

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE FOURTH QUARTER ENDED 30 JUNE 2022

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 2021.

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 2021 except for the adoption of the following new/revised MFRSs and amendments to MFRSs:

Title	Effective Date
<i>Interest Rate Benchmark Reform - Phase 2</i> (Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16)	1 January 2021
Annual Improvements to MFRS Standards 2018 - 2020	1 January 2022
Amendments to MFRS 3 <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to MFRS 116 <i>Property, Plant and Equipment - Proceeds before Intended Use</i>	1 January 2022
Amendments to MFRS 137 <i>Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to MFRS 101 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
MFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to MFRS 17 <i>Insurance Contracts</i>	1 January 2023
<i>Disclosure of Accounting Policies</i> (Amendments to MFRS 101 <i>Presentation of Financial Statements</i>)	1 January 2023
<i>Definition of Accounting Estimates</i> (Amendments to MFRS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>)	1 January 2023
Amendments to MFRS 112 <i>Deferred tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

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.

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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.

A5. CHANGES IN DEBT AND EQUITY SECURITIES

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

A6. DIVIDENDS PAID

There were no dividends paid during the quarter under review.

A7. SEGMENT INFORMATION

The segment information in respect of the Group's operating segments for the period ended 30 June 2022 is as follows:

		Individual Period		Cumulative Period	
		Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
		30.06.22 RM'000	30.06.21 RM'000	30.06.22 RM'000	30.06.21 RM'000
Revenue					
Intelligent Device	Electronic	9,961	7,398	36,866	36,960
Busway		4,244	4,078	16,216	21,260
Total revenue		14,205	11,476	53,082	58,220
Profit from operation		5,150	2,931	16,743	18,165

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

	Individual Period		Current Year To-date 30.06.22 RM'000	Cumulative Period Preceding Year Corresponding Period 30.06.21 RM'000
	Current Year Quarter 30.06.22 RM'000	Preceding Year Corresponding Quarter 30.06.21 RM'000		
Profit from operations for reportable segments	5,150	2,931	16,743	18,165
Expenses managed on a central basis	(3,462)	(2,893)	(13,007)	(13,614)
Other operating income	830	424	2,957	2,005
Profit from operations	2,518	462	6,693	6,556
Finance cost	(54)	29	(77)	(36)
Profit before taxation	<u>2,464</u>	<u>491</u>	<u>6,616</u>	<u>6,520</u>

A8. MATERIAL EVENTS SUBSEQUENT TO THE END OF FINANCIAL PERIOD

There were no material events subsequent to 30 June 2022 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 2022.

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

There are no material commitments which require disclosure during the quarter.

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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 30.06.22 RM'000	Preceding Year Corresponding Quarter 30.06.21 RM'000	Variance (+/-) %	Current Year To-date 30.06.22 RM'000	Preceding Year Corresponding Period 30.06.21 RM'000	Variance (+/-) %
Revenue	14,205	11,476	+23.8	53,082	58,220	-8.8
Profit before tax	2,464	491	+401.8	6,616	6,520	+1.5
Profit after tax	2,200	924	+138.1	4,974	4,936	+0.8
Profit attributable to the owners of the Company	2,170	896	+142.2	4,900	4,960	-1.2

The Group's revenue of RM14.2 million for the current financial quarter ("CFQ") was higher by 23.8% compared with that of RM11.5 million recorded in the preceding year financial quarter ("PFQ"). This increase in revenue was attributed to increased sales both locally and overseas with most of it coming from the Intelligent Electronic Devices ("IED") Division. This was mainly due to the restarting of many electrical engineering projects which were deferred previously due to the COVID-19 pandemic. The transition to endemic phase by Malaysia on 1 April 2022 and the appreciation of the USD against the RM by about 5% during the CFQ were also positive factors for sales in the CFQ. In the PFQ, production and marketing activities were disrupted by the various Movement Control Orders ("MCO") and the Full MCO imposed on 1 June 2021.

With billed selling prices more or less the same year-on-year ("YoY"), the increased sales volume and the factors set out above, caused the gross profit margin to expand from 25.5% in the PFQ to 36.3% for the CFQ. With net operating expenses increasing by merely 10.1% YoY to RM2.7 million, the improvement in margin by 42.3% YoY or RM2.2 million in absolute monetary terms caused the profit before tax ("PBT") for the CFQ to increase to RM2.5 million from that RM491,000 achieved in the PFQ.

The 4-time increase in PBT caused the profit after tax ("PAT") to improve to RM2.2 million in the CFQ from that of RM924,000 for the PFQ. The effective tax rate of 10.7% for the CFQ was lower than the standard rate of tax applicable to the Group's profit due to the writing back of income and deferred taxes over provided in the prior financial quarters of the current financial year ("CFY") and prior financial years. In the PFQ, the Group had net tax income of RM433,000.

The profit attributable to the owners of the parent company was RM2.2 million in the CFQ compared with that of RM896,000 in the PFQ. This is more or less in line with the YoY percentage increase in PAT with the differential attributed to profit attributed to non-controlling interest.

As for the CFY, the revenue for the 1st half of the CFY was lower by 27.9% YoY and only recovered in the immediate preceding financial quarter when it increased by 11.6% YoY. Hence, this recovery and the YoY increase in revenue in the CFQ narrowed the decrease for the entire CFY to 8.8% YoY. The lack lustre revenue for the 1st half of the CFY was due to the fact that there were still production and marketing disruptions due to the COVID-19 pandemic.

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B1. PERFORMANCE REVIEW (continued)

The increased revenue for the CFY and the immediate preceding financial quarter was not able to overcome the shortfalls in the 1st half of the CFY and consequently, the increases in PBT and PAT of 1.5% and 0.8% respectively were substantially lower than the same for the CFQ. The effective tax rate for the CFY and the prior financial year was fairly consistent at 24.8% and 24.3% respectively. These are in line with the standard rate of tax of 24% applicable to the Group's profit.

The profit attributable to the owners of the parent company for the CFY dropped marginally by 1.2% YoY due to a profit attributed to non-controlling interest of RM74,000 for the CFY as compared to a loss of RM25,000 in the prior financial year.

B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year Quarter 30.06.22 RM'000	Immediate Preceding Quarter 31.03.22 RM'000	Variance (+/-) %
Revenue	14,205	14,645	-3.0
Profit before tax	2,464	1,650	+49.3
Profit after tax	2,200	1,181	+86.3

The Group's revenue for the CFQ of RM14.2 million saw a marginal decline of 3.0% with that of RM14.6 million achieved in the immediate preceding financial quarter. This was due to the fact that there was an upsurge in overseas deliveries of backorders during the immediate preceding financial quarter.

As for the PBT, it increased by 49.3% to RM2.5 million for the CFQ from that of RM1.7 million achieved in the immediate preceding financial quarter. This increase in PBT despite lower revenue for the CFQ was attained as a result of the higher gross margin of 36.3% for the CFQ as compared to that of 30.0% in the immediate preceding financial quarter. This higher margin quarter-on-quarter ("**QoQ**") was achieved on the back of the appreciation of 4.6% in USD against RM during the CFQ and the increase in overseas sales of almost 38.4% QoQ.

The Group's PAT for the CFQ of RM2.2 million was 86.3% higher than that of RM1.2 million in the immediate preceding quarter. This increase QoQ was not proportionate to the QoQ in PBT due to the fact that the effective tax rate for the CFQ was only 10.7% (see Note B1) while that of the immediate preceding financial quarter was 28.4%.

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B3. COMMENTARY ON PROSPECTS

Bank Negara Malaysia (“BNM”) had on 12 August 2022 announced that the Malaysian economy grew 8.9% in the 2nd quarter of 2022 as compared to that of 5.0% in the 1st quarter of 2022. BNM further said that this stronger growth quarter-on-quarter was to some extent lifted by the low base from the Full MCO in June 2021 and that domestic demand continued to strengthen underpinned by the steady recovery in the labour market conditions and ongoing policy support. On the flip side, BNM added that Malaysia’s growth remains susceptible to a weaker than expected global growth, further escalation of geopolitical conflicts and worsening supply chain disruptions.

Premised on this and despite the challenges and uncertainties in the near term, the Group remains optimistic that it can remain profitable in the coming financial year.

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 2022 RM’000	Current year quarter 30 June 2021 RM’000	Current year to date 30 June 2022 RM’000	Current year to date 30 June 2021 RM’000
Tax expenses :				
- Current provision	264	(433)	1,643	1,585
	264	(433)	1,643	1,585

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 2022	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	7,361	467	7,828
Lease liabilities	321	309	630
Term Loan*	376	72	448

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

* *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 2022, 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 2022 RM'000	Current Year Quarter 30 June 2021 RM'000
Interest income	3	(3)
Finance costs	54	(43)
Depreciation & amortisation	37	556
Impairment loss on intangible assets	-	184
Inventories written down	-	8
Reversal of impairment loss on trade receivables	(298)	708
Gain on disposal of property, plant and equipment	(23)	-
Property, plant and equipment written off	-	2
Foreign exchange loss / (gain)	59	66

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.

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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 2022	Preceding Year Corresponding Quarter 30 June 2021	Current year to date 30 June 2022	Preceding Year Corresponding Period 30 June 2021
Profit for the period attributable to owners of the parent (RM'000)	1	2,170	896	4,900	4,960
Weighted average number of ordinary shares in issue ('000)		589,226	589,226	589,226	589,226
Earnings per share (sen) attributable to owners of the Company					
- Basic		0.37	0.15	0.83	0.84
	Note 1	Individual Period Current year quarter 30 June 2022	Preceding Year Corresponding Quarter 30 June 2021	Cumulative Period Current year to date 30 June 2022	Preceding Year Corresponding Period 30 June 2021
Profit after taxation (RM'000)		2,200	924	4,974	4,935
Profit attributable to:					
Owners of the parent (RM'000)		2,170	896	4,900	4,960
Non-controlling interest (RM'000)		30	28	74	(25)

By order of the Board

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