

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

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 (øMFRSø) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (øMASBø) 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 |
|-----------------------------------------------------------------------------------|----------------|
| IC Interpretation 23 Uncertainty over Income Tax Treatments | 1 January 2019 |
| Amendments to MFRS : Long term interest in Associates and Joint Ventures 128 | 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 : Annual Improvements to MFRS Standards 2015-2017 Cycle 11 | 1 January 2019 |
| Amendments to MFRS : Annual Improvements to MFRS Standards 2015-2017 Cycle 112 | 1 January 2019 |
| Amendments to MFRS : Annual Improvements to MFRS Standards 2015-2017 123 | 1 January 2019 |
| Amendments to MFRS : Plan Amendments, Curtailment or Settlement 119 | 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:

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.

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

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 year's audited consolidated financial statements, the basis of segmentation was on the primary format of business segments. In the current quarter ending 31 March 2020 and for the current financial year ending 31 March 2020, the basis of segmentation is as follows:

| | Individual Period | | | Cumulative Period | | |
|-------------------------------------------------------------|-----------------------------------------------|------------------------------------------------------------------|------------------------|---------------------------------------------------|-----------------------------------------------------------------|------------------------|
| | Current Year Quarter 31.03.20 RM'000 | Preceding Year Corresponding Quarter 31.03.19 RM'000 | Variance (+/-) % | Current Year To- date 31.03.20 RM'000 | Preceding Year Corresponding Period 31.03.19 RM'000 | Variance (+/-) % |
| Revenue | | | | | | |
| Protective Relay, Power Meters and Power Factor regulations | 7,020 | 10,734 | (34.60) | 27,045 | 33,365 | (18.94) |
| Busduct Systems | 2,047 | - | 100.00 | 15,282 | - | 100.00 |
| Total revenue | 9,067 | 10,734 | | 42,327 | 33,365 | |
| Profit from operation | 102 | 1,012 | | 2,975 | 3,532 | |

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

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 15 June 2020 amounted to RM0.4 million.

A13. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

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

B1. PERFORMANCE REVIEW

| | Individual Period | | | Cumulative Period | | |
|--------------------------------------------------|-----------------------------------------------|------------------------------------------------------------------|------------------------|-----------------------------------------------|-----------------------------------------------------------------|------------------------|
| | Current Year Quarter 31.03.20 RM'000 | Preceding Year Corresponding Quarter 31.03.19 RM'000 | Variance (+/-) % | Current Year To-date 31.03.20 RM'000 | Preceding Year Corresponding Period 31.03.19 RM'000 | Variance (+/-) % |
| Revenue | 9,067 | 10,734 | (15.5) | 42,327 | 33,365 | 26.9 |
| Profit before tax | 280 | 1,555 | (81.9) | 4,345 | 5,177 | (16.1) |
| Profit after tax | 102 | 1,012 | (89.9) | 2,975 | 3,532 | (15.8) |
| Profit attributable to the owners of the Company | 102 | 928 | (89.0) | 2,975 | 3,364 | (11.6) |

The Group's revenue of RM9.1 million for the current financial quarter (øCFQö) was lower by 15.5% as compare to the preceding year financial quarter ("øPFQ") of RM10.7 million. The decline in revenue for the current quarter under review was due to effect of COVID-19 pandemic outbreak. It has affected our Group in marketing our products and securing new orders. The imposing of Movement Control Order by the Malaysian Government have significantly affected our delivery of products locally and to our export markets.

Group's profit before taxation (øPBTö) for the CFQ was RM0.3 million, a drop of RM1.3 million from that of RM1.6 million recorded in the PFQ. The lower PBT was mainly due to the lower sales volume recorded.

The Group's post-tax profit for the CFQ of RM0.1 million was 89% lower than that of RM0.9 million recorded in the PFQ

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

| | Current Year Quarter 31.03.20 RM'000 | Immediate Preceding Quarter 31.12.19 RM'000 | Variance (+/-) % |
|-------------------|---------------------------------------------------------|--------------------------------------------------------------------|---------------------------------|
| Revenue | 9,067 | 16,911 | (46.4) |
| Profit before tax | 280 | 2,946 | (90.5) |
| Profit after tax | 102 | 2,254 | (95.5) |

The Group's revenue for the CFQ of RM9.1 million was 46.4% lower than that of RM16.9 million achieved in the immediate preceding financial quarter. The decline in revenue was due to effect of COVID-19 pandemic outbreak. The imposing of Movement Control Order by the Malaysian Government has significantly affected our delivery of products locally and to our export markets. However the gross margin has decreased from 36.9% in the immediate preceding financial quarter to 29.7% for the CFQ, due to the new product mix.

The Group's PBT for CFQ of RM0.3 million was 90.5% lower than that of RM2.9 million recorded in the immediate preceding financial quarter. The Group's PBT was lower due to decline in revenue in CFQ.

The Group's PAT for the CFQ was RM0.1 million a decreased of 95.5% as compared to RM2.2 million recorded in the immediate preceding financial quarter.

B3. COMMENTARY ON PROSPECTS

Malaysia's economic prospects for 2020 is negatively affected by the COVID-19 pandemic with most business and economic environments impacted by the unprecedented movement control order imposed to contain the pandemic in Malaysia and lockdowns globally. The Board of Directors will expects the outlook for the current financial to be challenging due to the continuous uncertainties in the global economy and impacts of COVID-19 pandemic

B4. PROFIT FORECAST OR PROFIT GUARANTEE

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

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

B5. TAXATION

| | Current year quarter 31 March 2020 RM'000 | Current year quarter 31 March 2019 RM'000 | Current year to date 31 March 2020 RM'000 | Current year to date 31 March 2020 RM'000 |
|---------------------|------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|
| Tax expenses : | | | | |
| - Current provision | 178 | 542 | 1,370 | 1,646 |
| - Deferred taxation | - | - | - | |
| | 178 | 542 | 1,370 | 1,646 |

Notes :

1. The high effective tax rate for the current financial year under review is mainly due to the non-deductible expenses.
2. The tax expense is derived based on management best estimate of the tax rate for the year.

B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED

- a) There was no corporate proposal announced by the Group but not completed as at 18 June 2020 (being a date not earlier than 7 days from the date of issue of the quarterly report).
- b) On 17 July 2019, the Company announced that all the conditions precedent as set out in the Busway SSA and Mittric SSA have been fulfilled 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.

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

B7. BORROWINGS AND DEBT SECURITIES

The borrowings of the Group as at 31 March 2020 are as follows:-

| | As at 3 rd quarter ended 2020 | | |
|-------------------------|------------------------------------------|----------------------|----------------------------|
| | Long Term RM'000 | Short Term RM'000 | Total borrowings RM'000 |
| Secured | | | |
| Hire purchase creditors | 306 | 217 | 523 |
| Flexi loan* | 8,194 | 364 | 8,558 |

| | As at 3 rd quarter ended 2019 | | |
|-------------------------|------------------------------------------|----------------------|----------------------------|
| | Long Term RM'000 | Short Term RM'000 | Total borrowings RM'000 |
| Secured | | | |
| Hire purchase creditors | 209 | 267 | 476 |
| Flexi loan* | 8,591 | 332 | 8,923 |
| Bank overdraft | - | 577 | 577 |

* *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.

MIKRO MSC BERHAD
(Company no. 738171-M)
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NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

B10. EARNINGS PER SHARE

The basic and diluted earnings per share for the current financial quarter and year-to-date are calculated as follows:

| | Note | Individual Period | | Cumulative Period | |
|---------------------------------------------------------------------|------|-------------------|---------------|-------------------|---------------|
| | | Current year | Preceding | Current year | Preceding |
| | | quarter | Year | to date | Year |
| | | 31 March | Corresponding | 31 March | Corresponding |
| | | 2020 | Quarter | 2020 | Period |
| | | | 31 March 2019 | | 31 March 2019 |
| Profit for the period attributable to owners of the parent (RM 000) | 1 | 102 | 928 | 2,975 | 3,364 |
| Weighted average number of ordinary shares in issue (000) | | 542,811 | 430,892 | 542,811 | 430,892 |
| Earnings per share (sen) attributable to owners of the Company | | | | | |
| - Basic | | 0.02 | 0.22 | 0.55 | 0.78 |
| - Diluted | | 0.02 | 0.21 | 0.55 | 0.78 |

Notes :

- i. The basic earning per share is calculated based on the profit for financial period attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue during the current financial quarter / current financial year to-date.
- ii. Diluted earning per share is equivalent to the basic earning per share as the Company does not have any convertible securities as at 31 March 2020.

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2020

B10. EARNINGS PER SHARE (continued)

| Note 1 | Individual Period | | Cumulative Period | |
|-----------------------------------|-------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------|
| | Current year quarter 31 March 2020 | Preceding Year Corresponding Quarter 31 March 2019 | Current year to date 31 March 2020 | Preceding Year Corresponding Period 31 March 2019 |
| Profit after taxation (RM 000) | 102 | 1,012 | 2,975 | 3,532 |
| Profit attributable to: | | | | |
| Owners of the parent (RM 000) | 102 | 928 | 2,975 | 3,364 |
| Non-controlling interest (RM 000) | - | 84 | - | 168 |

By order of the Board

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