

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

NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE THIRD QUARTER ENDED 31 MARCH 2023

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

On 5 January 2023, a single-tier final dividend of 0.05 sen per ordinary share amounting to RM294,611.29 was paid in respect of the financial year ended 30 June 2022.

A7. SEGMENT INFORMATION

The segment information in respect of the Group's operating segments for the period ended 31 March 2023 is as follows:

		Individual Period		Cumulative Period	
		Current Year Quarter	Preceding Year Corresponding Quarter	Current Year To-date	Preceding Year Corresponding Period
		31.03.23 RM'000	31.03.22 RM'000	31.03.23 RM'000	31.03.22 RM'000
Revenue					
Intelligent Device	Electronic	6,459	9,122	26,519	26,905
Busway		2,818	5,522	12,230	11,971
Total revenue		9,277	14,644	38,749	38,876
Profit from operation		2,207	4,395	12,744	11,593

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

	Individual Period		Current Year To-date 31.03.23 RM'000	Cumulative Period Preceding Year Corresponding Period 31.03.22 RM'000
	Current Year Quarter 31.03.23 RM'000	Preceding Year Corresponding Quarter 31.03.22 RM'000		
Profit from operations for reportable segments	2,207	4,395	12,744	11,593
Expenses managed on a central basis	(3,520)	(3,156)	(12,385)	(9,545)
Other operating income	371	418	2,995	2,127
Profit from operations	(942)	1,657	3,354	4,175
Finance cost	(63)	(8)	(105)	(23)
Profit before taxation	<u>(1,005)</u>	<u>1,649</u>	<u>3,249</u>	<u>4,152</u>

A8. MATERIAL EVENTS SUBSEQUENT TO THE END OF FINANCIAL PERIOD

There were no material events subsequent to 31 March 2023 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 March 2023.

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 31.03.23 RM'000	Preceding Year Corresponding Quarter 31.03.22 RM'000	Variance (+/-) %	Current Year To-date 31.03.23 RM'000	Preceding Year Corresponding Period 31.03.22 RM'000	Variance (+/-) %
Revenue	9,277	14,645	-36.7	38,749	38,877	-0.3
Profit before tax	(1,005)	1,650	-160.9	3,249	4,152	-21.7
Profit after tax	(1,288)	1,181	-209.0	2,064	2,774	-25.6
Profit attributable to the owners of the Company	(1,351)	1,149	-217.6	1,911	2,730	-30.0

The Group's revenue of RM9.3 million for the current financial quarter ("CFQ") was lower by 36.7% compared with that of RM14.6 million recorded in the preceding year financial quarter ("PFQ"). This decline in revenue can be attributed to the drop of RM4.6 million from local sales and RM0.7 million from oversea sales.

The gross profit margin for the CFQ was 24% as compared with 30% recorded in the PFQ. The decline is mainly due to product mix for sales recorded in CFQ.

The Group recorded loss before taxation ("LBT") for the CFQ of RM1mil as compared with that of RM1.7 million recorded in the PFQ, due to lower sales recorded in the CFQ

Therefore, the loss after taxation ("LAT") for the CFQ was RM1.3 million as compared with that profit after taxation ("PAT") of RM1.2 million recorded for the PFQ.

The loss attributable to the owners of the parent company was RM1.4 million in the CFQ compared with that PAT of RM1.1 million in the PFQ.

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B2. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

	Current Year Quarter 31.03.23 RM'000	Immediate Preceding Quarter 31.12.22 RM'000	Variance (+/-) %
Revenue	9,277	15,843	-41.4
Profit before tax	(1,005)	1,224	-182.1
Profit after tax	(1,288)	748	-272.2

The Group's revenue for the CFQ of RM9.3 million was 41.4% lower than that of RM15.8 million achieved in the immediate preceding financial quarter. This decline was due to the reduction of both local and overseas sales in the CFQ of RM3.0 million and RM3.5 million respectively as compared with that in the immediate preceding financial quarter. The softening market condition was further exacerbated by the Chinese New Year festivity in CFQ and this has significantly dampened our Group sales.

The Group's LBT of RM1.0 million was due to the lower level of revenue and gross profit margin recorded in CFQ.

The Group's LAT for the CFQ was RM1.3 million. The higher effective tax rate for the current period and year was due to non-deductible expenses incurred.

B3. COMMENTARY ON PROSPECTS

Despite having emerged from the pandemic, its economic scars, alongside those made by the Russian-Ukraine conflict, supply chain disruptions, and political instability continue to drag the global economy.

In mitigation, the Malaysian government has responded by introducing incentives for key economic sectors, in particular the electrical and electronic (E&E) and aerospace sectors albeit slow, already signs of recovery are emerging.

Therefore, despite the economic headwinds, the Group cautiously 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 March 2023 RM'000	Current year quarter 31 March 2022 RM'000	Current year to date 31 March 2023 RM'000	Current year to date 31 March 2022 RM'000
Tax expenses :				
- Current provision	283	468	1,160	1,343
- Deferred taxation			25	35
	283	468	1,185	1,378

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.

On 1 March 2023, the Company announced that the issue price for the Private Placement comprising 58,918,800 Placement Shares at RM0.16 per Placement Share. The said issue price of RM0.16 per Placement Share represents a discount of approximately 7.19% from the five (5) day VWAMP of Mikro Shares up to and including 28 February 2023 of approximately RM0.1724 per Mikro Share.

On 6 March 2023, the Company announced that pursuant to the terms of the Share Sale Agreement (“SSA”), Tranche 1 of the Proposed Acquisition amounting to RM9,000,000 for 4% equity interest in Bio Eneco Sdn Bhd

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B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED (continued)

has been made to the Purchaser's Solicitors as stakeholder on this even date which will be released to the Vendors upon fulfilment of condition precedents as stipulated in the SSA.

Tranche 1 represents the first part of the 2 tranches in the Proposed Acquisition of up to 10% in Bio Eneco Sdn Bhd for a total purchase consideration of RM22.5 million under the said SSA.

On 9 March 2023, the Company announced that the Private Placement has been fully completed following the listing of and quotation for 58,918,000 Private Placement Shares on the ACE Market of Bursa Malaysia Securities Berhad. The Company has placed out a total of 58,918,800 Placement Shares to identified investor in one (1) tranche at the issue price per Placement Share of RM0.16, rising a total of RM9,427,008 for the Company.

On 28 March 2023, the Company announced that the Company is proposing to undertake a private placement of new ordinary shares in Mikro of up to fifteen percent (15%) of the total number of issued shares in Mikro (excluding treasury shares) ("Proposed Private Placement").

On 4 April 2023, the Company announced that the listing application to Bursa Malaysia Securities Berhad in relation to the Proposed Private Placement had been submitted.

On 2 May 2023, Bursa Securities approved the listing and quotation of up to 97,221,741 Placement Shares to be issued pursuant to the Proposed Private Placement, subject to the following conditions:-

- Mikro and KAF must fully comply with the relevant provisions under the ACE Market Listing Requirements pertaining to the implementation of the Proposed Private Placement;
- Mikro and KAF IB to inform Bursa Securities upon the completion of the Proposed Private Placement;
- 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; and
- Mikro to furnish Bursa Securities with a certified true copy of the resolution passed by the shareholders in a general meeting approving the Proposed Private Placement.

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B6. STATUS OF CORPORATE PROPOSALS ANNOUNCED (continued)

The status of the utilisation of the Private Placement proceeds is set out as below:

	Proposed utilisation	Amount utilised as at 21 May 2023	Balance to be utilised	Expected utilisation time frame
	(RM'000)	(RM'000)	(RM'000)	
Working capital (i)	9,357	4,311	5,046	Within 12 months
Estimated expenses relating to the Proposed Private Placement	70	70	-	Immediate
Total	9,427	4,381	5,046	

Notes:-

(i)	The breakdown of proceeds utilised for working capital requirements are as follows:-	(RM'000)
	Selling and distribution expenses such as travelling entertainment, accommodation expenses, commission and incentive for distribution dealers	333
	Payment of staff salaries, factory wages	2,140
	Administrative expenses and operating expenses (comprising utilities charges, rental, audit fees, secretarial fees, maintenance of machineries and motor vehicles, director's fees as well as other sundry expenses such as software description fees, courier charges, training expenses, company tax and tax payable to Royal Malaysian Customs Department)	1,838
	Total	4,311

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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 March 2023	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	5,830	481	6,311
Lease liabilities	996	452	1,448
Term Loan*	309	74	383

As at 31 March 2022	Long Term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Flexi loan*	7,200	762	7,962
Lease liabilities	402	296	698
Term Loan	386	71	457

* *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 March 2023.

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B10. PROFIT BEFORE TAX

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

	Current Year Quarter 31 March 2023 RM'000	Current Year Quarter 31 March 2022 RM'000
Interest income	(20)	(15)
Finance costs	53	8
Depreciation & amortisation	932	878
Impairment loss on trade and receivables	68	144
Reversal of impairment loss on trade receivables	(298)	(120)
Gain on disposal of property, plant and equipment	(131)	-
Foreign exchange loss / (gain)	(131)	(104)

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 March 2023	31 March 2022	31 March 2023	31 March 2022
Profit for the period attributable to owners of the parent (RM'000)	1	(1,351)	1,149	1,911	2,730
Weighted average number of ordinary shares in issue ('000)		604,938	589,226	604,938	589,226
Earnings per share (sen) attributable to owners of the Company					
- Basic		(0.22)	0.19	0.32	0.46
	Note 1	Individual Period	Individual Period	Cumulative Period	Cumulative Period
		Current year quarter	Preceding Year Corresponding Quarter	Current year to date	Preceding Year Corresponding Period
		31 March 2023	31 March 2022	31 March 2023	31 March 2022
Profit after taxation (RM'000)		(1,288)	1,181	2,064	2,774
Profit attributable to:					
Owners of the parent (RM'000)		(1,351)	1,149	1,911	2,730
Non-controlling interest (RM'000)		63	32	153	44

By order of the Board

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