

**NOTES TO THE FINANCIAL REPORT
FOR THE PERIOD ENDED JUNE 30, 2019**

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, 2018 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 |
|--------------------------------------|---|--|
| Amendments to MFRS | References to the Conceptual Framework in MFRS Standards | January 1, 2020 |
| Amendments to MFRS 3 | Definition of a Business | January 1, 2020 |
| Amendments to MFRS 101 and MFRS 108 | Definition of Material | January 1, 2020 |
| MFRS 17 | Insurance Contracts | January 1, 2021 |
| Amendments to MFRS 10 and MFRS 128 | Sale or Contribution of Assets between an investor and its Associate or joint venture | Deferred to a date to be determined and announced |

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended December 31, 2018.

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, 2019 as follows:

- MFRS 16: Leases
- Amendments to MFRS 9: Financial Instrument – Prepayment Features with Negative Compensation
- Amendments to MFRS 119: Employee Benefits – Plan Amendment, Curtailment or Settlement
- Amendments to MFRS 128: Long-term interests in Associated and Joint Ventures
- IC Interpretation 23: Uncertainty over Income Tax Payments
- Amendments to MFRSs: Annual Improvements to MFRS 2015 – 2018 Cycle: Amendments to MFRS 3 Business Combination, MFRS 11 Joint Arrangement, MFRS 112 Income Taxes and MFRS 123 Borrowing Costs

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 157,400 new ordinary shares for cash pursuant to the Employees' Share Option Scheme of the Company at exercise price RM1.57 per ordinary shares.

7. DIVIDENDS PAID

| | 6 months ended June 30 | |
|--|-------------------------------|---------------|
| | 2019 | 2018 |
| | RM'000 | RM'000 |
| 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 |
| Interim tax exempt dividend of 7 Sen per share, for 2018 | 31,408 | - |
| | 31,408 | 76,009 |

8. REVENUE

| | 6 months ended June 30 | | 6 months ended June 30 | |
|---------|-----------------------------------|---------------|-----------------------------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | RM'000 | RM'000 | USD'000 | USD'000 |
| Revenue | 74,279 | 64,646 | 18,040 | 16,420 |

| | 3 months ended June 30 | | 3 months ended June 30 | |
|---------|-----------------------------------|---------------|-----------------------------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | RM'000 | RM'000 | USD'000 | USD'000 |
| Revenue | 39,193 | 33,374 | 9,472 | 8,549 |

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, 2019 | | | | | |
| Revenue | | | | | |
| External sales | - | 74,279 | - | - | 74,279 |
| Inter-segment sales | 1,071 | - | 541 | (1,612) | - |
| Total revenue | 1,071 | 74,279 | 541 | (1,612) | 74,279 |
| Results | | | | | |
| Profit/(loss) before tax | (166) | 34,562 | 81 | (28) | 34,449 |
| Income tax expense | (145) | (1,061) | (34) | - | (1,240) |
| Net profit/(loss) for the year | (311) | 33,501 | 47 | (28) | 33,209 |
| 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 |

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, 2019 | | | | | |
| Assets | | | | | |
| Segment assets | 124,452 | 155,570 | 8,965 | (67,762) | 221,225 |
| Income tax asset | 277 | 344 | 35 | - | 656 |
| Consolidated total assets | <u>124,729</u> | <u>155,914</u> | <u>9,000</u> | <u>(67,762)</u> | <u>221,881</u> |
| Liabilities | | | | | |
| Segment liabilities | 32,345 | 47,052 | 266 | (12,536) | 67,127 |
| Income tax liabilities | - | 1,005 | 5 | 307 | 1,317 |
| Consolidated total liabilities | <u>32,345</u> | <u>48,057</u> | <u>271</u> | <u>(12,229)</u> | <u>68,444</u> |

Revenue from major products and services

| | 6 months ended June 30 | |
|--|-----------------------------------|----------------|
| | 2019 RM'000 | 2018 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 | 64,905 | 46,402 |
| Touch screen advance display, high precision light measurement (optoelectronic) equipment and mix signal control system for centrifuge laboratory equipments | 7,424 | 18,144 |
| Others | 1,950 | 100 |
| | <u>74,279</u> | <u>64,646</u> |

Geographical information

| | 6 months ended June 30 | |
|--------------------------|-----------------------------------|----------------|
| | 2019 RM'000 | 2018 RM'000 |
| Europe | 69,855 | 61,840 |
| Asia Pacific | 3,627 | 2,340 |
| United States of America | 797 | 466 |
| | <u>74,279</u> | <u>64,646</u> |

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

| | RM'000 |
|-------------------------------------|----------------|
| 6 months ended June 30, 2019 | |
| Malaysia | 196,585 |
| People's Republic of China | 25,296 |
| | <u>221,881</u> |

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

| | RM'000 |
|-------------------------------------|---------------|
| 6 months ended June 30, 2019 | |
| Malaysia | 66,955 |
| People's Republic of China | 1,489 |
| | <u>68,444</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, 2018.

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, 2018.

14. PERFORMANCE REVIEW

Revenue in RM and Operating Profit for the quarter ended June 30, 2019 increased by 17% and 16% to RM39.2 million and RM17.5 million respectively as compared to the quarter ended June 30, 2018 (Revenue: RM33.4 million; Operating Profit: RM15.1 million) mainly due to increase in demand for the Group's products and services (Revenue for 3 months ended June 30, 2019: USD9.5 million; June 30, 2018: USD8.5 million) and appreciation of USD against Ringgit Malaysia during the reporting quarter. (June 30, 2019: RM4.1378:USD1.00; June 30, 2018: RM3.9038:USD1.00)

There were no significant changes to the cost structure where material consumption made up the highest percentage of the Group's expenditure at 62%, followed by employee benefit expense at 22%, depreciation and amortization at 9%.

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

| | Current Quarter | Immediate Preceding Quarter | Changes |
|-------------------|-----------------|-----------------------------|---------|
| | June 30, 2019 | March 31, 2019 | |
| | RM'000 | RM'000 | % |
| Revenue | 39,193 | 35,086 | 12 |
| Operating profit | 17,546 | 15,137 | 16 |
| Profit before tax | 18,088 | 16,361 | 11 |
| Profit after tax | 17,275 | 15,934 | 8 |

The Group recorded a profit before taxation of RM18.1 million for the current quarter as compared to RM16.4 million in the immediate preceding quarter ended March 31, 2019 mainly due to:

- increase in demand for the Group's products and services (Revenue for 3 months ended June 30, 2019: USD9.5 million; March 31, 2019: USD8.6 million); and
- appreciation of USD against Ringgit Malaysia during the reporting period. (June 30, 2019: RM4.1378:USD1.00; March 31, 2019: RM4.0950:USD1.00); and
- recognition of equity-settled share-based payments in the current quarter was reduced to RM17,319 as opposed to RM497,242 incurred in the quarter ended March 31, 2019 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, 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 | | 6 months ended | |
|------------------------|----------------|--------|----------------|--------|
| | June 30 | | June 30 | |
| | 2019 | 2018 | 2019 | 2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Estimated tax expense: | | | | |
| Current | 813 | 1,344 | 1,240 | 1,987 |

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 commencing from January 1, 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 | | 6 months ended | |
|---|----------------|--------|----------------|--------|
| | June 30 | | June 30 | |
| | 2019 | 2018 | 2019 | 2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest on short-term deposits | 757 | 1,530 | 1,399 | 3,043 |
| Gain/ (loss) on disposal of property, plant and equipment | (1) | (3) | 16 | (56) |
| Net foreign exchange gain/ (loss) | 737 | 1,545 | 216 | (82) |
| Miscellaneous income | 185 | 142 | 394 | 322 |
| | 1,678 | 3,214 | 2,025 | 3,227 |

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

There were no corporate proposals announced but yet to be completed as of August 19, 2019.

21. GROUP BORROWINGS AND DEBT SECURITIES

There was no group borrowing as of June 30, 2019.

22. FINANCIAL INSTRUMENTS

As of June 30, 2019, the foreign currency forward contracts, which the Group had entered into to sell and remain outstanding is USD16,200,000 at approximately RM4.1431 per United States Dollar. The settlement will complete in May 2020.

As of June 30, 2019, 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 | 16,200 | 67,118 | (101) |

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) | (439) | (158) |
| - Unrealised gain / (loss) | (697) | (101) |
| | <u>(697)</u> | <u>(101)</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, 2018.

24. DIVIDENDS DECLARED OR PAYABLE

A final dividend of 7 Sen per share, exempt from income tax for the year ended December 31, 2018, has been paid on July 23, 2019 to depositors registered in the Record of Depositors at the closed of business on June 28, 2019.

As of the date of this announcement, there were no dividends declared or payable for the year ending December 31, 2019.

25. TRADE AND OTHER RECEIVABLES

| | 6 months ended June 30 RM'000 |
|---------------------|--|
| Trade receivables | 16,242 |
| Interest receivable | 395 |
| Other receivables | 48 |
| | <u>16,685</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 | 13,611 |
| 31 to 60 days | 2,627 |
| 91 to 120 days | 4 |
| | <u>16,242</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 | |
| | 2019 | 2018 | 2019 | 2018 |
| | '000 | '000 | '000 | '000 |
| Profit for the period attributable to owners of the Company (RM) | 17,275 | 14,986 | 33,209 | 28,771 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share (unit) | 448,690 | 447,222 | 448,704 | 447,428 |
| Basic earnings per share (sen) | 3.85 | 3.35 | 7.40 | 6.43 |

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 | |
| | 2019 | 2018 | 2019 | 2018 |
| | '000 | '000 | '000 | '000 |
| Profit for the period attributable to owners of the Company (RM) | 17,275 | 14,986 | 33,209 | 28,771 |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share (unit) | 448,690 | 447,428 | 448,704 | 447,428 |
| Shares deemed to be issued for no consideration in respect of employee share options (unit) | 4,850 | 5,394 | 4,850 | 5,394 |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share (unit) | 453,540 | 452,822 | 453,554 | 452,822 |
| Diluted earnings per share (sen) | 3.81 | 3.31 | 7.32 | 6.35 |