorded RM2 million an increase of 71% from that of RM562,000 recorded in the immediate preceding financial quarter.

As for profit attributable to the owners of the parent, it increased to RM1.9 million for the CFQ from that of RM506,000 in the immediate preceding financial quarter. This is due to higher sales volume in CFQ with the differential due to non-controlling interest.

B3. COMMENTARY ON PROSPECTS

The Group is expected to remain profitable in the financial year ending 31 June 2019. The Group will be able to effectively navigate the prevailing challenging environment brought about by the slowdown in industrial and commercial property development and fewer project rollouts. Moving forward, we will continue to identify and to develop more products for the competitiveness of our bids in view of the current challenging operating environment.

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 31 December 2018 RM'000	Current year to date 31 December 2018 RM'000
Estimated income tax :		
Malaysia income tax	744	1,103
Foreign income tax	-	-
	744	1,103

The tax expense is derived based on management bestôs 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 February 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 Groupôs private placement is as follows:-

	Proposed Utilisation RM'000	Amount utilised as at 21 February 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)	-	N/A
Working capital *	4,094	(4,094)	-	N/A
Estimated expenses in relation to the Proposed Private Placement	370	(370)	-	N/A
Total	8,464	(8,464)	-	

* *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 31 December 2018 are as follows:-

	As at 31 December 2018 RM'000
Secured	
Current liabilities:	
Hire purchase creditors	352
Flexi loan *	328
Bank overdraft	346
	1,026
Secured	
Non-current liabilities	
Hire purchase creditors	227
Flexi loan *	8,683
	8,910
Total Borrowings	9,936

* *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

No dividend was declared for the current quarter under review.

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 31 December 2018	Current year to date 31 December 2018
Profit attributable to equity holders of the parent (RM '000)	1	1,930	2,436
Weighted average number of ordinary shares in issue ('000)		430,892	430,892
Basic earnings per share (sen)		0.45	0.57

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 31 December 2018	Current year to date 31 December 2018
Profit attributable to equity holders of the parent (RM '000)	1	1,930	2,436
Weighted average number of ordinary shares in issue applicable to basic earnings per ordinary share ('000)		430,892	430,892
Effect of dilution in ESOS ('000)		2,609	2,609
Adjusted weighted average number of ordinary shares applicable to diluted earnings per ordinary share ('000)		433,501	433,501
Diluted earnings per share (sen)		0.45	0.56

B10. EARNINGS PER SHARE (continued)

Note 1	**Current year quarter 31 December 2018**	**Current year to date 31 December 2018**
Profit after taxation (RM’000)	1,957	2,519
Profit attributable to:		
Owners of the parent (RM’000)	1,930	2,436
Non-controlling interest (RM’000)	27	83

By order of the Board

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