

**NOTES TO THE FINANCIAL REPORT
FOR THE PERIOD ENDED JUNE 30, 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), requirements of the Companies Act, 2016 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.

During the current financial year, the Group has adopted all the new and revised MFRSs and IC Interpretation that are relevant and effective for an accounting period that begins on or after January 1, 2018 as follows:

- MFRS 9: Financial Instruments
- MFRS 15: Revenue from Contracts with Customers (and the related Clarifications)
- Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 140: Transfers of Investment Property
- IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

The adoption of these new and revised MFRSs and IC Interpretation does not have any material impact on the amounts reported in the financial statements of the Group in the current and previous financial year.

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 572,000 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

	6 months ended June 30	
	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

	6 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
	RM'000	RM'000	USD'000	USD'000
Revenue	64,646	63,914	16,420	14,510

	3 months ended June 30		3 months ended June 30	
	2018	2017	2018	2017
	RM'000	RM'000	USD'000	USD'000
Revenue	33,374	31,456	8,549	7,230

9. SEGMENT INFORMATION

Segment revenue and results

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
6 months ended June 30, 2018					
Revenue					
External sales	-	64,646	-	-	64,646
Inter-segment sales	1,145	-	482	(1,627)	-
Total revenue	1,145	64,646	482	(1,627)	64,646
Results					
Profit/(loss) before tax	1,504	28,990	129	135	30,758
Income tax expense	(590)	(1,359)	(38)	-	(1,987)
Net profit/(loss) for the year	914	27,631	91	135	28,771
6 months ended June 30, 2017					
Revenue					
External sales	-	63,914	-	-	63,914
Inter-segment sales	1,047	-	399	(1,446)	-
Total revenue	1,047	63,914	399	(1,446)	63,914
Results					
Profit/(loss) before tax	1,559	29,473	132	151	31,315
Income tax expense	(579)	(132)	(35)	-	(746)
Net profit/(loss) for the year	980	29,341	97	151	30,569

Segment assets and liabilities

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
6 months ended June 30, 2018					
Assets					
Segment assets	208,701	152,744	8,699	(69,817)	300,327
Income tax asset	129	63	37	-	229
Consolidated total assets	208,830	152,807	8,736	(69,817)	300,556
Liabilities					
Segment liabilities	916	45,285	254	(14,907)	31,548
Income tax liabilities	299	2,373	31	316	3,019
Consolidated total liabilities	1,215	47,658	285	(14,591)	34,567

Revenue from major products and services

	6 months ended June 30	
	2018 RM'000	2017 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	46,402	-
Touch screen advance display, high precision light measurement (optoelectronic) equipment and mix signal control system for centrifuge laboratory equipments	18,144	63,849
Mixed signal microprocessor based application and system integration products	-	6
Others	100	59
	64,646	63,914

Geographical information

	6 months ended June 30	
	2018 RM'000	2017 RM'000
Europe	61,840	61,726
Asia Pacific	2,340	1,878
United States of America	466	310
	64,646	63,914

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

	RM'000
6 months ended June 30, 2018	
Malaysia	272,430
People's Republic of China	28,126
	300,556

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

	RM'000
6 months ended June 30, 2018	
Malaysia	32,270
People's Republic of China	<u>2,297</u>
	<u>34,567</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

The Group's revenue in USD increased by 18% for the reporting quarter as compared to the corresponding quarter in 2017 (June 30, 2018: USD8.5 million; June 30, 2017: USD7.2 million). However, due to depreciation of USD against Ringgit Malaysia (June 30, 2018: RM3.9038:USD1.00; June 30, 2017: RM4.3508:USD1.00), the Group's revenue in RM and operating profit for the quarter ended June 30, 2018 increased by 6% and 4% to RM33.4 million and RM15.1 million respectively (June 30, 2017: Revenue: RM31.5 million; Operating Profit: RM14.5 million).

For the quarter ended June 30, 2018, the Group recognised an unrealised loss of RM2.9 million (Note 22) arising from the fair value changes of the outstanding foreign currency forward contracts. Such unrealised loss was offset by an increase in other income derived from a net foreign exchange gain of RM1.5 million (Note 19) and resulted in a 2% decrease in profit before taxation for the reporting quarter (June 30, 2018: RM16.3 million; June 30, 2017: RM16.7 million).

Income tax expenses for the current quarter increased to RM1.3 million 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 57%, followed by employee benefit expense at 25%, depreciation and amortization at 9%.

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

	Current Quarter	Immediate Preceding Quarter	Changes
	June 30, 2018	March 31, 2018	
	RM'000	RM'000	%
Revenue	33,374	31,272	7
Operating profit	15,071	12,877	17
Profit before tax	16,330	14,428	13
Profit after tax	14,986	13,785	9

The Group recorded a profit before taxation of RM16.3 million for the current quarter as compared to RM14.4 million in the immediate preceding quarter ended March 31, 2018 mainly due to:

- increase in demand for the Group's products and services (Revenue for 3 months ended June 30, 2018: USD8.5 million; March 31, 2018: USD7.9 million); and

- b. recognition of equity-settled share-based payments in the current quarter was reduced to RM26,771 as opposed to RM523,133 incurred in the quarter ended March 31, 2018 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 June 30		6 months ended June 30	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Estimated tax expense:				
Current	<u>1,344</u>	<u>366</u>	<u>1,987</u>	<u>746</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 June 30		6 months ended June 30	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest on short-term deposits	1,530	1,596	3,043	3,142
Gain/ (loss) on disposal of property, plant and equipment	(3)	(27)	(56)	(27)
Net foreign exchange gain/ (loss)	1,545	(837)	(82)	(1,695)
Miscellaneous income	142	11	322	97
	<u>3,214</u>	<u>743</u>	<u>3,227</u>	<u>1,517</u>

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

On March 26, 2018, the Company proposed to undertake a 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 ("ACT") ("Capital Repayment).

The Capital Repayment was approved by the shareholders at the Extraordinary General Meeting held on May 24, 2018.

On May 28, 2018, the Company filed a petition to the High Court of Penang (“High Court”) for confirmation of the Capital Repayment approved by the shareholders of UCHITEC to reduce the share capital of the Company pursuant to Section 116 of the Act.

On August 8, 2018, the High Court granted a court order confirming the Capital Repayment pursuant to Section 116 of the Act (“Order”). The sealed copy of the Order was extracted from the High Court on August 14, 2018 and will be lodged with the Registrar of Companies on August 28, 2018, being the entitlement date for the Capital Repayment, upon which the Capital Repayment will take effect.

Shareholders of the Company whose names appear on the Record of Depositors of the Company as at August 28, 2018 will be entitled to the Capital Repayment, which will be distributed by way of cash to them on September 19, 2018.

21. GROUP BORROWINGS AND DEBT SECURITIES

There was no group borrowing as of June 30, 2018.

22. FINANCIAL INSTRUMENTS

As of June 30, 2018, the foreign currency forward contracts, which the Group had entered into to sell and remain outstanding is USD11,200,000 at approximately RM4.0542 per United States Dollar. The settlement will complete in April 2019.

As of June 30, 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	11,200	45,407	52

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 June 30 RM'000	Cumulative 6 months ended June 30 RM'000
Foreign Currency Forward Contracts		
- Realised gain / (loss)	952	(469)
- Unrealised gain / (loss)	<u>(2,907)</u>	<u>52</u>

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, has been 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

	6 months ended
	June 30
	RM'000
Trade receivables	12,949
Interest receivable	877
Other receivables	263
	<u>14,089</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:

	6 months ended
	June 30
	RM'000
1 to 30 days	12,081
31 to 60 days	697
61 to 90 days	171
	<u>12,949</u>

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		6 months ended	
	June 30		June 30	
	2018	2017	2018	2017
	'000	'000	'000	'000
Profit for the period attributable to owners of the Company (RM)	14,986	16,323	28,771	30,569
Weighted average number of ordinary shares for the purposes of basic earnings per share (unit)	447,428	436,727	447,428	436,727
Basic earnings per share (sen)	<u>3.35</u>	<u>3.74</u>	<u>6.43</u>	<u>7.00</u>

Diluted earnings per share

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

	3 months ended		6 months ended	
	June 30		June 30	
	2018	2017	2018	2017
	'000	'000	'000	'000
Profit for the period attributable to owners of the Company (RM)	14,986	16,323	28,771	30,569
Weighted average number of ordinary shares used in the calculation of basic earnings per share (unit)	447,428	436,727	447,428	436,727
Shares deemed to be issued for no consideration in respect of employee share options (unit)	5,394	791	5,394	791
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (unit)	452,822	437,518	452,822	437,518
Diluted earnings per share (sen)	3.31	3.73	6.35	6.99