

**NOTES TO THE FINANCIAL REPORT
FOR THE PERIOD ENDED SEPTEMBER 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
- Amendments to MFRSs: Annual Improvements to MFRSs 2014 – 2016 Cycle

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.

However, for the financial year ending December 31, 2018, the Group anticipates that the demand in the fourth quarter will be as good as the demand in 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 1,428,600 new ordinary shares for cash pursuant to the Employees' Share Option Scheme of the Company at exercise prices ranging from RM1.57 to RM2.77 per ordinary shares.

7. DIVIDENDS PAID

	9 months ended September 30	
	2018	2017
	RM'000	RM'000
Interim tax exempt dividend of 5 Sen per share, for 2016	-	21,831
Final tax exempt dividend of 8 Sen per share, for 2016	-	35,041
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	-
Final tax exempt dividend of 8 Sen per share, for 2017	35,839	-
	111,848	56,872

8. REVENUE

	9 months ended September 30		9 months ended September 30	
	2018	2017	2018	2017
	RM'000	RM'000	USD'000	USD'000
Revenue	100,955	101,877	25,342	23,388

	3 months ended September 30		3 months ended September 30	
	2018	2017	2018	2017
	RM'000	RM'000	USD'000	USD'000
Revenue	36,309	37,963	8,922	8,878

9. SEGMENT INFORMATION

Segment revenue and results

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
9 months ended September 30, 2018					
Revenue					
External sales	-	100,955	-	-	100,955
Inter-segment sales	1,691	-	779	(2,470)	-
Total revenue	1,691	100,955	779	(2,470)	100,955
Results					
Profit/(loss) before tax	2,306	48,920	249	152	51,627
Income tax expense	(872)	(2,314)	(65)	-	(3,251)
Net profit/(loss) for the year	1,434	46,606	184	152	48,376
9 months ended September 30, 2017					
Revenue					
External sales	-	101,877	-	-	101,877
Inter-segment sales	1,558	-	615	(2,173)	-
Total revenue	1,558	101,877	615	(2,173)	101,877
Results					
Profit/(loss) before tax	2,563	49,761	219	108	52,651
Income tax expense	(867)	(216)	(62)	-	(1,145)
Net profit/(loss) for the year	1,696	49,545	157	108	51,506

Segment assets and liabilities

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
9 months ended September 30, 2018					
Assets					
Segment assets	90,244	164,127	8,795	(65,331)	197,835
Income tax asset	129	63	37	-	229
Consolidated total assets	90,373	164,190	8,832	(65,331)	198,064
Liabilities					
Segment liabilities	5,778	37,225	257	(10,376)	32,884
Income tax liabilities	249	3,227	28	316	3,820
Consolidated total liabilities	6,027	40,452	285	(10,060)	36,704

Revenue from major products and services

	9 months ended September 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	76,313	-
Touch screen advance display, high precision light measurement (optoelectronic) equipment and mix signal control system for centrifuge laboratory equipments	24,500	101,753
Mixed signal microprocessor based application and system integration products	-	6
Others	142	118
	100,955	101,877

Geographical information

	9 months ended September 30	
	2018 RM'000	2017 RM'000
Europe	96,871	98,599
Asia Pacific	3,534	2,795
United States of America	550	483
	100,955	101,877

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

	RM'000
9 months ended September 30, 2018	
Malaysia	171,815
People's Republic of China	26,249
	198,064

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

	RM'000
9 months ended September 30, 2018	
Malaysia	35,254
People's Republic of China	1,450
	36,704

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

With reference to our general announcements on June 26, 2018 and October 4, 2018, the Company had completed the disposal of property consist of a piece of freehold land situated in Bandar George Town, Daerah Timor Laut, Pulau Pinang and known as Lot No. 207 Seksyen 1 held under Geran No. Hakmilik 4262 measuring 1,694.7747 square meters together with a double storey detached house erected thereon bearing assessment address No. 22, Lebuhraya Rose, 10350 Penang free from all encumbrances and with vacant possession but subject to all conditions of title express or implied affecting the Property, at a total cash consideration of Ringgit Malaysia Nine Million Five Hundred and Ten Thousand only (RM9,510,000.00).

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

There was no significant change in the Group's revenue in USD for the reporting quarter as compared to the corresponding quarter in 2017 (September 30, 2018: USD8.9 million; September 30, 2017: USD8.9 million). However, due to depreciation of USD against Ringgit Malaysia (September 30, 2018: RM4.0696:USD1.00; September 30, 2017: RM4.2761:USD1.00), the Group's revenue in RM for the quarter ended September 30, 2018 decreased by 4% to RM36.3 million (September 30, 2017: RM38.0 million).

For the quarter ended September 30, 2018, the Group recognised an unrealised loss of RM1.5 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 RM1.0 million (Note 19) and resulted in a 2% decrease in profit before taxation for the reporting quarter (September 30, 2018: RM20.9 million; September 30, 2017: RM21.3 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 59%, followed by employee benefit expense at 24%, depreciation and amortization at 9%.

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

	Current Quarter	Immediate Preceding Quarter	Changes
	September 30, 2018	June 30, 2018	
	RM'000	RM'000	%
Revenue	36,309	33,374	9
Operating profit	19,321	15,071	28
Profit before tax	20,869	16,330	28
Profit after tax	19,605	14,986	31

The Group recorded a profit before taxation of RM20.9 million for the current quarter as compared to RM16.3 million in the immediate preceding quarter ended June 30, 2018 mainly due to:

- increase in demand for the Group's products and services (Revenue for 3 months ended September 30, 2018: USD8.9 million; June 30, 2018: USD8.5 million); and
- appreciation of USD against Ringgit Malaysia (September 30, 2018: RM4.0696: USD1.00; June 30, 2018: RM3.9038: USD1.00); and
- decrease in research and development expenses (3 months ended September 30, 2018: RM0.9 million; June 30, 2018: RM1.4 million).

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 September 30		9 months ended September 30	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Estimated tax expense:				
Current	<u>1,264</u>	<u>399</u>	<u>3,251</u>	<u>1,145</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 September 30		9 months ended September 30	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest on short-term deposits	1,427	1,583	4,470	4,725
Gain/ (loss) on disposal of property, plant and equipment	1	38	(55)	11
Net foreign exchange gain/ (loss)	992	(478)	910	(2,173)
Miscellaneous income	124	370	446	467
	<u>2,544</u>	<u>1,513</u>	<u>5,771</u>	<u>3,030</u>

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

There were no corporate proposals announced but yet to be completed as of November 16, 2018.

21. GROUP BORROWINGS AND DEBT SECURITIES

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

22. FINANCIAL INSTRUMENTS

As of September 30, 2018, the foreign currency forward contracts, which the Group had entered into to sell and remain outstanding is USD14,000,000 at approximately RM4.0391 per United States Dollar. The settlement will complete in September 2019.

As of September 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	14,000	56,548	(1,470)

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 September 30 RM'000	Cumulative 9 months ended September 30 RM'000
Foreign Currency Forward Contracts		
- Realised gain / (loss)	526	57
- Unrealised gain / (loss)	(1,522)	(1,470)

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, the Board of Directors proposed an interim dividend of 7 Sen per share, exempt from income tax for the year ending December 31, 2018. The date of the entitlement and payment for the aforesaid dividend shall be determined by the Board of Directors at a later date.

25. TRADE AND OTHER RECEIVABLES

	9 months ended September 30 RM'000
Trade receivables	18,192
Interest receivable	312
Other receivables	145
	<u>18,649</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:

	9 months ended September 30
	RM'000
1 to 30 days	12,532
31 to 60 days	5,231
61 to 90 days	117
91 to 120 days	312
	18,192

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 September 30		9 months ended September 30	
	2018	2017	2018	2017
	'000	'000	'000	'000
Profit for the period attributable to owners of the Company (RM)	19,605	20,937	48,376	51,506
Weighted average number of ordinary shares for the purposes of basic earnings per share (unit)	447,377	437,182	447,533	437,182
Basic earnings per share (sen)	4.38	4.79	10.81	11.78

Diluted earnings per share

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

	3 months ended September 30		9 months ended September 30	
	2018	2017	2018	2017
	'000	'000	'000	'000
Profit for the period attributable to owners of the Company (RM)	19,605	20,937	48,376	51,506
Weighted average number of ordinary shares used in the calculation of basic earnings per share (unit)	447,377	437,182	447,533	437,182
Shares deemed to be issued for no consideration in respect of employee share options (unit)	5,460	1,875	5,460	1,875
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (unit)	452,837	439,057	452,993	439,057
Diluted earnings per share (sen)	4.33	4.77	10.68	11.73

27. CAPITAL REPAYMENT

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 lodged with the Registrar of Companies on August 28, 2018, being the entitlement date for the Capital Repayment.

The Capital Repayment has been completed on September 19, 2018 upon payment made to the Shareholders of the Company whose names appear on the Record of Depositors of the Company as at August 28, 2018.