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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2019

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 val ue 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
Amendments to MFRS 4	:	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	See MFRS 4 Paragraphs 46 and 48

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 26 June 2019, a first interim single-tier dividend of 0.3 sen per ordinary share amounting to RM1,292,673 was paid in respect of the financial year ending 30 June 2019.

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 yearòs audited consolidated financial statements, the basis of segmentation was on primary format of business segments. In the current quarter ended 30 June 2019 and for the current financial year ended 30 June 2019, the basis of segmentation is as follows:

	Individual Period			Cumulative Period		
	Current Year Quarter 30.06.19 RM'000	Preceding Year Corresponding Quarter 30.06.18 RM'000	Variance %	Current Year To-date 30.06.19 RM'000	Preceding Year Corresponding Period 30.06.18 RM'000	Variance %
Revenue						
External sales	7,768	11,870	-34.56	41,133	47,793	-13.94
Total revenue	7,768	11,870		41,113	47,793	
Profit from operation	810	623	30.02	4,342	6,189	-29.84

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 2019 amounted to RM0.85 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

	Individual Period			Cumulative Period		
	Current Year Quarter 30.06.19 RM'000	Preceding Year Corresponding Quarter 30.06.18 RM'000	Variance (+/-) %	Current Year To-date 30.06.19 RM'000	Preceding Year Corresponding Period 30.06.18 RM'000	Variance (+/-) %
Revenue	7,768	11,870	-34.6	41,133	47,793	-13.9
Profit before tax	190	2,035	-90.7	5,368	9,742	-44.9
Profit after tax	810	623	+30.0	4,342	6,189	-29.8
Profit attributable to the owners of the Company	857	494	+73.5	4,221	5,977	-29.4

The Groupǒs revenue of RM7.8 million for the current financial quarter (**"CFQ"**) was lower by 34.6% from that of RM11.9 million recorded in the preceding year financial quarter (**"PFQ"**). This decrease was mainly due to the year-on-year (**"YoY"**) declines in revenue of 37.1% and 32.4% for the local and overseas market respectively. These declines in revenue were due to lower sales volume as selling prices were more or less the same YoY and were mainly due to reduced number of electrical engineering contracts consequential to slower growth in the construction of commercial and industrial buildings, and infrastructure projects locally and aboard.

The reduced revenue YoY coupled with margin compression due to increased input costs led to a drop in the profit before tax (**"PBT"**)for the CFQ to RM190,000 from that of RM2.0 million achieved in the PFQ. As for operating expenses (net of other income) of the CFQ of RM2.8 million, it was lower by RM600,000 than that of RM3.4 million recorded in the PFQ.

The Groupǒs post-tax profit (**"PAT"**) for the CFQ of RM810,000 was 30.0% higher than that of RM623,000 recorded in the PFQ. This was due to a tax income of RM620,000 for the CFQ as compared to a tax expense in the PFQ. The CFQǒs tax income was due to the over provision of income and deferred taxes in the prior financial quarters of the current financial year (**"CFY"**) and prior financial years (**"PFY"**).

As for profit attributable to the owners of the Company, it increased by 73.5% from RM494,000 in the PFQ to RM857,000 for the CFQ. This percentage increase was more than the percentage increase in PAT due to the CFQ loss incurred by a 51.0%-owned subsidiary company.

In respect of the CFY, the revenue of RM41.1 million was 13.9% lower than the revenue of RM47.8 million achieved in the PFY. This decrease in revenue was attributed to both the local and overseas markets which dropped by 13.6% and 14.2% respectively. The reasons for the declines in revenue were the same as those described earlier that is lower sales volume due to reduced electrical engineering contracts locally and aboard. Selling prices for the CFY and PFY were also more or less the same. On a yearly basis, the 13.9% decrease in revenue was much lower than the 34.6% decrease of the same on a quarterly basis. This was due to the fact that market conditions worsened in the 2nd half of the CFY.

This drop in revenue and higher input costs YoY caused the PBT for the CFY to decrease to RM5.4 million from that of RM9.7 million achieved in the PFY. The profit contraction on a yearly basis of 44.9% was much lower than the 90.7% on a quarterly basis. Operating expenses (net of other income) for the CFY of RM13.0 million was lower by RM500,000 than that of RM13.5 million incurred in the PFY.

The PAT of the Group for the CFY of RM4.3 million was lower by 29.8% when compared to that of the PFY. This decline is not in tandem with the 44.9% YoY drop in PBT due to a lower effective tax rate of 19.1% for the CFY as compared to that of 36.5% in the PFY. The lower effective tax rate for CFY was attributed to the over provision of income tax in prior years.

Profit attributable to the owners of the Company for the CFY was reduced by 29.4% to RM4.2 million from that of RM6.0 million recorded in the PFY. This decrease was in line with the YoY decline in PAT.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year Quarter 30.06.19 RM'000	Immediate Preceding Quarter 31.03.19 RM'000	Variance (+/-) %
Revenue	7,768	10,734	-27.6
Profit before tax	190	1,555	-87.8
Profit after tax	810	1,012	-20.0
Profit attributable to owners of the Company	857	928	-7.7

The Group's revenue for the CFQ of RM7.8 million was 27.6% lower than that of RM10.7 million achieved in the immediate preceding financial quarter. As selling prices were relatively unchanged quarter-on-quarter (**"QoQ"**), the decline in revenue was due to reduced sales volume attributed to the reduced number of electrical engineering contracts as described in Note B1. These market conditions worsened in the CFQ. As a consequence of the lower sales volume, gross margin decreased from 46.7% in the immediate preceding financial quarter to 38.3% for the CFQ.

The reduced revenue and margin contraction QoQ caused the Group's PBT for the CFQ to decrease to RM190,000 from that of RM1.6 million recorded in the immediate preceding financial quarter.

The Group's PAT for the CFQ dropped to RM810,000 from that of RM1.0 million recorded in the immediate preceding financial quarter. On a QoQ basis, the decline in PAT was 20.0% as compared to the 87.8% drop in PBT. This was due to the fact that there was a tax income of RM620,000 for the CFQ (see Note B1) as opposed to a tax expense of RM543,000 in the immediate preceding quarter.

As for profit attributable to the owners of the Company, it declined marginally by 7.7% to RM857,000 for the CFQ from that of RM928,000 in the immediate preceding financial quarter. As disclosed in Note B1, this was attributed to the CFQ loss incurred by a 51%-owned subsidiary company.

B3. COMMENTARY ON PROSPECTS

The outlook for the Malaysian economy remains resilient in the near term despite considerable external and domestic headwinds. Supported mainly by domestic demand, real Gross Domestic Product recorded a growth rate of 4.7% in 2018. In 2019, growth is forecast to increase further to 4.9%. The manufacturing sector is forecast to expand 4.7% in 2019 supported by export-oriented industries while the construction sector is expected to moderate in 2019.

The Group has during the CFY demonstrated its resilience despite trying market conditions both locally and overseas. Although sales volume had dropped, the Group managed to sustain its selling prices YoY. There was margin compression due to increased input costs but the Group still managed to remain profitable albeit a drop of 29.4% YoY in net profit.

Going forward, the Group will continue to focus on improving its cost and operational efficiency, while actively exploring alternative business opportunities. The Groupӧs acquisitions of EPE Busway Sdn. Bhd. and Mittric Systems Sdn. Bhd. which were completed on 7 August 2019 would enable it to expand its products range, customer base and distribution channels. The expanded products range would also provide the Group an opportunity to capture a bigger share of any electrical engineering project.

Almost 49% of the Groupӧs annual revenue is derived from exports sales which are denominated in United States Dollars (**"USD"**). Hence, all things being equal, USDӧs parity with RM will has an impact on the Groupӧs 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 2019 RM'000	**Current year to date 30 June 2019 RM'000**
Estimated income tax :		
Malaysia income tax	(620)	1,026
Foreign income tax	-	-
	(620)	1,026

The tax expense is derived based on management bestӧs estimate of the tax rate for the year.

B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED

On 28 February 2019, the Company announced that the Company had entered into a non-binding term sheet (ñ**Term Sheet**ò) with Low Khek Heng, Michael Aw Ming Han, Tan Hock Huat, Tang Heng Cheong, Kok Weng Fong, Long Yin Feai, Liu Marn Cole and Toh Yew Boon (collectively referred to as the ñ**Vendors**ò) for the acquisition of:-

(i) 5,000,000 ordinary shares in Busway, representing 100% equity interest in Busway; and

(ii) 100,000 ordinary shares in Mittric, representing 100% equity interest in Mittric,

for a total purchase consideration of RM38.0 million, comprising RM19.0 million for each of the Target Companies (ñ**Proposed Acquisition**ò).

On 30 April 2019, the Company had entered into the share sale agreement with the Vendors for the Proposed Acquisition.

On 10 May 2019, the Company announced that the corresponding applications in relation to the Proposed Acquisition have been submitted to Bursa Securities.

On 14 June 2019, the Company announced that Bursa Securities has, vide its letter dated 14 June 2019, approved the listing of up to 158,333,332 new Mikro Shares to be issued pursuant to the Proposed Acquisition.

The Company announced that all the conditions precedent as set out in the Busway SSA and Mittric SSA have been fulfilled on 17 July 2019 in accordance with the respective terms of the Busway SSA and Mittric SSA. Accordingly, the Busway SSA and Mittric SSA have become unconditional on 17 July 2019.

On 8 August, the Company announced that the Acquisition has been completed on 7 August 2019 in accordance with the respective terms of the Busway SSA and Mittric SSA. Accordingly, Busway and Mittric are now wholly-owned subsidiaries of Mikro.

The 158,333,332 Consideration Shares will be listed and quoted on the ACE Market of Bursa Securities from 9.00 a.m. on 9 August 2019.

B7. BORROWINGS AND DEBT SECURITIES

The borrowings of the Group as at 30 June 2019 are as follows:-

	As at 30 June 2019 RM'000
Secured	
Short Term:	
Hire purchase creditors	200
Flexi loan *	360
	560
Secured	
Long Term:	
Hire purchase creditors	193
Flexi loan *	8,474
	8,667
Total Borrowings	9,227

* *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 30 June 2019	Current year to date 30 June 2019
Profit attributable to equity holders of the parent (RM'000)	1	857	4,221
Weighted average number of ordinary shares in issue ('000)		430,892	430,892
Basic earnings per share (sen)		0.19	0.98

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 2019	Current year to date 30 June 2019
Profit attributable to equity holders of the parent (RM '000)	1	857	4,221
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)		1,786	1,786
Adjusted weighted average number of ordinary shares applicable to diluted earnings per ordinary share ('000)		432,678	432,678
Diluted earnings per share (sen)		0.19	0.98

B10. EARNINGS PER SHARE (continued)

Note 1	**Current year quarter 30 June 2019**	**Current year to date 30 June 2019**
Profit after taxation (RM'000)	810	4,342
Profit attributable to:		
Owners of the parent (RM'000)	857	4,221
Non-controlling interest (RM'000)	(47)	121

By order of the Board

Lim Seck Wah (MAICSA 0799845)
M.Chandrasegaran A/L S. Murugasu (MAICSA 0781031)
Company Secretaries