

**NOTES TO THE FINANCIAL REPORT
FOR THE PERIOD ENDED MARCH 31, 2018**

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, 2017 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 16	Leases	January 1, 2019
Amendments to MFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendments to MFRSs	Annual Improvements to MFRSs 2015 - 2017	January 1, 2019
IC Int. 23	Uncertainty over Income Tax Treatments	January 1, 2019

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended December 31, 2017.

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 the issuance of 304,000 new ordinary shares for cash pursuant to the Employees' Share Option Scheme of the Company at exercise prices ranging from RM1.70 to RM1.81 per ordinary shares.

7. DIVIDENDS PAID

	3 months ended March 31	
	2018	2017
	RM'000	RM'000
Interim tax exempt dividend of 5 Sen per share, for 2016	-	21,831
Interim tax exempt dividend of 7 Sen per share and a special interim tax exempt dividend of 10 Sen per share, for 2017	76,009	-
	76,009	21,831

8. REVENUE

	3 months ended March 31		3 months ended March 31	
	2018 RM'000	2017 RM'000	2018 USD'000	2017 USD'000
Revenue	31,272	32,458	7,871	7,280

9. SEGMENT INFORMATION

Segment revenue and results

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
3 months ended March 31, 2018					
Revenue					
External sales	-	31,272	-	-	31,272
Inter-segment sales	558	-	247	(805)	-
Total revenue	558	31,272	247	(805)	31,272
Results					
Profit/(loss) before tax	637	13,628	70	93	14,428
Income tax expense	(298)	(330)	(15)	-	(643)
Net profit/(loss) for the year	339	13,298	55	93	13,785
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
Segment assets and liabilities					
3 months ended March 31, 2018					
Assets					
Segment assets	208,068	155,540	8,623	(91,456)	280,775
Income tax asset	129	64	37	-	230
Consolidated total assets	208,197	155,604	8,660	(91,456)	281,005
Liabilities					
Segment liabilities	1,403	63,100	222	(36,509)	28,216
Income tax liabilities	240	1,398	23	316	1,977
Consolidated total liabilities	1,643	64,498	245	(36,193)	30,193

Revenue from major products and services

	3 months ended	
	March 31	
	2018	2017
	RM'000	RM'000
Real-time centralised energy measurement and control system, high precision hot fluid temperature control system and ultra-low temperature and mass sensing control system for bio-chem equipments	21,299	-
Touch screen advance display, high precision light measurement (optoelectronic) equipment and mix signal control system for centrifuge laboratory equipments	9,949	32,422
Mixed signal microprocessor based application and system integration products	-	-
Others	24	36
	31,272	32,458

Geographical information

	3 months ended	
	March 31	
	2018	2017
	RM'000	RM'000
Europe	30,312	31,424
Asia Pacific	952	951
United States of America	8	83
	31,272	32,458

Information about the Group's assets by locations are detailed below:

	RM'000
3 months ended March 31, 2018	
Malaysia	251,309
People's Republic of China	29,696
	<u>281,005</u>

Information about the Group's liabilities by locations are detailed below:

	RM'000
3 months ended March 31, 2018	
Malaysia	28,536
People's Republic of China	1,657
	<u>30,193</u>

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, 2017.

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, 2017.

14. PERFORMANCE REVIEW

Despite of 8% increase in revenue in USD (March 31, 2018: USD7.9 million; March 31, 2017: USD7.3 million), the Group's revenue in RM and operating profit for the quarter ended March 31, 2018 decreased by 4% and 5% to RM31.3 million and RM12.9 million respectively as compared to the quarter ended March 31, 2017 (Revenue: RM32.5 million; Operating profit: RM13.5million) mainly due to depreciation of USD against Ringgit Malaysia during the reporting period. (March 31, 2018: RM3.9731:USD1.00; March 31, 2017: RM4.4585:USD1.00).

Nevertheless, the Group registered an operating profit margin of 41% (March 31, 2017: 42%) and a profit before tax of 46% (March 31, 2017: 45%) for the quarter ended March 31, 2018.

Income tax expenses for the current quarter increased to RM643,000 upon increase in income generated from non-pioneer products upon expiration of former pioneer status on December 31, 2017.

There were no significant changes to the cost structure where material consumption made up the highest percentage of the Group's expenditure at 55%, followed by employee benefit expense at 29%, depreciation and amortization at 8%.

15. FINANCIAL REVIEW FOR CURRENT QUARTER COMPARED WITH IMMEDIATE PRECEDING QUARTER

	Current Quarter	Immediate Preceding Quarter	Changes
	March 31, 2018	December 31, 2017	
	RM'000	RM'000	%
Revenue	31,272	34,708	(10)
Operating profit	12,877	15,851	(19)
Profit before tax	14,428	19,497	(26)
Profit after tax	13,785	18,995	(27)

The Group recorded a profit before taxation of RM14.4 million for the current quarter as compared to RM19.5 million in the immediate preceding quarter ended December 31, 2017 mainly due to:

- slow in demand for the Group's products and services as a result of seasonal fluctuations with demand peaking in the second half of the year (Revenue for 3 months ended March 31, 2018: USD7.9 million; December 31, 2017: USD8.3 million); and
- depreciation of USD against Ringgit Malaysia during the reporting period. (March 31, 2018: RM3.9731:USD1.00; December 31, 2017: RM4.1827:USD1.00); and
- decrease in net fair value gain arising from foreign currency forward contract (March 31, 2018: RM1.5 million; December 31, 2017: RM2.8 million); and
- recognition of equity-settled share-based payments in the current quarter amounted to RM523,133 as opposed to RM21,259 incurred in the quarter ended December 31, 2017 for the fair value of share options granted to eligible employee under the Uchi Technologies Berhad's Employees' Share Option Scheme 2016.

16. COMMENTARY ON CURRENT YEAR PROSPECT

To the best of our knowledge, based on our customers positive outlook on demand, the Group expects a high single digit of revenue growth in USD for the financial year ending December 31, 2018.

We do not expect any significant changes in our principal geographical areas of distribution and product group contributions. Factors that will affect our performance include fluctuations in USD, material shortages or fluctuations in material prices and increasing labour costs.

Nonetheless, 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	
	2018	2017
	RM'000	RM'000
Estimated tax expense:		
Current	<u>643</u>	<u>380</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 real-time centralised energy measurement and control system, high precision hot fluid temperature control system and ultra-low temperature and mass sensing control system for bio-chem equipments.

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 from the production date which will be fixed by the authorities at a later date.

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

19. OTHER INCOME

	3 months ended	
	March 31	
	2018	2017
	RM'000	RM'000
Interest on short-term deposits	1,513	1,546
Gain/ (loss) on disposal of property, plant and equipment	(53)	-
Net foreign exchange gain/ (loss)	(1,627)	(857)
Miscellaneous income	180	85
	<u>13</u>	<u>774</u>

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

As of the date of this announcement, the Company is proposing capital repayment of up to approximately RM90.43 million on the basis of RM0.20 for each ordinary share held in Uchi Technologies Berhad ("UCHITEC"), via a reduction of the share capital of UCHITEC pursuant to Section 116 of the Companies Act 2016.

The corporate proposals are conditional upon approval being obtained from the relevant authorities and the shareholders at the forthcoming Extraordinary General Meeting.

21. GROUP BORROWINGS AND DEBT SECURITIES

There was no group borrowing as of March 31, 2018.

22. FINANCIAL INSTRUMENTS

As of March 31, 2018, the foreign currency forward contracts, which the Group had entered into to sell and remain outstanding is USD11,800,000 at approximately RM4.1300 per United States Dollar. The settlement will complete in December 2018.

As of March 31, 2018, 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	11,800	48,734	2,959

Summary of the gains / (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)	(1,421)	(1,421)
- Unrealised gain / (loss)	2,959	2,959

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, 2017.

24. DIVIDENDS DECLARED OR PAYABLE

A final dividend of 8 Sen per share, exempt from income tax for the year ended December 31, 2017, if approved by the shareholders, will be paid on August 21, 2018 to depositors registered in the Record of Depositors at the closed of business on August 8, 2018.

As of the date of this announcement, there were no dividends declared or payable for the year ending December 31, 2018.

25. TRADE AND OTHER RECEIVABLES

	3 months ended March 31 RM'000
Trade receivables	10,918
Interest receivable	1,285
Other receivables	367
	<u>12,570</u>

The average credit periods granted to trade receivables on sale of goods range from 30 to 45 days. No interest is charged on trade receivables outstanding balance.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Ageing analysis of trade receivables:

	3 months ended March 31
	RM'000
1 to 30 days	8,883
31 to 60 days	1,639
61 to 90 days	259
91 to 120 days	-
> 120 days	137
	10,918

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	
	2018	2017
	'000	'000
Profit for the period attributable to owners of the Company (RM)	13,785	14,246
Weighted average number of ordinary shares for the purposes of basic earnings per share (unit)	447,305	436,625
Basic earnings per share (sen)	3.08	3.26

Diluted earnings per share

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

	3 months ended March 31	
	2018	2017
	'000	'000
Profit for the period attributable to owners of the Company (RM)	13,785	14,246
Weighted average number of ordinary shares used in the calculation of basic earnings per share (unit)	447,305	436,625
Shares deemed to be issued for no consideration in respect of employee share options (unit)	5,364	419
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (unit)	452,669	437,044
Diluted earnings per share (sen)	3.05	3.26