

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

**NOTES TO THE FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 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), 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.

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 1,569,400 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

	12 months ended December 31	
	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	35,840	-
	111,849	56,872

8. REVENUE

	12 months ended December 31		12 months ended December 31	
	2018	2017	2018	2017
	RM'000	RM'000	USD'000	USD'000
Revenue	139,967	136,585	34,693	31,686

	3 months ended December 31		3 months ended December 31	
	2018	2017	2018	2017
	RM'000	RM'000	USD'000	USD'000
Revenue	39,012	34,708	9,351	8,298

9. SEGMENT INFORMATION

Segment revenue and results

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
12 months ended December 31, 2018					
Revenue					
External sales	-	139,967	-	-	139,967
Inter-segment sales	72,217	-	1,063	(73,280)	-
Total revenue	72,217	139,967	1,063	(73,280)	139,967
Results					
Profit/(loss) before tax	72,603	69,349	413	(69,823)	72,542
Income tax expense	(973)	(2,470)	(99)	9	(3,533)
Net profit/(loss) for the year	71,630	66,879	314	(69,814)	69,009
12 months ended December 31, 2017					
Revenue					
External sales	-	136,585	-	-	136,585
Inter-segment sales	72,043	-	842	(72,885)	-
Total revenue	72,043	136,585	842	(72,885)	136,585
Results					
Profit/(loss) before tax	73,782	67,954	338	(69,926)	72,148
Income tax expense	(1,179)	(390)	(87)	9	(1,647)
Net profit/(loss) for the year	72,603	67,564	251	(69,917)	70,501

Segment assets and liabilities

	Investment holding RM'000	Manufacturing RM'000	Trading RM'000	Eliminations RM'000	Total RM'000
12 months ended December 31, 2018					
Assets					
Segment assets	155,635	167,469	8,878	(113,195)	218,787
Income tax asset	115	63	35	-	213
Consolidated total assets	155,750	167,532	8,913	(113,195)	219,000
Liabilities					
Segment liabilities	32,288	92,141	217	(58,266)	66,380
Income tax liabilities	102	1,367	19	307	1,795
Consolidated total liabilities	32,390	93,508	236	(57,959)	68,175

Revenue from major products and services

	12 months ended December 31	
	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	109,698	-
Touch screen advance display, high precision light measurement (optoelectronic) equipment and mix signal control system for centrifuge laboratory equipments	28,946	136,437
Mixed signal microprocessor based application and system integration products	-	5
Others	1,323	143
	139,967	136,585

Geographical information

	12 months ended December 31	
	2018 RM'000	2017 RM'000
Europe	132,496	131,617
Asia Pacific	6,692	4,213
United States of America	779	755
	139,967	136,585

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

	RM'000
12 months ended December 31, 2018	
Malaysia	192,138
People's Republic of China	26,862
	219,000

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

	RM'000
12 months ended December 31, 2018	
Malaysia	66,794
People's Republic of China	1,381
	68,175

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

Revenue in USD for the year ended December 31, 2018 increased by 9% to USD34.7 million as compared to the year ended December 31, 2017 (Revenue: USD31.7 million) mainly due to increase in demand for the Group's products and services. However, due to depreciation of USD against Ringgit Malaysia (December 31, 2018: RM4.0344:USD1.00; December 31, 2017: RM4.3106:USD1.00), the Group's revenue in RM for the year ended December 31, 2018 increased by 2% to RM140.0 million (December 31, 2017: RM136.6 million).

There were no significant changes in operating profit margin and profit before tax margin. Increase in other income derived from a RM2.6 million gain on disposal of property consist of a piece of freehold land together with a double storey detached house erected thereon, and a net foreign exchange gain of RM0.8 million (2017: Net loss of RM3.2 million) was moderated with an increase in net loss of RM0.8 million (Note 22) arising from the fair value changes of foreign currency forward contracts remained outstanding as of December 31, 2018 (2017: Net gain of RM5.2 million).

Income tax expenses for the year ended December 31, 2018 increased to RM3.5 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 23%, depreciation and amortization at 9%.

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

	Current Quarter	Immediate Preceding Quarter	Changes
	December 31, 2018	September 30, 2018	
	RM'000	RM'000	%
Revenue	39,012	36,309	7
Operating profit	16,813	19,321	(13)
Profit before tax	20,915	20,869	0
Profit after tax	20,633	19,605	5

The Group recorded an operating profit of RM16.8 million for the current quarter as compared to RM19.3 million in the immediate preceding quarter ended September 30, 2018 mainly due to:

- increase in research and development expenses (3 months ended December 31, 2018: RM2.1 million; September 30, 2018: RM0.9 million);
- changes in product mix due to demand fluctuation; and
- Allowance for doubtful debts of RM359,411 recognized in the current quarter for individually impaired receivables relating to dispute over quality issues on products sold. (September 30, 2018: Nil).

16. COMMENTARY ON CURRENT YEAR PROSPECT

To the best of our knowledge, the Group expects a low single digit of revenue growth in USD for the financial year ending December 31, 2019.

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 December 31		12 months ended December 31	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Estimated tax expense:				
Current	<u>282</u>	<u>502</u>	<u>3,533</u>	<u>1,647</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 directors expect that the tax free period for abovementioned products should commence in January 2018. Accordingly, no income taxes and deferred tax was recognised in respect of the statutory income derived from the production of the abovementioned products during the financial year ended/ as of December 31, 2018.

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 December 31		12 months ended December 31	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Interest on short-term deposits	760	1,743	5,230	6,468
Gain/ (loss) on disposal of property, plant and equipment	2,615	24	2,560	35
Net foreign exchange gain/ (loss)	(75)	(1,015)	835	(3,188)
Miscellaneous income	177	123	623	590
	<u>3,477</u>	<u>875</u>	<u>9,248</u>	<u>3,905</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 February 19, 2019.

21. GROUP BORROWINGS AND DEBT SECURITIES

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

22. FINANCIAL INSTRUMENTS

As of December 31, 2018, the foreign currency forward contracts, which the Group had entered into to sell and remain outstanding is USD17,200,000 at approximately RM4.0973 per United States Dollar. The settlement will complete in December 2019.

As of December 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	17,200	70,474	(804)

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 December 31 RM'000	Cumulative 12 months ended December 31 RM'000
Foreign Currency Forward Contracts		
- Realised gain / (loss)	(41)	16
- Unrealised gain / (loss)	666	(804)

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

An interim dividend of 7 Sen per share, exempt from income tax for the year ended December 31, 2018, has been paid on January 24, 2019 to depositors registered in the Record of Depositors at the closed of business on December 31, 2018.

As of the date of this announcement, the Board of Directors proposed a final 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. The final dividend will be tabled at the forthcoming Annual General Meeting for the shareholders' approval.

25. TRADE AND OTHER RECEIVABLES

	12 months ended December 31 RM'000
Trade receivables	18,815
Interest receivable	501
Other receivables	315
	<u>19,631</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:

	12 months ended December 31
	RM'000
1 to 30 days	15,951
31 to 60 days	2,505
61 to 90 days	359
	<u>18,815</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 December 31		12 months ended December 31	
	2018	2017	2018	2017
	'000	'000	'000	'000
Profit for the period attributable to owners of the Company (RM)	20,633	18,995	69,009	70,501
Weighted average number of ordinary shares for the purposes of basic earnings per share (unit)	447,480	438,284	447,899	438,284
Basic earnings per share (sen)	<u>4.61</u>	<u>4.33</u>	<u>15.41</u>	<u>16.08</u>

Diluted earnings per share

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

	3 months ended December 31		12 months ended December 31	
	2018	2017	2018	2017
	'000	'000	'000	'000
Profit for the period attributable to owners of the Company (RM)	20,633	18,995	69,009	70,501
Weighted average number of ordinary shares used in the calculation of basic earnings per share (unit)	447,480	438,284	447,899	438,284
Shares deemed to be issued for no consideration in respect of employee share options (unit)	5,361	3,302	5,361	3,302
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (unit)	<u>452,841</u>	<u>441,586</u>	<u>453,260</u>	<u>441,586</u>
Diluted earnings per share (sen)	<u>4.56</u>	<u>4.30</u>	<u>15.23</u>	<u>15.96</u>

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.