

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 31 DECEMBER 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 2022.

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 2022 except for the adoption of the following new/revised MFRSs and amendments to MFRSs:

Title	Effective Date
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>Initial Application of MFRS 17 and MFRS 9 – Comparative Information</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 31 December 2022 is as follows:

		Individual Period		Cumulative Period	
		Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
		31.12.22 RM'000	31.12.21 RM'000	31.12.22 RM'000	31.12.21 RM'000
Revenue					
Intelligent Device	Electronic	10,904	8,740	20,059	17,784
Busway		4,939	4,622	9,412	6,448
Total revenue		15,843	13,362	29,471	24,232
Profit from operation		6,271	4,315	10,536	7,198

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

	Individual Period		Current Year To-date 31.12.22 RM'000	Cumulative Period Preceding Year Corresponding Period 31.12.21 RM'000
	Current Year Quarter 31.12.22 RM'000	Preceding Year Corresponding Quarter 31.12.21 RM'000		
Profit from operations for reportable segments	6,271	4,315	10,536	7,198
Expenses managed on a central basis	(4,985)	(3,614)	(8,865)	(6,390)
Other operating income	(38)	1,023	2,625	1,709
Profit from operations	1,248	1,724	4,296	2,517
Finance cost	(24)	(11)	(41)	(15)
Profit before taxation	<u>1,224</u>	<u>1,713</u>	<u>4,255</u>	<u>2,502</u>

A8. MATERIAL EVENTS SUBSEQUENT TO THE END OF FINANCIAL PERIOD

There were no material events subsequent to 31 December 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 31 December 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 31.12.22 RM'000	Preceding Year Corresponding Quarter 31.12.21 RM'000	Variance (+/-) %	Current Year To-date 31.12.22 RM'000	Preceding Year Corresponding Period 31.12.21 RM'000	Variance (+/-) %
Revenue	15,843	13,362	+18.6	29,471	24,232	+21.6
Profit before tax	1,224	1,713	-28.5	4,255	2,502	+70.0
Profit after tax	748	1,282	-41.7	3,353	1,593	+110.5
Profit attributable to the owners of the Company	708	1,264	-44.0	3,262	1,581	-106.3

The Group's revenue of RM15.8 million for the current financial quarter ("CFQ") was higher by 18.6% compared with that of RM13.4 million recorded in the preceding year financial quarter ("PFQ"). This increase was attributed to improvement in overseas sales.

The gross profit margin for the CFQ was 39% compared with 33% in the PFQ, the increase being due to increased products mix.

The Group's profit before taxation ("PBT") for the CFQ was lower by 28.5% compared with that of RM1.7 million recorded in the PFQ, due to higher operating expenses in CFQ and reversal of impairment on trade receivable and unrealised gain recorded in PFQ.

Therefore, the profit after tax ("PAT") for the CFQ was RM0.7 million, lower by 41.7% compared with that RM1.3 million recorded for the PFQ.

The profit attributable to the owners of the parent company was RM0.7 million in the CFQ compared with that of RM1.3 million in the PFQ.

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B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year Quarter 31.12.22 RM'000	Immediate Preceding Quarter 30.09.22 RM'000	Variance (+/-) %
Revenue	15,843	13,628	+16.3
Profit before tax	1,224	3,031	-59.6
Profit after tax	748	2,605	-71.3

The Group's revenue for the CFQ of RM15.8 million was 16.3% higher compared with that of RM13.6 million achieved in the immediate preceding financial quarter. This increase in revenue was generated from both local and overseas sales.

However, the PBT has declined by 59.6% to RM1.2 million, this being due to the disposal of 2 units of double storey office shop lot for RM4 million with RM1.8 million profit recorded in the immediate preceding financial quarter.

Therefore, the Group's PAT for the CFQ of RM0.7 million was 71.3% lower than that of RM2.6 million in the immediate preceding quarter. Moreover, the higher effective tax rate for the current period and year due to non-deductible expenses also reduced the Group's PAT

B3. COMMENTARY ON PROSPECTS

The entanglement of geopolitical conflicts has led to global inflationary pressure and weakened economic growth, and this poses a significant challenge to the Group's business. In response, the Group continues to implement cost control measures and manage supply chain disruptions.

Having invested in IoT, the Group's products are increasingly poised to benefit from recent move towards connectivity capability. The recently launched range of wireless products has also been gaining encouraging market response. Therefore, despite the economic headwinds, the Group remains optimistic in its business outlook

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.

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B5. TAXATION

	Current year quarter 31 December 2022 RM'000	Current year quarter 31 December 2021 RM'000	Current year to date 31 December 2022 RM'000	Current year to date 31 December 2021 RM'000
Tax expenses :				
- Current provision	451	396	877	875
- Deferred taxation	25	35	25	35
	476	431	902	910

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

On 30 December 2022, the Company announced that MIKRO had entered into Share Sale Agreement (“SSA”) with Mr Yeo Hock Cheong (the “Vendor”), the majority shareholder of BESB, for the Proposed Acquisition. The Proposed Acquisition entails the acquisition of up to 10% of the total issued share capital of BESB from the vendor for a total purchase consideration of RM22.5 million.

On 18 January 2023, the Company announced that it is proposing to undertake the Proposed Private Placement.

On 27 January 2023, the Company announced that the listing application in relation to the Proposed Private Placement had been submitted to Bursa Malaysia Securities Berhad.

On 15 February 2023, the Company announced that Bursa Securities had, vide its letter dated 15 February 2023, approved the listing and quotation of up to 58,922,614 Placement Shares to be issued pursuant to the Proposed Private Placement, subject to the following conditions:-

- (i) Mikro and KAF IB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Private Placement;
- (ii) Mikro and KAF IB to inform Bursa Securities upon the completion of the Proposed Private Placement; and
- (iii) Mikro to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities’ approval once the Proposed Private Placement is completed.

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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 31 December 2022	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	7,186	467	7,653
Lease liabilities	802	399	1,201
Term Loan*	332	73	405

As at 31 December 2021	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	7,308	763	8,071
Lease liabilities	472	333	805
Term Loan	408	70	478

* *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

No dividend has been proposed in respect of the current financial period ended 31 December 2022.

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B10. PROFIT BEFORE TAX

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

	Current Year Quarter 31 December 2022 RM'000	Current Year Quarter 31 December 2021 RM'000
Interest income	(27)	(10)
Finance costs	22	(9)
Depreciation & amortisation	609	757
Impairment loss on trade and receivables	110	(25)
Reversal of impairment loss on trade receivables	-	(366)
Gain on disposal of property, plant and equipment	-	(100)
Foreign exchange loss / (gain)	569	(335)

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	Preceding Year Corresponding Quarter	Current year to date	Preceding Year Corresponding Period
		31 December 2022	31 December 2021	31 December 2022	31 December 2021
Profit for the period attributable to owners of the parent (RM'000)	1	708	1,264	3,262	1,581
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		0.12	0.21	0.55	0.27
		Individual Period		Cumulative Period	
		Current year quarter	Preceding Year Corresponding Quarter	Current year to date	Preceding Year Corresponding Period
		31 December 2022	31 December 2021	31 December 2022	31 December 2021
Note 1					
Profit after taxation (RM'000)		748	1,282	3,353	1,593
Profit attributable to:					
Owners of the parent (RM'000)		708	1,264	3,262	1,581
Non-controlling interest (RM'000)		40	18	91	12

By order of the Board

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