

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2021

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 (“MFRS”) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) 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 2020.

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 2020 except for the adoption of the following new/revised MFRSs and amendments to MFRSs:

Title	Effective Date
Amendments to References to the Framework in MFRS Standards	1 January 2020
Amendments to MFRS 3 : Definition of a Business	1 January 2020
Amendments to MFRS : Definition of Material 101 and MFRS 108	1 January 2020
Amendments to MFRS 9, : Interest Rate Benchmark Reform MFRS 139 and MFRS 7	1 January 2020
Amendments to MFRS 4 : Insurance Contract – Extension of the Temporary Exemption from Applying MFRS 9	1 August 2020

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.

A2. SEASONAL OR CYCLICAL FACTORS

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

A3. UNUSUAL ITEMS

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the quarter under review.

A4. CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior interim periods or financial years that have a material effect in the current financial period.

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A5. CHANGES IN DEBT AND EQUITY SECURITIES

There are no material changes in debt and equity for the current financial period.

A6. DIVIDENDS PAID

On 22 December 2020, a single-tier final dividend of 0.05 sen per ordinary share amounting to RM294,611.26 was paid in respect of the financial year ended 30 June 2020.

A7. SEGMENT INFORMATION

The segment information in respect of the Group's operating segments for the period ended 30 June 2021 is as follows:

	Individual Period		Cumulative Period	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Corresponding	To-date	Corresponding
	30.06.21	30.06.20	30.06.21	30.06.20
	RM'000	RM'000	RM'000	RM'000
Revenue				
Sales	17,049	14,196	82,937	79,492
Inter-segment sales	5,573	6,098	24,717	29,066
Total revenue	11,476	8,098	58,220	50,426
Profit from operation	2,931	1,697	18,165	16,552

The reconciliations of the total reportable segment results are as follows:

	Individual Period		Cumulative Period	
	Current Year	Preceding Year	Current Year	Preceding Year
	Quarter	Corresponding	To-date	Corresponding
	30.06.21	30.06.20	30.06.21	30.06.20
	RM'000	RM'000	RM'000	RM'000
Profit from operations for reportable segments	2,931	1,697	18,165	16,552
Expenses managed on a central basis	(2,892)	(4,112)	(13,614)	(14,510)
Other operating income	423	2,862	2,005	2,797
Profit from operations	462	447	6,556	4,839
Finance cost	29	(3)	(36)	(50)
Profit before taxation	491	444	6,520	4,789

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A8. MATERIAL EVENTS SUBSEQUENT TO THE END OF FINANCIAL PERIOD

There were no material events subsequent to 30 June 2021 that have not been reflected in the financial statements.

A9. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group during the financial period ended 30 June 2021.

A10. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material changes in contingent liabilities or contingent assets since the last financial year.

A11. CAPITAL COMMITMENTS

Amounts contracted but not provided for capital expenditure as at 30 June 2021 amounted to RM0.4 million.

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. PERFORMANCE REVIEW

	Individual Period			Cumulative Period		
	Current Year Quarter 30.06.21 RM'000	Preceding Year Corresponding Quarter 30.06.20 RM'000	Variance (+/-) %	Current Year To-date 30.06.21 RM'000	Preceding Year Corresponding Period 30.06.20 RM'000	Variance (+/-) %
Revenue	11,476	8,098	+41.7	58,220	50,426	+15.5
Profit before tax	491	444	+10.6	6,520	4,789	+36.1
Profit after tax	924	171	+440.3	4,936	3,145	+56.9
Profit attributable to the owners of the Company	896	171	+424	4,960	3,145	+57.7

Group's revenue of RM11.5 million and RM58.2 million for the current financial quarter ("CFQ") and the current financial year ("CFY") were 41.7% and 15.5% higher respectively than those of the preceding corresponding periods. These increases were contributed by both domestic and overseas sales which increased by 22.6% and 6.6% respectively year-on-year ("YoY"). While the increase in domestic sales was throughout the CFY, overseas sales only recovered in the 2nd half of the CFY. This delayed recovery in overseas sales was caused by transportation and shipping constraints caused by trans-border constraints in Malaysia and overseas.

In spite of the increased revenue and improved gross margin (21.4% YoY due to favourable product mix) for the CFQ, profit before tax ("PBT") for the CFQ only increased by 10.6% YoY to RM491,000 as compared to the YoY percentage increase of 41.7% in the CFQ's revenue. This disproportionality was due to the fact that the credits in relation to unrealised gain on foreign exchange (RM825,000), reversal of impairment loss on trade and other receivables (RM1.0 million) and reversal of inventories previously written down (RM323,000) in the preceding corresponding quarter did not recur during the CFQ.

As for the CFY's PBT of RM6.5 million, it increased by 36.1% YoY from that of RM4.8 million attained in the preceding financial year. With net operating expenses declining by a mere 1.0% (RM119,000) YoY, the increased PBT was mainly due to the YoY increase in revenue of RM7.8 million. Gross margin for the CFY decreased to 31.2% as compared to that of 32.8% in the preceding financial year. This YoY drop of 4.9% in gross margin was attributable to stagnant selling prices as well as higher input costs such as integrated circuits and copper bars.

The Group's profit after tax ("PAT") for the CFQ of RM924,000 was much higher than that of RM171,000 achieved in the preceding corresponding quarter. This increase translates into a YoY percentage increase of 440.3% and was attributed to net tax income of RM433,000 for the CFQ as compared to a tax expense of RM274,000 in the preceding corresponding quarter. The CFQ's net tax income was due to the writing-back of income and deferred taxes over provided in prior financial quarters of the CFY as well as previous financial years.

PAT for the CFY of RM4.9 million was 56.9% higher than the preceding financial year's PAT of RM3.1 million. This percentage increase is more than the YoY percentage increase in PBT due to a lower effective tax of 24.3% for the CFY compared to the effective tax charge of 34.3% in the preceding financial year.

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B1. PERFORMANCE REVIEW(continued)

The profit attributable to the owners of the parent company for CFQ and CFY of RM896,000 and RM4.9 million were 424.0% and 57.7% respectively higher than those of RM171,000 and RM3.1 million in the preceding corresponding periods. These percentage increases were more or less in tandem with the YoY percentage increases in PAT.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year Quarter 30.06.21 RM'000	Immediate Preceding Quarter 31.03.21 RM'000	Variance (+/-) %
Revenue	11,476	13,118	-12.5
Profit before tax	491	795	-38.2
Profit after tax	924	589	+56.9

The Group's revenue for the CFQ of RM11.5 million was 12.5% lower than that of RM13.1 million achieved in the immediate preceding financial quarter. This decline was mainly due to the disruptions in the Group's production and marketing activities during the CFQ due to the various Movement Control Orders ("MCO") and the Full MCO imposed on 1 June 2021. As a consequence of the decline in revenue, the PBT for the CFQ dropped by 38.2% to RM491,000 from that of RM795,000 achieved in the immediate preceding quarter.

The Group's PAT for the CFQ increased to RM924,000 from the PAT of RM589,000 in the immediate preceding quarter. This increase was due to the net tax income of RM433,000 for the CFQ (detailed in Note B2) as compared to a tax expense of RM206,000 in the immediate preceding quarter.

B3. COMMENTARY ON PROSPECTS

The Malaysian economy expanded by 16.1% in the 2nd quarter of 2021 (1st quarter: -0.5%). Growth was supported mainly by the improvement in domestic demand and continued robust exports performance. The strong growth also reflected continued policy support and the low base from the significant decline in activity during the 2nd quarter of 2020. Economic activity picked up at the start of the 2nd quarter but slowed following the re-imposition of stricter nationwide containment measures, particularly under Phase 1 of the Full MCO. For the 2nd quarter as a whole, all economic sectors registered an improvement, particularly the manufacturing sector.

(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2021, Bank Negara Malaysia)

The ongoing COVID-19 pandemic which led to lockdowns worldwide has affected the Group operationally and financially. This is because although the Group was permitted to operate most of the CFY (save for the period from 1 June to 14 June 2021), it had to operate at reduced capacity and in compliance with workplace guidelines issued by the Malaysian Government.

Furthermore, due to a confluence of the COVID-19 pandemic, the United States-China trade war and an overall computer chips shortage globally, the integrated circuits needed for the Group's protective relays, power factor regulators and power meters, have become hot items and its prices have increased by 10% to 15 % in the last 12 months. Meanwhile the price of

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B3. COMMENTARY ON PROSPECTS(continued)

copper which is the main raw material for the Group's busducts, had more than doubled since the lows of March 2020 at the beginning of the COVID-19 pandemic.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT OR PROFIT GUARANTEE

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

B5. TAXATION

	Current year quarter 30 June 2021 RM'000	Current year quarter 30 June 2020 RM'000	Current year to date 30 June 2021 RM'000	Current year to date 30 June 2020 RM'000
Tax expenses :				
- Current provision	(433)	274	1,585	1,644
	(433)	274	1,585	1,644

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's estimate of the tax rate for the year.

B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED

There was no corporate proposal announced by the Group as at the date of the issue of this quarterly report.

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B7. DETAILS OF GROUP BORROWINGS AND DEBT SECURITIES

The borrowings of the Group as at the end of this period were as follows:-

As at 30 June 2021	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	7,828	452	8,280
Lease liabilities	496	296	792
Term Loan*	448	52	500

As at 30 June 2020	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	8,158	432	8,590
Lease liabilities	295	344	639
Term Loan	-	-	-

* *The flexi loan of the Group is obtained for the purchase of freehold land and factory building.*

* *The term loan of the Group is obtained from Targeted Relief and Recovery Facility (TRRF).*

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

The Directors have recommended a final single tier dividend of 0.05 sen per ordinary share in respect of the financial year ended 30th June 2021, which is subject to the approval of the shareholders at the Company's forthcoming AGM.

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B10. PROFIT BEFORE TAX

Profit before tax is arrived after (crediting)/charging:

	Current Year Quarter 30 June 2021 RM'000	Current Year To Date 30 June 2021 RM'000
Interest income	(3)	(47)
Finance costs	(29)	36
Depreciation & amortisation	557	2,799
Impairment loss on intangible assets	184	184
Inventories written down	8	8
Reversal of impairment loss on trade receivables	240	(379)
Gain on disposal of property, plant and equipment	-	(51)
Property, plant and equipment written off	2	2
Foreign exchange loss / (gain)	66	144

Other than as per disclosed above, the group does not have other material items that recognised as profit/loss in the statement of profit or loss and statement of other comprehensive income.

B11. 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 quarter 30 June 2021	Preceding Year Corresponding Quarter 30 June 2020	Current year to date 30 June 2021	Preceding Year Corresponding Period 30 June 2020
Profit for the period attributable to owners of the parent (RM'000)	1	896	171	4,960	3,145
Weighted average number of ordinary shares in issue ('000)		589,226	573,176	589,226	573,176
Earnings per share (sen) attributable to owners of the Company					
- Basic		0.15	0.03	0.84	0.55

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B11. EARNINGS PER SHARE (continued)

Note 1	Individual Period		Cumulative Period	
	Current year quarter 30 June 2021	Preceding Year Corresponding Quarter 30 June 2020	Current year to date 30 June 2021	Preceding Year Corresponding Period 30 June 2020
Profit after taxation (RM'000)	924	171	4,936	3,145
Profit attributable to:				
Owners of the parent (RM'000)	896	171	4,960	3,145
Non-controlling interest (RM'000)	28	-	(24)	-

By order of the Board

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