

UCHI TECHNOLOGIES BERHAD
(Company No.: 457890-A)

NOTES TO THE FINANCIAL REPORT
FOR THE PERIOD ENDED MARCH 31, 2017

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements (Condensed Report) is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standard (MFRS) 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (MASB) and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The Group's financial statements for the financial year ended December 31, 2016 have been prepared in accordance with MFRSs.

At the date of authorisation of these interim financial statements, the following MFRSs and Amendments to MFRSs were issued but not yet effective and have not been applied by the Group:

MFRSs and Amendments to MFRSs		Effective for annual period beginning on or after
MFRS 9	Financial Instruments	January 1, 2018
MFRS 15	Revenue from Contracts with Customers	January 1, 2018
MFRS 16	Leases	January 1, 2019
Amendments to MFRS 2	Classification and Measurement of share-based Payment Transactions	January 1, 2018
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	January 1, 2018
Amendments to MFRS 140	Transfers of Investment Property	January 1, 2018
IC Int. 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended December 31, 2016.

2. AUDIT REPORT OF THE PRECEDING ANNUAL FINANCIAL STATEMENTS

The audit report of the preceding annual financial statements was not subject to any qualification.

3. SEASONAL OR CYCLICAL FACTORS

The Group serves a wide base of multi national companies in the consumer and industrial electrical and electronic appliances industries. The demand for the Group's products in the normal course of event is seasonal with demand peaking during the third quarter of the year.

4. UNUSUAL MATERIAL EVENT

There was no unusual material event during the reporting quarter.

5. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of amount from either the prior interim period or prior financial years.

6. CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the reporting period except those disclosed in Note 25.

7. DIVIDENDS PAID

	3 months ended March 31	
	2017	2016
	RM'000	RM'000
Interim tax exempt dividend of 5 Sen per ordinary share of RM0.20 each, for 2015	-	19,390
Interim tax exempt dividend of 5 Sen per ordinary share of RM0.20 each, for 2016	21,831	-
	21,831	19,390

8. REVENUE

	3 months ended March 31		3 months ended March 31	
	2017	2016	2017	2016
	RM'000	RM'000	USD'000	USD'000
Revenue	32,458	30,605	7,280	7,249

9. SEGMENT REPORTING

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
3 months ended March 31, 2017					
Revenue					
External sales	-	32,458	-	-	32,458
Inter-segment sales	525	-	192	(717)	-
Total revenue	525	32,458	192	(717)	32,458
Results					
Profit/(loss) before tax	610	13,964	49	3	14,626
Income tax expense	(286)	(84)	(10)	-	(380)
Net profit/(loss) for the year	324	13,880	39	3	14,246
Other information					
Capital expenditure	-	245	-	-	245
Depreciation and amortization	-	1,580	-	(9)	1,571
3 months ended March 31, 2016					
Revenue					
External sales	-	30,605	-	-	30,605
Inter-segment sales	508	-	170	(678)	-
Total revenue	508	30,605	170	(678)	30,605
Results					
Profit/(loss) before tax	892	12,860	50	(58)	13,744
Income tax expense	(287)	(32)	(10)	-	(329)
Net profit/(loss) for the year	605	12,828	40	(58)	13,415
Other information					
Capital expenditure	-	11	-	-	11
Depreciation and amortization	-	1,520	-	(9)	1,511

10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of the group have been brought forward without amendments from the financial statements for the year ended December 31, 2016.

11. MATERIAL SUBSEQUENT EVENT

There was no significant or material events subsequent to the end of the period reported on that have not been reflected in the financial statements for the said period.

12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current quarter.

13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets arising since December 31, 2016.

14. PERFORMANCE REVIEW

Revenue in RM for the quarter ended March 31, 2017 increased by 6% to RM32.5 million as compared to the quarter ended March 31, 2016 (Revenue: RM30.6 million) mainly due to appreciation of USD against Ringgit Malaysia during the reporting period. (March 31, 2017: RM4.4585:USD1.00; March 31, 2016: RM4.2220:USD1.00).

Operating Profit Margin for the quarter ended March 31, 2017 reduced to 42% as compared to the quarter ended March 31, 2016 (Operating Profit Margin: 44%) mainly due to recognition of equity-settled share-based payments of RM693,444 incurred in the current quarter (March 31, 2016: Nil) for the fair value of share options granted to eligible employee under the Uchi Technologies Berhad's Employees' Share Option Scheme 2016.

15. COMPARISON WITH THE IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group recorded a profit before taxation of RM14.6 million for the current quarter as compared to RM12.8 million in the immediate preceding quarter ended December 31, 2016 mainly due to there was no provision for rework accounted for in the current quarter as opposed to provision for rework of RM1,563,823 recognized in the quarter ended December 31, 2016 for expected rework claims on products sold.

16. COMMENTARY ON CURRENT YEAR PROSPECT

To the best of our knowledge, in line with the volatile economic condition, the Group expects revenue in USD to remain flat for the financial year ending December 31, 2017.

Nevertheless, the Group is confident that we will remain profitable and maintain a strong balance sheet.

17. VARIANCE OF ACTUAL AND FORECASTED PROFIT AND SHORTFALL IN PROFIT GUARANTEE

Not applicable.

18. INCOME TAX EXPENSES

	3 months ended	
	March 31	
	2017	2016
	RM'000	RM'000
Estimated tax expense:		
Current	<u>380</u>	<u>329</u>

The Group's income tax for the year under review reflects an effective tax rate which is lower than the statutory income tax rate mainly due to one of its subsidiary companies, Uchi Optoelectronic (M) Sdn. Bhd. was granted pioneer status by the Ministry of International Trade and Industry (MITI) for the design, development and manufacture of touch screen advance display, high precision light measurement (optoelectronic) equipment & mix signal control system for centrifuge / laboratory equipment.

Under this incentive, upon certain terms and conditions being fulfilled, 100% of the statutory income derived from the design, development and manufacture of the abovementioned products will be exempted from income tax for a period of five years commencing from January 1, 2013.

The applicable statutory income tax rate of the foreign subsidiary company incorporate in the People's Republic of China is 25%.

19. PROFIT FOR THE PERIOD

Profit for the quarter is arrived at:

	3 months ended	
	March 31	
	2017	2016
	RM'000	RM'000
After (charging)/ crediting:		
Fair value (loss)/ gain on derivative financial instruments:		
Realised	2,991	939
Unrealised	(2,629)	300
Gain/ (loss) on disposal of property, plant and equipment	-	(1)
Gain/ (loss) on foreign exchange:		
Realised	(648)	549
Unrealised	(210)	(2,946)
Depreciation and amortization expenses	(1,571)	(1,511)
Interest on short-term deposits	1,546	1,389

Other than the above, there were no interest expense, provision for and write off of inventories, gain or loss on disposal of investment, impairment of assets, and exceptional items for the period ended March 31, 2017.

20. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT YET TO BE COMPLETED

There were no corporate proposals announced but yet to be completed as of May 15, 2017.

21. GROUP BORROWINGS AND DEBT SECURITIES

There was no group borrowing as of March 31, 2017.

22. FINANCIAL INSTRUMENTS

As of March 31, 2017, the foreign currency forward contracts, which the Group had entered into to sell and remain outstanding is USD12,300,000 at approximately RM4.2451 per United States Dollar. The settlement will complete in December 2017.

As of March 31, 2017, the outstanding forward contracts are as follows:

Type of Derivatives	Contract Value USD'000	Notional Value RM'000	Fair Value (favourable) RM'000
Foreign Currency Forward Contracts			
- Less than 1 year	12,300	52,215	(2,629)

Summary of the losses arising from the fair value changes of financial assets was as follow:

Type of Financial Assets	Individual 3 months ended March 31 RM'000	Cumulative 3 months ended March 31 RM'000
Foreign Currency Forward Contracts		
- Realised gain / (loss)	2,991	2,991
- Unrealised gain / (loss)	(2,629)	(2,629)

The above foreign currency forward contracts were entered into by the Group to minimize its exposure to foreign currency risks as a result of transactions denominated in currencies other than its functional currency, arising from the normal business activities. In line with the Group's Forward Contract Management Policy, hedging is only considered for firm commitments and highly probable transactions of which hedging shall not exceed the net exposure value. The cash requirement for settling these foreign currency forward contracts is solely from the Group's working capital. These derivatives and their underlying exposures will be monitored on an on-going basis.

Foreign Currency Forward Contracts are stated at fair value, which is equivalent to the marking of the Foreign Currency Forward Contracts to market, using prevailing market rate. Foreign Currency Forward Contracts with positive market values (unrealised gain) are included under current assets and Foreign Currency Forward Contracts with negative market values (unrealised losses) are included under current liabilities in the statement of financial position.

23. MATERIAL LITIGATION

There was no material litigation pending since December 31, 2016.

24. DIVIDENDS DECLARED OR PAYABLE

A final dividend of 8 Sen per share of RM0.20 each, exempt from income tax for the year ended December 31, 2016, if approved by the shareholders, will be paid on July 26, 2017 to depositors registered in the Record of Depositors at the closed of business on June 30, 2017.

As of the date of this announcement, there were no dividends declared or payable for the year ending December 31, 2017.

25. SHARE CAPITAL

	3 months ended March 31 2017	
	<u>No. of issued shares</u>	<u>RM'000</u>
Issued and fully paid		
Ordinary shares		
At beginning of the period	443,695,559	88,740
Transfer from share premium	-	50,629
At end of the period	<u>443,695,559</u>	<u>139,369</u>

With the Companies Act 2016 ("New Act") coming into effect on January 31, 2017, the credit standing in the share premium accounts of RM50.629 million, has been transferred to the share capital account. Pursuant to subsection 618 (3) & 618 (4) of the New Act, the Company may exercise its right to use the credit amounts being transferred from share premium accounts within 24 months after the commencement of the New Act. The Board of Directors will make a decision thereon by January 31, 2019.

As of March 31, 2017, of the total 443,695,559 issued and fully paid ordinary shares, 7,070,900 shares are held as treasury shares by the Company. Hence, the number of outstanding shares issued and fully paid is 436,624,659 ordinary shares.

26. EARNINGS PER SHARE

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	3 months ended March 31	
	2017 '000	2016 '000
Profit for the period attributable to owners of the Company (RM)	14,246	13,415
Weighted average number of ordinary shares for the purposes of basic earnings per share (unit)	436,625	387,968
Basic earnings per share (sen)	<u>3.26</u>	<u>3.46</u>

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	3 months ended	
	March 31	
	2017	2016
	'000	'000
Profit for the period attributable to owners of the Company (RM)	14,246	13,415
Weighted average number of ordinary shares used in the calculation of basic earnings per share (unit)	436,625	387,968
Shares deemed to be issued for no consideration in respect of employee share options (unit)	419	997
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (unit)	437,044	388,965
Diluted earnings per share (sen)	3.26	3.45

27. SUPPLEMENTARY INFORMATION - DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group as at March 31, 2017 and December 31, 2016 into realised and unrealised profits or losses, pursuant to the directive, is as follows:

	As at March 31, 2017 RM'000	As at December 31, 2016 RM'000
Total retained earnings/ (accumulated losses) of the Group		
- Realised	144,433	130,075
- Unrealised	(251)	(143)
	144,182	129,932
Less: Consolidation adjustments	(15,771)	(15,774)
Total retained profits as per statement of financial position	128,411	114,158

The determination of realised and unrealised profits or losses are identified and disclosed in accordance with the Guidance of Special Matter No. 1 , Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants on December 20, 2010.

This supplementary information have been made solely for complying with the disclosure requirements as stipulated in the directive of Bursa Securities and is not made for any other purposes.