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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 31 DECEMBER 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 2019.

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 2019 except for the adoption of the following new/revised MFRSs and amendments to MFRSs:

Title			Effective Date
MFRS 16 Leases			1 January 2019
IC Interpretation 23		Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 128	:	Long term interest in Associates and Joint Ventures	1 January 2019
Amendments to MFRS 9	:	Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 3	:	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 11	:	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 112	:	Annual Improvements to MFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to MFRS 123	:	Annual Improvements to MFRS Standards 2015-2017	1 January 2019
Amendments to MFRS 119	:	Plan Amendments, Curtailment or Settlement	1 January 2019

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 for newly acquired companies as at 1 July 2019 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 2019				
Assets				
Other non-current assets				
Trade & other receivables	12,156,944	(2,503,541)		9,653,403
Liabilities				
Equity				
Retained earnings	16,093,327	(2,503,541)		13,589,786

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

There were no significant seasonal or cyclical factors that affect the business of the Group for the quarter under review.

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

There were no dividends paid during the quarter under review.

A8. SEGMENT INFORMATION

The business of the Group is generated from the sales of analogue, digital and computer-controlled electronic devices and Busway systems. There were only two business segment identified.

In the prior yearõs audited consolidated financial statements, the basis of segmentation was on the primary format of business segments. In the current quarter ending 31 December 2019 and for the current financial year ending 31 December 2019, the basis of segmentation is as follows:

	Individual Period			Cumulative Period		
	Current Year Quarter 31.12.19 RM'000	Preceding Year Corresponding Quarter 31.12.18 RM'000	Variance (+/-) %	Current Year To-date 31.12.19 RM'000	Preceding Year Corresponding Period 21.12.18 RM'000	Variance (+/-) %
Revenue						
Protective Relay, Power Meters and Power Factor regulations	9,889	12,836	(22.96)	20,025	22,631	(11.52)
Busduct Systems	7,022	-	100	13,235	-	100
Total revenue	16,911	12,836		33,260	22,631	
Profit from operation	2,254	1,957		2,873	2,519	

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 a change in the composition of the Group by acquiring 2 new subsidiaries, Mittric Systems Sdn Bhd and EPE Busway Sdn Bhd for a total purchase consideration of RM34,041,666.

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 23 February 2019 amounted to RM0.7 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

	Individual Period			Cumulative Period		
	Current Year Quarter 31.12.19 RM'000	Preceding Year Corresponding Quarter 31.12.18 RM'000	Variance (+/-) %	Current Year To-date 31.12.19 RM'000	Preceding Year Corresponding Period 31.12.18 RM'000	Variance (+/-) %
Revenue	16,911	12,836	31.7	33,260	22,631	47.0
Profit before tax	2,946	2,701	9.07	4,065	3,623	12.2
Profit after tax	2,254	1,957	15.2	2,873	2,519	14.1
Profit attributable to the owners of the Company	2,305	1,930	19.4	2,873	2,436	17.9

The Groupôs revenue of RM16.9 million for the current financial quarter (ñCFQò) was higher by 31.7% as compare to the preceding year financial quarter (**"PFQ"**) of RM12.8 million. This increase was mainly due to the acquisition of 2 new subsidiaries, Busway Sdn Bhd and Mittric Systems Sdn Bhd.

In the CFQ the contribution to Mikro Group revenue arising from the acquisition of EPE Busway Sdn Bhd (ñEPEò) and Mittric Systems Sdn Bhd (ñMittricò) was RM7.0 million. Of the total revenue generated for current quarter, RM4.1 million was recognised as pre-acquisition order whereas the balance RM2.9 million was recognised as post-acquisition order.

During the CFQ revenue of RM4.1 million were recognised from pre-acquisition order in hand. The balance estimated Order in hand intangible assets of RM0.9 million were amortised during this quarter.

Accordingly the total estimated Order in hand intangible assets of RM1.9 million which arises from the estimated value of order in hand of EPE and Mittric has been was fully amortised in this quarter.

The CFQ Groupôs profit before tax (ñPBTò) of RM2.9 million was after recognition of an amortisation cost of RM0.9 million for the pre-acquisition order in hand.

The Groupôs post-tax profit (ñPATò) for the CFQ was RM2.3 million, it has increased by 15.2% as compare to the PFQ of RM2.0 million.

The profit attributable to the owners of the company for the CFQ was RM2.3million. This was due to acquisition of shares from non-controlling interest.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year Quarter 31.12.19 RM'000	Immediate Preceding Quarter 30.09.19 RM'000	Variance (+/-) %
Revenue	16,911	16,349	3.4
Profit before tax	2,946	1,119	163.3
Profit after tax	2,254	619	264.1
Profit attributable to owners of the Company	2,305	568	305.8

The Groupѕ revenue for the CFQ of RM16.9 million was 3.4% higher than that of RM16.4 million achieved in the immediate preceding financial quarter. The Groupѕ revenue contributed by existing business was RM9.9 million whilst RM7.0 million was contributed by EPE & Mittric. However the gross margin has slightly increased from 35.5% in the immediate preceding financial quarter to 36,9% for the CFQ, due to the new product mix.

The Groupѕ PBT for CFQ of RM2.9 million was 163.3% higher than that of RM1.1 million recorded in the immediate preceding financial quarter. The Groupѕ PBT was higher due to lower marketing expenses in CFQ and stamp duty cost arising in the immediate preceding financial quarter relating to acquisition of EPE and Mittric.

The Groupѕ PAT for the CFQ was RM2.3 million increased by 264.1% as compared to RM619,000 recorded in the immediate preceding financial quarter.

As for profit attributable to the owners of the Company, the Groupѕ recorded RM2.3 million, it increased by 305.8% higher than that of RM568,000 recorded in the immediate preceding financial quarter.

B3. COMMENTARY ON PROSPECTS

The Groupѕ newly-acquired subsidiary companies, EPE Busway Sdn Bhd and Mittric Systems Sdn Bhd would provide the Group an opportunity to capture a bigger share of any electrical engineering project.

Going forward, the Group will continue to focus on improving its cost and operational efficiency, while actively exploring alternative business opportunities.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

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

B5. TAXATION

	Current year quarter 31 December 2019 RM'000	Current year to date 31 December 2019 RM'000
Tax expenses :		
- Current provision	692	1,192
- Deferred taxation	-	-
	692	1,192

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

B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED

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 2019, the Company has 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 31 December 2019 are as follows:-

	As at 2nd quarter ended 2020		
	Long Term RM'000	**Short Term RM'000**	**Total borrowings RM'000**
Secured			
Hire purchase creditors	112	169	281
Flexi loan*	8,295	360	8,655

	As at 2nd quarter ended 2019		
	Long Term RM'000	**Short Term RM'000**	**Total borrowings RM'000**
Secured			
Hire purchase creditors	227	352	579
Flexi loan*	8,683	328	9,011
Bank overdraft	346	-	346

* *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	Individual Period		Cumulative Period	
		Current year quarter	**Preceding Year Corresponding Quarter**	**Current year to date**	**Preceding Year Corresponding Period**
		31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Profit for the period attributable to owners of the parent (RM'000)	1	2,305	1,930	2,873	2,436
Weighted average number of ordinary shares in issue ('000)		503,336	433,501	503,336	433,501
Basic earnings per share (sen)		0.46	0.45	0.57	0.56

b) Diluted earnings per share

The diluted earnings per ordinary share is not presented as the effect of assuming all outstanding ESOS being exercised will be anti dilutive and the Company has no other dilutive potential ordinary shares in issue as at balance sheet date.

B10. EARNINGS PER SHARE (continued)

Note 1	Individual Period		Cumulative Period	
	Current year quarter	Preceding Year Corresponding Quarter	Current year to date	Preceding Year Corresponding Period
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Profit after taxation (RM’000)	2,254	1,957	2,873	2,519
Profit attributable to:				
Owners of the parent (RM’000)	2,305	1,930	2,873	2,436
Non-controlling interest (RM’000)	(51)	27	-	83

By order of the Board

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Company Secretaries