

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

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

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NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 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 Busduct 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 ended 30 June 2020 and for the current financial year ended 30 June 2020, the basis of segmentation is as follows:

	Individual Period			Cumulative Period		
	Current Year Quarter 30.06.20 RM'000	Preceding Year Corresponding Quarter 30.06.19 RM'000	Variance (+/-) %	Current Year To-date 30.06.20 RM'000	Preceding Year Corresponding Period 30.06.19 RM'000	Variance (+/-) %
Revenue						
Protective Relay, Power Meters and Power Factor regulations	5,482	7,768	(29.43)	32,526	41,133	(20.92)
Busduct Systems	2,616	-	100.00	17,899	-	100.00
Total revenue	8,098	7,768		50,425	41,133	
Profit from operation	171	810		3,145	4,342	

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 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 20 August 2020 amounted to RM0.2 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 FOURTH QUARTER ENDED 30 JUNE 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 30.06.20 RM'000	Preceding Year Corresponding Quarter 30.06.19 RM'000	Variance (+/-) % %	Current Year To-date 30.06.20 RM'000	Preceding Year Corresponding Period 30.06.19 RM'000	Variance (+/-) % %
Revenue	8,098	7,768	+4.2	50,426	41,133	+22.6
Profit before tax	444	190	+133.7	4,789	5,368	-10.8
Profit after tax	171	810	-78.9	3,145	4,342	-27.6
Profit attributable to the owners of the Company	171	857	-80.0	3,145	4,221	-25.5

The Group's revenue of RM8.1 million and RM50.4 million for the current financial quarter ("CFQ") and the current financial year ("CFY") were higher by 4.2% and 22.6% respectively than those of RM7.8 million and RM41.1 million achieved in the preceding corresponding periods. These increases were contributed by EPE Busway Sdn Bhd and Mittric Systems Sdn Bhd, the acquisition of which was completed during the CFY. The revenue attributed to these newly-acquired subsidiaries were RM2.6 million and RM17.9 million for the CFQ and CFY respectively.

Despite the marginal increase in the quarterly revenue year-on-year ("YoY"), the Group's profit before tax ("PBT") for the CFQ was RM444,000, an increase of 133.7% over that of the preceding year's corresponding quarter, this increase was due to the write-back of an impairment loss on receivables of RM2.4 million made in the 1st half of the CFY. For the CFY, PBT was lower by 10.8% YoY in spite of a 22.6% increase in revenue YoY. This reduction in profit was mainly due to margin compression on higher input costs and lack lustre market conditions throughout the CFY.

The Group attained a post-tax profit for the CFQ of RM171,000 as compared with a profit after tax of RM810,000 in the preceding year's corresponding quarter. In the preceding corresponding financial quarter, the Group had tax income of RM620,000 which arose from the over provision of income and deferred taxes in the prior financial quarters and years.

For the CFY, the profit after tax ("PAT") of RM3.1 million was lower by 27.6% than that of RM4.3 million recorded for the corresponding financial year. This percentage decline was more than the YoY percentage decline in PBT due to the tax income as mentioned above.

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2020

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year	Immediate	
	Quarter	Preceding	
	30.06.20	Quarter	Variance
	RM'000	31.03.20	(+/-)
		RM'000	%
Revenue	8,098	9,067	-10.7
Profit before tax	444	280	+58.6
Profit after tax	171	102	+67.6

The Group's revenue for the CFQ of RM8.1 million was 10.7% lower than that of RM9.1 million achieved in the immediate preceding financial quarter. This decline in revenue was mainly due to effect of the nationwide lockdown to contain the COVID-19 pandemic on 18 March 2020. In spite of the quarter-on-quarter decrease in revenue, the PBT for the CFQ is significantly higher by 58.6% over that of the immediate preceding financial quarter. This was due to the write-back of the impairment loss on receivables of RM2.4 mentioned in Note B1.

The quarter-on-quarter increase in the Group's PAT for the CFQ when compared to the immediate preceding quarter was due to a lower effective tax expense.

B3. COMMENTARY ON PROSPECTS

Malaysia's gross domestic product contracted 17.1% in the CFQ, the steepest fall since the Asian financial crisis of 1998, when the domestic economy shrunk by 11% in the 4th quarter of 1998.

During the period from the commencement of the 2020 Movement Control Order ("MCO") implemented by the Federal Government of Malaysia in response to COVID-19 on 18 March 2020, the Group's operations were severely affected as its marketing activities as well as its supply chain were at a standstill. Since the recommencement of the Group's operations on 4 May 2020, local marketing activities has picked-up but as the economy was opened in phases, sales continued to be depressed for the last two months of the CFQ. Overseas marketing activities were affected by trans-border restrictions and this impacted the Group's export sales. The supply chain post 4 May 2020 has also improved but it is still not effective and efficient due to transportation and shipping constraints caused by trans-border restrictions in Malaysia and overseas.

Since 4 May 2020, there was some normalcy to the Group's operations but as the COVID-19 pandemic is a global pandemic, it will take some time for things especially sales to get back to normal, This back to sales normalcy is also subject to the opening of borders for the Group to carry out its marketing activities overseas as a significant portion of the Group's products are exported.

Notwithstanding the above, the Group is hopeful that its operations can get back to pre-MCO levels by the 1st quarter of 2021 and this is premised on factors such as an improvement in global and domestic growth (especially in the construction sector), the trade and technology cycles, opening of the domestic and world economies, and income prospects and sentiment as well as government stimulus measures.

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(Company no. 738171-M)
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NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2020

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 30 June 2020 RM'000	Current year quarter 30 June 2019 RM'000	Current year to date 30 June 2020 RM'000	Current year to date 30 June 2019 RM'000
Tax expenses :				
- Current provision	274	(620)	1,644	1,026
- Deferred taxation	-	-	-	
	274	(620)	1,644	1,026

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.

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NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2020

B7. BORROWINGS AND DEBT SECURITIES

The borrowings of the Group as at 30 June 2020 are as follows:-

	As at 4 th quarter ended 2020		
	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Hire purchase creditors	-	-	-
Flexi loan*	8,158	432	8,590
Lease liabilities	308	331	639

	As at 4 th quarter ended 2019		
	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Hire purchase creditors	193	200	393
Flexi loan*	8,474	360	8,834
Lease liabilities	-	-	-

* *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.

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NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 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
		30 June 2020	Corresponding Quarter 30 June 2019	30 June 2020	Corresponding Period 30 June 2019
Profit for the period attributable to owners of the parent (RM 000)	1	171	857	3,145	4,221
Weighted average number of ordinary shares in issue (000)		573,176	430,892	573,176	430,892
Earnings per share (sen) attributable to owners of the Company					
- Basic		0.03	0.19	0.55	0.98
- Diluted		0.03	0.19	0.55	0.98

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 30 June 2020.

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2020

B10. EARNINGS PER SHARE (continued)

Note 1	Individual Period		Cumulative Period	
	Current year quarter 30 June 2020	Preceding Year Corresponding Quarter 30 June 2019	Current year to date 30 June 2020	Preceding Year Corresponding Period 30 June 2019
Profit after taxation (RM 000)	171	810	3,145	4,342
Profit attributable to:				
Owners of the parent (RM 000)	171	857	3,145	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