

**UPLIFTING
THE POWER
OF INNOVATION
TECHNOLOGY**

ANNUAL REPORT 2020

MIKRO MSC BERHAD 200601018418 (738171-M) | ANNUAL REPORT 2020

Inside This Report

| | | |
|----------------------|---|----------|
| 1 SECTION | OVERVIEW | |
| | CORPORATE INFORMATION | 1 |
| | FINANCIAL HIGHLIGHTS | 2 |
| 2 SECTION | LEADERSHIP | |
| | PROFILE OF DIRECTORS | 3 |
| | PROFILE OF KEY SENIOR MANAGEMENT | 7 |
| 3 SECTION | PERSPECTIVES | |
| | MANAGEMENT DISCUSSION AND ANALYSIS | 9 |
| | SUSTAINABILITY STATEMENT | 14 |
| 4 SECTION | GOVERNANCE | |
| | CORPORATE GOVERNANCE OVERVIEW STATEMENT | 17 |
| | OTHER DISCLOSURE REQUIREMENTS | 24 |
| | STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL | 25 |
| | AUDIT COMMITTEE REPORT | 31 |
| | STATEMENT OF DIRECTORS' RESPONSIBILITY | 35 |
| | LIST OF ALL PROPERTIES HELD | 36 |
| 5 SECTION | FINANCIAL STATEMENTS | |
| FINANCIAL STATEMENTS | 37 | |
| 6 SECTION | ADDITIONAL INFORMATION | |
| | ANALYSIS OF SHAREHOLDINGS | 103 |
| | NOTICE OF ANNUAL GENERAL MEETING | 105 |
| | ADMINISTRATIVE GUIDE | 108 |
| | PROXY FORM | ENCLOSED |

About Us

“ A company created by people passionate about the industry and driven to deliver customer value ”



We are a company at the forefront of the electrical distribution industry. We develop and manufacture equipment which performs reliably, costs less, reduces project costs and ultimately saves lives. Here you can find out:

7 QUICK FACTS

We are ISO 14001:2015 CERTIFIED, GOVERNING **ENVIRONMENTAL** MANAGEMENT SYSTEM

WE ARE ISO 9001:2015 CERTIFIED, GOVERNING **QUALITY** MANAGEMENT SYSTEM

A NUMBER OF OUR PRODUCTS ARE **KEMA** CERTIFIED

OUR PRODUCTS ARE USED AND TRUSTED BY CUSTOMERS IN **29 COUNTRIES** COVERING THREE CONTINENTS

MIKRO EMPLOYS OVER **95** FULLTIME STAFF

100% ENERGIES GO INTO THE DESIGN AND MANUFACTURE OF ELECTRICAL DISTRIBUTION EQUIPMENT

ALL OUR PRODUCTS ARE EXHAUSTIVELY **TESTED IN-HOUSE** BEFORE WE DEEM THEM SUITABLE FOR USE

CORPORATE INFORMATION

BOARD OF DIRECTORS

DATUK AZNAM BIN MANSOR

Independent Non-Executive
Chairman

YIM YUEN WAH

Managing Director

FONG SEE NI

Executive Director /
Chief Technology Officer

GOH YOKE CHEE

Executive Director

LU CHEE LEONG

Independent Non-Executive
Director

DR. TOU TECK YONG

Senior Independent
Non-Executive Director

WOON YEOW THONG

Independent Non-Executive
Director

MICHAEL AW MING HAN

Non-Independent Non-Executive
Director

AUDIT COMMITTEE

Chairman

Lu Chee Leong

Members

Datuk Aznam Bin Mansor
Dr. Tou Teck Yong
Woon Yeow Thong

RISK MANAGEMENT COMMITTEE

Chairman

Woon Yeow Thong

Members

Dr. Tou Teck Yong
Goh Yoke Chee

NOMINATING COMMITTEE

Chairman

Dr. Tou Teck Yong

Members

Datuk Aznam Bin Mansor
Lu Chee Leong

REMUNERATION COMMITTEE

Chairman

Datuk Aznam Bin Mansor

Members

Dr. Tou Teck Yong
Woon Yeow Thong

COMPANY SECRETARIES

M. Chandrasegaran A/L S.
Murugasu
(MAICSA 0781031)

Lim Seck Wah
(MAICSA 0799845)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 3, Jalan Anggerik Mokara
31/48 Seksyen 31,
Kota Kemuning,
40460 Shah Alam,
Selangor Darul Ehsan.
Tel: 03-5525 3863
Fax: 03-5525 3873
Website: itmikro.com.my

REGISTRAR

Tricor Investor &
Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suites
Avenue 3, Bangsar South
No.8, Jalan Kerinchi
59200 Kuala Lumpur.
Tel: 03-2783 9299
Fax: 03-2783 9222

AUDITORS

BDO PLT
(LLP0018825-LCA & AF 0206)
Level 8, BDO @ Menara CentARa
360, Jalan Tuanku Abdul Rahman
50100 Kuala Lumpur.
Tel: 603-2616 2888
Fax: 603-2616 3191

PRINCIPAL BANKERS

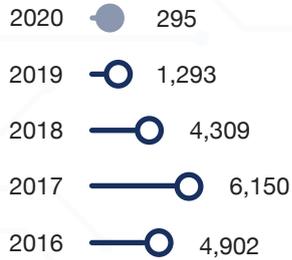
Hong Leong Bank Berhad
Malayan Banking Berhad
CIMB Bank Berhad
UOB Bank Berhad

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
ACE Market
(Stock code: 0112)

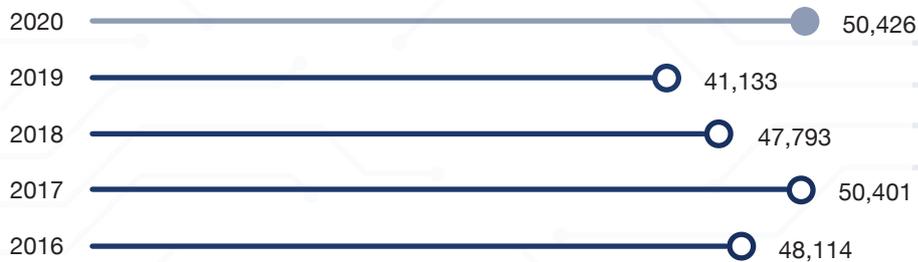
FINANCIAL HIGHLIGHTS

DIVIDEND PAYOUT (RM ('000))



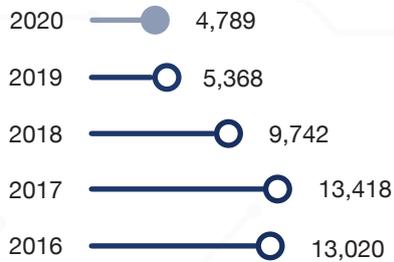
5 years total dividend pay-out of profit after tax was **49.02%**

REVENUE (RM ('000))



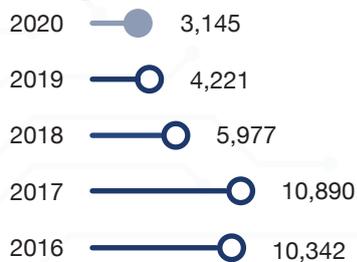
Compound Annual Growth Rate (CAGR) of **1.18%**

PROFIT BEFORE TAX (RM ('000))



Compound Annual Growth Rate (CAGR) of **-22.12%**

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT (RM ('000))



Compound Annual Growth Rate (CAGR) of **-25.74%**

PROFILE OF DIRECTORS

Datuk Aznam Bin Mansor

Independent Non-Executive Chairman



62

Date of Appointment:

22 October 2008

Membership of Board Committees:

- Chairman of Remuneration Committee
- Member of Audit Committee
- Member of Nominating Committee

Academic/Professional Qualification(s):

- Bachelor of Arts (Hons) Degree in Law from North East London Polytechnic, London, United Kingdom
- Admitted as a Barrister of Law at Lincoln's Inn in 1984
- Admitted and enrolled as an Advocate & Solicitor of the High Court of Malaya in 1986

Working Experience:

He started his career as an officer in Malayan Banking Berhad. He then joined Skrine & Co., a legal firm in Kuala Lumpur for about eight (8) years before becoming a Partner of his present legal practice at Lee Hishammuddin Allen & Gledhill.

Other Directorship(s) in Public Companies and Listed Issuers:

- Benalec Holdings Berhad
- Focus Lumber Berhad

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

Yim Yuen Wah

Managing Director



59

Date of Appointment:

19 June 2006

Membership of Board Committees:

None

Academic/Professional Qualification(s):

- B4 Charge man, Jabatan Bekalan Elektrik

Working Experience:

He has extensive experience in the electrical industry having been involved in the industry for more than 31 years. He has a B4 Charge man certificate to handle up to 11kV medium voltage, which he obtained from Jabatan Bekalan Electric in 1995. He established Mikro Berhad in 1997. He is mainly responsible for the overall strategy, planning

and development of Mikro Group corporate objectives and setting the long term goals of the Company.

Other Directorship(s) in Public Companies and Listed Issuers:

None

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

PROFILE OF DIRECTORS

Fong See Ni

Executive Director / Chief Technology Officer



Date of Appointment:

19 June 2006

Membership of Board Committees:

None

Academic/Professional Qualification(s):

- Degree in Electrical Engineering, University of Malaya

Working Experience:

He is the co-founder of Mikro MSC since its incorporation on 19 June 2006. Since graduation, he has been involved extensively in the research and development of electronic and electrical products. Between 1986 and 1991, he was involved in the hardware and software development for building security systems, fire alarm systems, moving message display systems and other electronic devices & systems.

Prior to his current position, he has worked in an air conditioning related electronic manufacturing company, responsible for the R&D, marketing and operation activities. In his tenure there, he invented and patented the built-in starter for air conditioners. Currently, he is involved in the R&D and technical development activities of the Company, responsible for the technical development of the Company. He also conducts external training and seminars as an expert resource to the industry.

Other Directorship(s) in Public Companies and Listed Issuers:

None

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

Goh Yoke Chee

Executive Director



Date of Appointment:

1 June 2018

Membership of Board Committees:

- Member of Risk Management Committee

Academic/Professional Qualification(s):

- Bachelor in Accountancy, University of Malaya
- Member of Malaysian Institute of Accountants

Working Experience:

In June 1994, she began her career at Juru Ukur Bahan Malaysia as an Account Assistant where she was involved in preparation of cash flow projection and feasibility studies for proposed development and construction projects. She left in February 1996 to join H&I Niaga Sdn Bhd as an Account Executive, responsible for its audit, secretarial and tax matters. In July 2002, she joined Consolidated

Farms Berhad as an Accountant, where she was responsible for the overall finance and accounting functions and business operations of the company. Subsequently, she joined Mikro MSC Berhad in July 2004 as Group Accountant. She was promoted and become our Group Financial and Administration Manager in December 2005. She is responsible for the Groups overall financial and accounting functions, which include treasury, corporate finance, credit risk, cash flow management, financial planning and general administration functions.

Other Directorship(s) in Public Companies and Listed Issuers:

None

Family Relationship, Convictions and Conflict of Interest:

She has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

She had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

PROFILE OF DIRECTORS

Michael Aw Ming Han

Non-Independent Non-Executive Director



Date of Appointment:

28 August 2019

Membership of Board Committees:

None

Academic/Professional Qualification(s):

- Bachelor in Economics, University of Western Australia, Perth Australia
- Post Graduate Diploma of Engineering (Manufacturing Management), University of South Australia, Adelaide, Australia

Working Experience:

After graduation in 1991, he joined Sony TV Industries (M) Sdn Bhd, in charge of material procurement, where he learnt the Japanese way of purchasing management system, Manufacturing Resources Planning (MRP II) system and Just In Time (JIT) delivery management.

In 1993, he joined Nilsen Electric Sdn Bhd (Nilsen) an Australian owned low voltage switchgear manufacturer as Purchasing Manager and promoted to Operation Manager in 1995. Here, he was involved in implementation of MRP II system, purchasing, planning and production control in manufacturing of switch fuse, fuse switch and current transformers products. Nilsen was taken over by PDL Switches (New Zealand) in

1996. In 1996, he was transferred to PDL Gyroaire Sdn Bhd (the distribution arm of PDL Industry Malaysia) as Product Manager in charge of low voltage products sales and marketing department. His responsibilities was to manage the sales and marketing operations of PDL low voltage products such as switchfuse, fuseswitch, air circuit breakers (ACB) and Mitsubishi Electric air circuit breakers (ACB) and moulded case circuit breakers (MCCB) to the mechanical and electrical (M&E) industry. From this job function, he has gained extensive experience in dealing with switchboard manufacturers, electrical dealers, M&E contractors and M&E consultants, and had since built a strong networking with all these parties in M&E industry.

Michael then founded Mittric Sdn Bhd in 2002, which was the distributor of Mitsubishi Electric low voltage switchgear products and agent of ASCO automatic transfer switch (ATS) in Malaysia. He started as Executive Director and was promoted to Managing Director in 2005. In the same year of 2005, he co-founded Mittric Systems Sdn Bhd which is involved in Marketing and Sale of busduct in Malaysia and was appointed as Managing Director.

In 2012, he co-founded Hyakin Power Sdn Bhd and become the Managing Director.

Other Directorship(s) in Public Companies and Listed Issuers:

None

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

Dr. Tou Teck Yong

Senior Independent Non-Executive Director



Date of Appointment:

22 October 2008

Membership of Board Committees:

- Chairman of Nominating Committee
- Member of Audit Committee
- Member of Remuneration Committee
- Member of Risk Management Committee

Academic/Professional Qualification(s):

- Bachelors' and PhD degree in Physics, Universiti Malaya

Working Experience:

His academic and research career at universities in Malaysia and Australia cover the fields of plasma, lasers, silicon, organic LED, thin films and characterisation techniques.

In 1999, he joined Universiti Multimedia as a full professor in the Faculty of Engineering. He is a fellow of the Academy of Science Malaysia and Institute of Physics Malaysia.

Other Directorship(s) in Public Companies and Listed Issuers:

- Powerwell Holdings Berhad

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

PROFILE OF DIRECTORS

Woon Yeow Thong

Independent Non-Executive Director



Date of Appointment:

30 December 2010

Membership of Board Committees:

- Chairman of Risk Management Committee
- Member of Audit Committee
- Member of Remuneration Committee

Academic/Professional Qualification(s):

- Upper Second Class Honours in Law, University of Kent at Canterbury in 1988
- Called to the Bar of England & Wales in 1989
- Admitted as Advocate & Solicitor of the High Court of Malaya in 1990

Working Experience:

As senior counsel, he has about 30 years of experience in a wide array of commercial and

corporate litigation matters. He also has a number of reported cases at the High Court and Court of Appeal.

Other Directorship(s) in Public Companies and Listed Issuers:

- Xidelang Holdings Ltd

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

Lu Chee Leong

Independent Non-Executive Director



Date of Appointment:

22 October 2008

Membership of Board Committees:

- Chairman of Audit Committee
- Member of Nominating Committee

Academic/Professional Qualification(s):

- Member of The Association of Chartered Certified Accountants (“ACCA”), United Kingdom;
- Member of The Malaysian Institute of Accountants

Working Experience:

He joined Kassim Chan & Co., Kota Kinabalu (now known as Deloitte Kassim Chan) as an auditor in 1990 and obtained his Chartered Accountancy in September 1995. He left Kassim Chan & Co in 1995 to

join Kinabalu Ria Sdn Bhd, Kota Kinabalu as Group Accountant. In 1997, he joined the local leading telecommunication company, as Finance Manager. He left the telecommunication company and started his own practice in providing corporate services in early in 2015.

Other Directorship(s) in Public Companies and Listed Issuers:

- Kejuruteraan Asastera Berhad

Family Relationship, Convictions and Conflict of Interest:

He has no family relationship with any director/major shareholder of the Company, has never been convicted of any offence within the past 5 years other than traffic offences, if any, nor any public sanction or penalty imposed by the relevant regulatory bodies during the financial year and does not have any conflict of interest with the Company.

Attendance of Board Meetings:

He had attended all four (4) Board Meetings held during the financial year ended 30 June 2020.

PROFILE OF KEY SENIOR MANAGEMENT

He graduated from University of Hertfordshire (United Kingdom) with 1st class honours Bachelor degree in Electrical & Electronic Engineering in 1998. He jointly founded EPE Busway Sdn Bhd in 2011 and responsible for overall business operation from company management, sales & marketing, business development, product design and factory operation.

He began his career as a Project Engineer with Metronic Engineering Sdn Bhd in 1998 and subsequently joined Public Bank Berhad as a Senior Executive (Building Services division) in 1999. In 2000, he joined Modular Power Systems Sdn Bhd as a Sales & Project Engineer where he was involved in sales, design & project management of low voltage switchboards (LV SWBD) & motor controlled centers (MCC). In 2003, he joined a Korean company named Henikwon Corporation Sdn Bhd, which is also an electrical busduct manufacturer, as an Asst. Sales Manager and he was subsequently promoted to the positions of Sales & Marketing Manager and Senior Sales & Marketing Manager from 2004. He was in-charged of all local sales & part of overseas sales including marketing and business development in Henikwon Corporation. Then, he joined another Korean busduct manufacturer, Pacific MK Corporation Sdn Bhd, as a General Manager in 2007 and later jointly founded EPE Busway Sdn Bhd in 2011.

Mr Liu currently holds directorship in EPE Busway Sdn Bhd (subsidiary company of Mikro MSC Berhad).

He does not have any family relationship with any director and/or substantial shareholder of the Company. He has no conflict of interest with the Company. He has no convictions of any offences within the past five years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2020.

Liu Marn Cole (Marco)

Executive Director of
subsidiary of Mikro
MSC Berhad, EPE
Busway Sdn Bhd



Ang Leong Suan

R&D Manager



He graduated from University Malaya in 1995 with a Bachelor of Science. In 2000, Mr Ang joined Mikro as R&D Manager. He is currently heading the R&D department of Mikro. He is responsible for product development including conducting feasibility study, market research, component sourcing, circuit design, software design, Electromagnetic compatibility solution as well as product testing.

He joined OYL Electronics Sdn. Bhd. ("OYL Electronics") as R&D Engineer from 1995 to 2000. He was involved in new product development.

Mr Ang currently does not hold any directorship in subsidiary companies of Mikro MSC Berhad.

He does not have any family relationship with any director and/or substantial shareholder of the Company. He has no conflict of interest with the Company. He has no convictions of any offences within the past five years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2020.

He obtained a Diploma from Standard Electrical Institute, Singapore in 1973. He joined Mikro in 1998 as Sales and Marketing Manager. He is responsible for marketing development for both local and overseas market.

Prior to joining the Company, he worked in Scott & English Sdn Bhd (Schneider electric) and later became a partner of Waras Mewah Sdn Bhd..

Mr Tseu currently does not hold any directorship in subsidiary companies of Mikro MSC Berhad.

He does not have any family relationship with any director and/or substantial shareholder of the Company. He has no conflict of interest with the Company. He has no convictions of any offences within the past five years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2020.

Tseu Chen Yung

Sales Manager



PROFILE OF KEY SENIOR MANAGEMENT



He graduated from University Technology Malaysia with a Bachelor in Electrical Engineering in 1995. He joined Mikro as a Technical Application Manager in 2005. He is responsible for overseas sales as well as providing technical application support for Mikro's range of product. In addition, he also conducts external training and seminars as part of the marketing and after sales support activities provided by Mikro.

In 1997, Mr Chan joined Areva T&D Malaysia Sdn Bhd (formerly known as Alstom Malaysia Sdn Bhd) as a Protection & Control Engineer and was promoted to Manager of Application & Sales Support division in 2002.

Mr Chan currently does not hold any directorship in subsidiary companies of Mikro MSC Berhad.

He does not have any family relationship with any director and/or substantial shareholder of the Company. He has no conflict of interest with the Company. He has no convictions of any offences within the past five years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2020.

He obtained his BEng (Hons) degree from Sussex University, UK, MSc. Eng from Multimedia University Malaysia and MBA from University Malaya. He joined Mikro as a R&D Engineer in 2004 and was involved in product development of the company. He was later promoted to Marketing Manager in 2011. He is responsible for the business development of Mikro, both locally and overseas. He also conducts external training and seminars as part of the marketing support activities provided by Mikro.

In 1998, he started his career at OYL R&D Centre Sdn. Bhd. as a R&D Engineer.

Mr Tay currently does not hold any directorship in subsidiary companies of Mikro MSC Berhad.

He does not have any family relationship with any director and/or substantial shareholder of the Company. He has no conflict of interest with the Company. He has no convictions of any offences within the past five years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2020.



He graduated from Liverpool John Moores University in 2003 with a Bachelor in Mechanical Engineering. In 2008, he joined Mikro as production manager. He is responsible for production management activities such as materials planning, production planning, quality control, maintenance and warehouse control.

He joined ChungHwa Picture Tubes (Malaysia) Sdn. Bhd. as process engineer from 2003 to 2008. He was responsible for quality control, process and yield improvement.

Mr Chen currently does not hold any directorship in subsidiary companies of Mikro MSC Berhad.

He does not have any family relationship with any director and/or substantial shareholder of the Company. He has no conflict of interest with the Company. He has no convictions of any offences within the past five years and has not been imposed any penalty by the relevant regulatory bodies during the financial year 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

OF BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS

Business background

Mikro MSC Berhad and its subsidiary companies ("**Group**") is today a leading manufacturer of protective relays, power meters and power factor regulators in Malaysia with in-house design capabilities to ensure that its products are aesthetic, suitably designed and meet varying stringent international codes and standards.

The Group had on 7 August 2019 completed its acquisitions of EPE Busway Sdn Bhd ("**EPE**") and Mittric Systems Sdn Bhd ("**Mittric**"). These newly-acquired subsidiary companies are principally involved in the manufacturing and trading of low and medium voltage busway (also known as busduct) systems. These systems like the Group's protective relays, power meters and power factor regulators are components used in electrical distribution systems.

Our engineering and manufacturing operations are geared to supporting our customers with total solutions. In doing so, we offer our customers a wide range of products from individual components to engineered and packaged systems. This helps us match the right products to our customers' specific needs.

In mid-March 2020, the Group shifted its entire operations to its new factory and office located on a 43,562 square feet freehold land at Kota Kemuning, Selangor. This relocation is part of the Group's expansion and will enhance the Group's production flow and efficiency of operations as well as increasing production capacity.

Market and products

Our main products which are analogue, digital and computer controlled protective relays, power meters and power factor regulators, and busducts form an integral part of electricity distribution systems in residential, commercial, and industrial buildings, infrastructure, and public amenities and their primary functions are as follows:



Protective relay

a protective device which senses faulty conditions in a power system line and initiates the operation of circuit breaker to isolate the faulty part from the rest of the healthy power system



Power factor regulator

a device designed to automatically maintain a constant voltage level



Power meter

an electric meter that measures the amount of electrical energy consumed by residences, businesses or electrically powered devices



Busduct (also called busway)

metal enclosed duct containing insulated copper or aluminium busbars utilised for conducting a substantial current of electricity

MANAGEMENT DISCUSSION AND ANALYSIS OF BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

OVERVIEW OF THE GROUP'S BUSINESS AND OPERATIONS (CONT'D)

Market and products (cont'd)

The design, development and manufacture of the Group's protective relays, power meters and power factor regulators have been certified by ISO 9001:2015 "Quality Management System" by Lloyd's Register Quality Assurance. This certification which is recognised worldwide is an assurance of our ability to consistently manufacture products that meet customer and applicable regulatory requirements. As for our busduct systems, they are also type-tested certified as compliant with IEC Standards, UL Standards, EN Standards, ASTA Standards, DEKRA Standards and Standards Malaysia, where applicable.

For markets especially in the European Union and other developed countries, the Group also has a range of protective relays, power meters and power factor regulators which are certified by KEMA (Keuring van Elektrotechnische Materialen te Arnhem), a global energy consultancy company headquartered in Arnhem, Netherlands. This certification means that tests on the said products were carried out successfully at KEMA Laboratories in accordance with recognised standards, the technical drawings of which were verified and visual inspection was carried out.

The Group also has a range of protective relays, digital power meters and power factor regulators which are digitised and network-enabled. These devices (called the X-Series) run on "Mikrosafe", an integrated proprietary software designed by the Group which enable users to track the status of electric protection and energy performance of electrical installations. This software also generates reports and data in chart form, Microsoft Excel or PDF format for data analysis and users are alerted via email and/or short message service ("SMS"), whenever there are trips, connection failures or other alarms.

The primary markets in the financial year ("FY") ended 30 June 2020 for the Group's products are Malaysia and Vietnam which constitute 57.5% (FY2019: 51.4%) and 24.5% (FY2019: 31.1%) of the total revenue (in RM terms). The Group exports to more than 20 countries and the details of its market segmentation is detailed in Note 4(b) to the financial statements on page 59 of the Annual Report 2020.

YEAR-ON-YEAR FINANCIAL REVIEW

Revenue

The Group's revenue of RM50.4 million for FY2020 was higher by 22.6% than that of RM41.1 million achieved in FY2019. This increase was due to the EPE and Mittric which collectively contributed RM17.9 million to the Group's top line in FY2020. As 79.6% of EPE's and Mittric's revenue were derived in Malaysia, it is the component which increased the percentage of the Group's revenue from Malaysia.

Gross margin/profit

| | FY2020 | FY2019 | Variance ± | |
|-------------------------|---------------|---------------|-------------------|--------------|
| | RM'000 | RM'000 | RM'000 | % |
| Revenue | 50,426 | 41,133 | +9,293 | +22.6 |
| Cost of sales | (33,873) | (22,785) | +11,088 | +48.7 |
| Gross profit | 16,553 | 18,348 | -1,795 | -9.8 |
| Gross margin (%) | 32.8 | 44.6 | -11.8 | -26.5 |

Gross margin for FY2020 declined to 32.8% from that of 44.6% achieved in FY2019. This margin compression was caused by higher input costs and lack lustre market conditions throughout FY2020. As a consequence, the gross profit for FY2020 declined by 26.5% year-on-year ("YoY") to RM16.6 million from that of RM18.3 million achieved in FY2019.

MANAGEMENT DISCUSSION AND ANALYSIS OF BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

YEAR-ON-YEAR FINANCIAL REVIEW (CONT'D)

Profit before tax ("PBT")

| Net operating expenses | FY2020 | FY2019 | Variance ± | |
|-----------------------------------|---------------|---------------|---------------|-------------|
| | RM'000 | RM'000 | RM'000 | % |
| Other income | (1,972) | (104) | +1,868 | +1,796.2 |
| Selling and distribution expenses | 4,730 | 6,236 | -1,506 | -24.2 |
| Administrative expenses | 5,954 | 5,414 | +540 | +10.0 |
| Other operating expenses | 3,595 | 1,777 | +1,818 | +102.3 |
| Finance costs | 50 | 57 | -7 | -12.3 |
| | 12,357 | 13,380 | -1,023 | -7.6 |
| Net foreign exchange (gain)/loss | (593) | (400) | +193 | +48.3 |
| | 11,764 | 12,980 | -1,216 | -9.4 |

The Group's PBT decreased to RM4.8 million for FY2020 from that of RM5.4 million achieved in FY2019. This decline of 10.7% or RM579,000 YoY in spite of a 22.6% revenue increase YoY was caused by the decline in gross profit YoY by RM1.8 million as operating expenses (net of other income and net foreign exchange gain) for FY2020 of RM11.8 million was lower by RM1.2 million or 9.2% than that of RM13.0 million incurred in FY2019. Another factor contributing to the above drop in net operating expenses was the increase in other income from RM104,000 in FY2019 to RM2.0 million for FY2020. This increase was mainly due to write-backs of RM1.0 million and RM300,000 of an impairment loss on receivables and inventories written down previously respectively, during FY2020.

Profit attributable to the owners of the parent

The Group's post-tax profit and profit attributable to the owners of the parent for FY2020 decreased YoY by 27.6% and 25.5% respectively to RM3.1 million. The said decline was not in tandem with the 10.7% YoY drop in PBT due to a higher effective tax rate of 34.3% for FY2020 as compared to that of 19.1% recorded in FY2019. The higher effective tax rate in FY2020 was attributed to the under provision of income and deferred taxes in prior years as well as expenses not deductible for tax purposes.

In line with the decrease in profitability, the Group's basic and diluted earnings per share decreased to 0.55 sen for FY2020 as compared to 0.98 sen in FY2019.

Liquidity and capital resources

| Net cash from/(used in): | FY2020 | FY2019 |
|---|--------------|----------------|
| | RM'000 | RM'000 |
| Operating activities | 9,524 | 2,989 |
| Investing activities | (3,898) | (6,001) |
| Financing activities | (701) | (4,183) |
| Net increase/(decrease) in cash and cash equivalents | 4,925 | (7,195) |

MANAGEMENT DISCUSSION AND ANALYSIS OF BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

YEAR-ON-YEAR FINANCIAL REVIEW (CONT'D)

Liquidity and capital resources (cont'd)

The Group's cash and cash equivalents increased from RM12.1 million as of 30 June 2019 to RM17.8 million as of 30 June 2020. The analysis of this increase is as follows:

- (i) Despite the decrease in PBT by RM579,000 YoY, net cash from operating activities for FY2020 increased more than 3-fold to RM9.5 million as compared to that of RM3.0 million for FY2019. This increase in cash inflow was mainly due to the increase in operating profit (before changes in working capital) from RM6.0 million for FY2019 to RM7.4 million for FY2020 and the net decrease in working capital of RM6.0 million between the reporting dates under review. The factors contributing to the decreased working capital were the expansion in inventories (by RM2.3 million) and receivables (by RM5.9 million) between the relevant reporting dates.
- (ii) Net cash used in investing activities for FY2020 was RM3.9 million as compared to RM6.0 million for FY2019. This YoY decrease was mainly due to the YoY reduced outflow of RM2.6 million incurred in relation to the purchase of property, plant and equipment.
- (iii) Net cash used in financing activities for FY2020 was RM701,000, a decrease of 83.2% from that of RM4.2 million in FY2019. This decrease was primarily due to the fact that no dividend was paid during FY2020. The dividend pay-out in FY2019 was RM3.5 million.

Gearing

| | FY2020 RM'000 | FY2019 RM'000 |
|----------------------|------------------|------------------|
| Total borrowings | 8,590 | 9,227 |
| Total equity | 97,029 | 60,554 |
| Gearing ratio | 8.9% | 15.2% |

The improvement in the Group's gearing ratio was due to repayment of borrowings during FY2020 as well as the issue of 158.3 million new ordinary shares in settlement of the consideration of RM34.0 million for the acquisition of EPE and Mittric.

Dividends

The Group's prudent approach to capital management in general will ensure that it can balance dividend payments to shareholders, and funding for new capital investments required. Despite the fact that the Group does not have a dividend policy, the Group has managed to maintain an uninterrupted dividend pay-out to shareholders every year since it was listed in 2005.

Despite the challenging business environment (mainly due to the COVID-19 pandemic) and premised on the expectation that operations can be normalised by the 1st quarter of 2021, the Board has on 2 October 2020, after taking into consideration of all pertinent factors, resolved to recommend a final single tier dividend for FY2020 of 0.05 sen per ordinary share for the consideration of the Company's shareholders at the forthcoming 14th Annual General Meeting.

MANAGEMENT DISCUSSION AND **ANALYSIS** OF BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

REVIEW OF OPERATING ENVIRONMENT

During the period from the commencement of the 2020 Movement Control Order (“**MCO**”) implemented by the Federal Government of Malaysia in response to COVID-19 on 18 March 2020, the Group’s operations were severely affected as its marketing activities as well as its supply chain were at a standstill. Since the recommencement of the Group’s operations on 4 May 2020, local marketing activities has picked-up but as the economy was opened in phases, sales continued to be depressed for the last few months. Overseas marketing activities were affected by trans-border restrictions. The supply chain post 4 May 2020 has also improved but it is still not effective and efficient due to transportation and shipping constraints caused by trans-border restrictions in Malaysia and overseas.

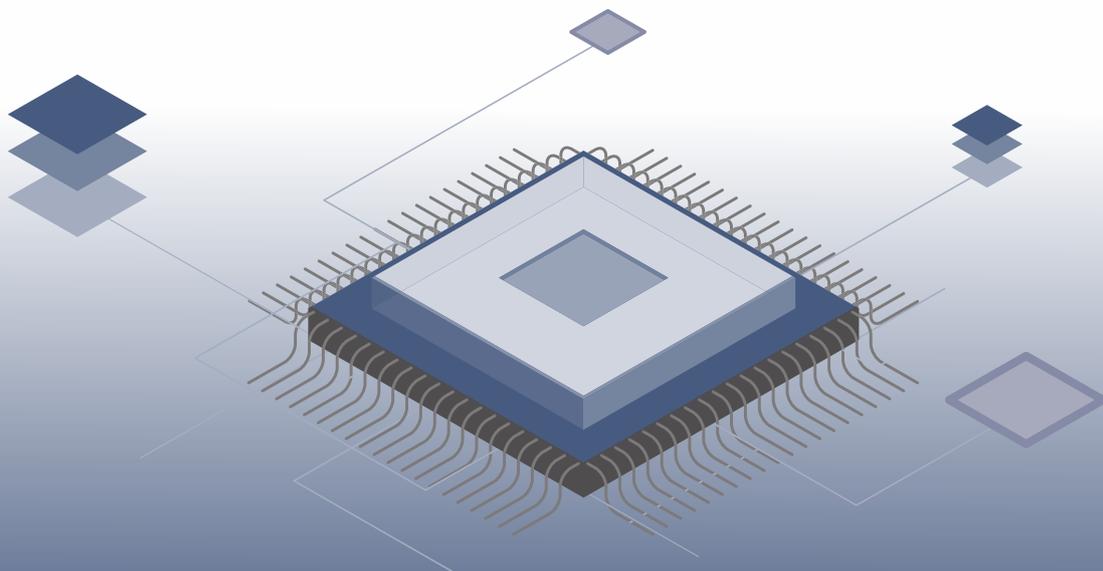
Since 4 May 2020, there was some normalcy to the Group’s operations but as the COVID-19 pandemic is a global pandemic, it will take some time for things especially sales to get back to normal, This back to sales normalcy is also subject to the opening of borders for the Group to carry out its marketing activities overseas as a significant portion of the Group’s products are exported.

LOOKING AHEAD

Malaysia’s gross domestic product contracted 17.1% in the 2nd quarter of 2020, the steepest fall since the Asian financial crisis of 1998, when the domestic economy shrunk by 11% in the 4th quarter of 1998, and is expected to have negative growth of minus 3.5% to 5.5% for the whole of 2020.

Notwithstanding the above, the Group is hopeful that its operations can get back to pre-MCO levels by the 1st quarter of 2021 although this is premised very much on factors such as improvements in global and domestic growth (especially in the construction sector), the trade and technology cycles, opening of the domestic and world economies, and income prospects and sentiment as well as government stimulus measures. These factors and the return to normalcy are very much dependent on the COVID-19 pandemic reaching its epidemiological end point which is governed by a several factors, the biggest one of which is the arrival, efficacy and adoption of COVID-19 vaccines.

YIM YUEN WAH
MANAGING DIRECTOR



SUSTAINABILITY STATEMENT

OUR APPROACH

Sustainability has always been a pillar of the Group's culture as we strived to achieve continuing growth and profitability in a safe, caring and sustainable environment.

The Group understands that responsible corporate behaviour not only contributes to broad-based future benefits for the community and environment but can also enhance opportunities for business success for the Group as well as our stakeholders including, among others, our investors, customers and vendors. Hence, our mission as a responsible corporate citizen is to ensure high standards of governance across our business to promote responsible business practices, manage environmental impacts, and meet the social needs of the community in which we operate.

In line with Bursa Malaysia Securities Berhad's Sustainability Reporting Guide (2nd Edition), the Group's sustainability practices are to ensure that economic, environmental and social risks and opportunities are tied in with our governance framework and social responsibilities. This enables our corporate success and behaviour to be judged and measured by the public.

SUSTAINABILITY GOVERNANCE

The responsibility to promote and embed sustainability in the Group lies with the Board of Directors ("**Board**"). Among others, this responsibility includes overseeing the following:

- Stakeholders engagement
- Materiality assessment and identification of sustainability risks and opportunities relevant to us
- Management of material sustainability risks and opportunities

In the longer term, the Group will consider the setting-up of a governance structure that will enable the incorporation of the responsibilities for sustainability into the day-to-day operations of the Group.

MATERIAL SUSTAINABILITY MATTERS



Economic

Our shareholders are the ultimate owners of the Company and as such, they are entitled to timely and quality information on the Group's financial performance and position. Apart from the Annual General Meeting where shareholders are encouraged to ask questions to the Board and Executive Management on business operations, and the financial performance and position of the Group, the Group's corporate website at www.itmikro.com also provide a link on investor relations where quarterly and annual financial statements, announcements, financial information, annual reports, circulars/statements to shareholders and other pertinent information are uploaded on a timely basis when available.

The Group had on 7 August 2019 completed its acquisitions of EPE Busway Sdn Bhd ("**EPE**") and Mittric Systems Sdn Bhd. ("**Mittric**"). These newly-acquired subsidiary companies are principally involved in the manufacturing and trading of low and medium voltage busway (also known as busduct) systems.

The above acquisitions were undertaken to enhance the long-term sustainability of the Group and to add a new revenue stream. EPE's and Mittric's products, like the Group's protective relays, power meters and power regulators are components used in electricity distribution systems. These products will expand the Group's products range and enable the Group to capture a bigger share of any electrical engineering project.

SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS (CONT'D)

Economic (cont'd)

The Group is committed to see that not only our shareholders' interests are taken care of but also those of our customers and suppliers. In this regard, the Group values its customers as they are a major reason for its profitability. Our marketing and sales representatives schedule regular meetings, both formal and informal, with our customers to build a strong and conducive relationship. The objective of this is to promote a culture of open communication, trust and reliability.

For customers who buy our products, they can be assured of quality as our production process are certified with ISO 9001:2015 "Quality Management System" by Lloyd's Register Quality Assurance for the design, development and manufacture of analogue, digital and computer controlled protective relays, power meters and power factor regulators for use in electrical engineering. All our products are type-tested certified as compliant with IEC Standards, UL Standards, EN Standards, ASTA Standards, DEKRA Standards and Standards Malaysia, where applicable.

These certifications provide worldwide recognition and acceptance of our products.

As stipulated in the Group's "Quality Policy", we are committed to supply quality products and meeting customers' satisfactions through continual improvement in technology and processes. We also wish to be a responsive and reliable partner to our distributors who distribute our products within their respective markets.

To our suppliers, the Group practises transparent and fair procurement policies so that they as our business partners know that they can depend on us.

Environment



Generally, our production process does not generate any major environmental concerns because there are no emissions of very harmful noxious gases or the production of toxic fluids and discharges. Our scheduled wastes are stored, treated, recovered in a proper manner and then delivered to prescribed premises for treatment, disposal and recovery. In this process, the scheduled wastes will be packaged, labelled and transported in accordance with the prescribed local guidelines and regulations.

We are committed to "green" operating practices and we have in place an Environmental Management System which is accredited as ISO14001:2015 compliant. Our operating practices for environment management include:

- (a) Preserving, conserving, minimising waste of resources and ensuring that the work environment is free from pollution hazards;
- (b) Complying with relevant environment, health and safety laws and regulations in relation to hazardous discharges in the production process;
- (c) Periodic review of the policies, objectives and targets of our environmental management program; and
- (d) Communicating clearly to all employees, customers and suppliers to instil in them the environmental awareness culture and values of the Group.

SUSTAINABILITY STATEMENT

MATERIAL SUSTAINABILITY MATTERS (CONT'D)



Social

The Group believes that the safety and well-being of its employees is the foundation of its success. Hence, we strive to provide a safe and healthy environment for our employees and to ensure safe practices in all aspects of our business operations. In this respect, the Group places utmost importance on continuous compliance with all relevant health and safety laws and regulations such as Occupational Safety and Health Act, 1994.

Apart from safety, promoting good health, and motivation is an essential part of the Group's responsibility to our employees. In addition to the day-to-day motivation measures, it is the Group's tradition to have an Annual Dinner for its employees and business associates to mingle and celebrate the year past. However, due to the COVID-19 pandemic, the Annual Dinner for 2020 was held on a smaller scale for just the Group's employees. The Group intend to invite its business associates to its future Annual Dinners at the earliest opportune time.

These would place pressure on the Group to continuously upskill and reskill its workforce so that they can execute their roles and responsibilities effectively and efficiently as well as for their personal career development. Employees are encouraged to attend internal or external training or pursue professional development to enhance their knowledge and skills for career enhancement and personal development.

We will continue to focus on human capital development to nurture our employees to their full potential as they are our greatest asset. Every employee is given equal opportunity to rise up in their careers through hard work and dedication.

We also place great importance on hiring the right candidate for the right job. As part of our succession planning, we focus continuously on attracting quality talents who best fit our job requirements and complement our work culture.

As we are deeply rooted in the community we operate, we actively engage in community outreach programmes and activities. We are proud of having the privilege to serve various segments of the community towards providing for social empowerment and helping to make a positive difference for those who are disabled and have special needs.

OUR COMMITMENT

As a responsible corporate citizen, the Group shall endeavour to undertake sustainable and responsible practices to add value to sustainable business growth, environmental stewardship and social responsibility.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“**Board**”) presents this Statement to provide shareholders and investors with an overview of the corporate governance (“**CG**”) practices of the Group during the financial year ended 30 June 2020 (“**FY2020**”). This overview takes guidance from the key CG principles set out in the Malaysian Code on Corporate Governance 2017 (“**Code**”).

This Statement is prepared in compliance with the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“**AMLR**”) (“**Bursa Securities**”) and is to be read in conjunction with the CG Report 2020 (“**CG Report**”) which is available on the Group’s website at www.itmikro.com.

The CG Report provides the explanations on how the Group applied each Practice set out in the Code during FY2020.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

(a) Board Responsibilities

The Board acknowledges and fully supports the importance of corporate governance in directing and managing the businesses and affairs of the Group, and to safeguard and enhance shareholders’ value and performance of the Group on a sustainable and long-term basis.

The Board determines the Group’s strategic objectives and ensures that required resources are in place for the Group to meet its objectives and to guide the Group on its short and long-term goals, providing advice, stewardship and directions on the management and business development of the Group. The Board also set the Group’s values and standards and ensure that its obligations to the shareholders and other stakeholders are understood and fulfilled.

The above roles and responsibilities of the Board is formalised in the Board Charter. The Board Charter also clearly sets out all relevant governance matters and applicable limits of authority, including the matters reserved for the Board and those which are expressly delegated to Board committees, the Chairman of the Board (“**Chairman**”), the Managing Director (“**MD**”), or a nominated member of Executive Management, subject always to the ultimate responsibility of the Directors under the Companies Act 2016. The Board Charter is reviewed periodically or as and when changes occur to ensure that it reflects the current needs of the Group. More information on the Board Charter can be found on the Group’s website.

In furtherance of the above and to ensure orderly and effective discharge of its functions and responsibilities, the Board has established the following Board committees:

- Audit Committee (“**AC**”)
- Nominating Committee (“**NC**”)
- Remuneration Committee (“**RC**”)
- Risk Management Committee (“**RMC**”)

In order to foster a strong governance culture in the Group and to ensure a balance of power and authority, the roles of the Chairman and MD are strictly separated. This is also to maintain effective supervision and accountability of the Board and Executive Management. The Chairman is responsible for Board effectiveness and to ensure that the conduct and working of the Board is in an orderly and effective manner while the MD takes on the primary responsibility of managing the Group’s businesses and resources as well as overseeing and managing the day-to-day operations of the Group.

The Board has formalised a Code of Conduct and Ethics which reflects the Group’s vision and core values of integrity, respect and trust. The core areas concerned include the following:

- Work environment and employment
- Group’s assets and information
- Data privacy
- Conflicts of interest
- Anti-bribery, anti-corruption and no gift policies
- Communications with the public
- Financial accounting and reporting accuracy

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

(a) Board Responsibilities (cont'd)

The Code of Conduct and Ethics governs the conduct of the Directors and all employees of the Group and provides guidance on the communication process and the duty to report whenever there are breaches of the same. This code is reviewed and updated from time to time by the Board to ensure that it continues to remain relevant and appropriate.

The Code of Conduct and Ethics can be viewed on the Group's website.

To maintain the highest standards of ethical conduct and integrity, the Group has a formal Whistle-blowing Policy and Procedures. This policy establishes a framework where stakeholders can raise in confidence any possible corporate misdemeanours. The whistleblowing channel was created to help stakeholders raise their concerns without fear of victimisation or retaliation provided that the reporting is in good faith.

All concerns raised will be investigated and whistle-blowers can report through telephone or via e-mail to the MD. If this is considered inappropriate, reports can be made to the Senior Independent Director or to the Chairman of the AC.

The Whistle-blowing Policy and Procedures can be viewed on the Group's website.

The Group recognises that effective succession planning is integral to the delivery of its strategic plans. It is essential to ensure a continuous level of quality in key management, in avoiding instability by helping mitigate the risks which may be associated with any unforeseen events, such as the departure of a key individual, and in promoting diversity.

Given the current state of the Group's lifecycle, there is an informal succession plan for key management in place. Going forward and at the relevant and appropriate time, the Board shall look into a structured approach to the said plan for the Group.

The Board members have full and unrestricted access to the Joint Company Secretaries who are members of the Malaysian Institute of Chartered Secretaries and Administrators. In addition to their corporate secretarial administrative responsibilities, they also advise the Board on its roles and responsibilities, corporate disclosures and compliance, corporate governance developments and practices.

The Directors also received updates from time to time on relevant new laws and regulations. Visits by the Non-Executive Directors to the Group's businesses were also arranged for enhancement of their knowledge in respect of the Group's businesses as well as better awareness of the risks associated with the Group's operations.

The Board is aware that continuous training for the Directors is vital for them in discharging their duties effectively. All Directors are encouraged to attend appropriate external training programmes to supplement their knowledge in the latest developments and issues relevant to the Group, especially in the areas of corporate governance and regulatory requirements.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

(a) Board Responsibilities (cont'd)

The external training programmes, seminars and/or conferences attended by the Directors in office at the end of FY2020 were as follows:

| Name of Director | Training Programmes/Seminars/Conferences |
|------------------------|---|
| Datuk Aznam bin Mansor | <ul style="list-style-type: none"> • Federalism in Malaysia: Redefining the Federal State Relationship in Malaysia • Building AML/CFT Compliance Effectiveness: Risks and Challenges • International Fiscal Association 2019 Congress @ London • Anti-Bribery and Corruption Policy • Multilaw Annual Global Meeting 2019 @ Dallas |
| Yim Yuen Wah | <ul style="list-style-type: none"> • Budget 2019 Tax Seminar |
| Goh Yoke Chee, Madam | <ul style="list-style-type: none"> • Budget 2019 Tax Seminar • Raising Defences: Section 17A, MACC Act |
| Lu Chee Leong | <ul style="list-style-type: none"> • Best Practices in the Presentation of Financial Statements & Annual Reports • Tax and Business Summit 2019 • Raising Defences: Section 17A, MACC Act • The Impact of COVID-19 on Compliance with Various MFRS / IFRS • Introduction to <IR> |
| Dr. Tou Teck Yong | <ul style="list-style-type: none"> • Raising Defences: Section 17A, MACC Act |
| Woon Yeow Thong | <ul style="list-style-type: none"> • Raising Defences: Section 17A, MACC Act |
| Michael Aw Ming Han | <ul style="list-style-type: none"> • Mandatory Accreditation Programme for Directors of Public Listed Companies • Raising Defences: Section 17A, MACC Act |

The Board (via the NC and with assistance of the Joint Company Secretaries) shall continue to evaluate and determine the training needs of the Directors to build their knowledge so that they can be up-to-date with the development of the Group's business and industry that may affect their roles and responsibilities.

A newly appointed Director must complete the Mandatory Accreditation Programme ("**MAP**") prescribed by Bursa Securities. In this respect, Michael Aw Ming Han who was appointed to the Board on 28 August 2019 completed his MAP on 13 - 14 January 2020.

Orientation that include visits to the Group's business operations and meetings with key management, where appropriate, are also organised for newly-appointed Directors to facilitate their understanding of the Group's operations and businesses.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

(b) Board Composition

The Group is led by an experienced and diversified Board which comprises professionals from various fields to bring together a balance of skills, mix of experience and expertise in area relevant to enhance the growth of Group's business. The Directors, four (4) out of eight (8) members of whom are Independent Directors, collectively bring with them wide and varied technical, financial, legal and corporate experience to enable the Board to lead and control the Group effectively. The majority of Independent Directors on the Board helps to bring objective and independence judgements to facilitate a balanced leadership in the Group.

An election of Directors shall take place each year. All Directors shall retire from office once at least in each 3 years, but shall be eligible for re-election.

The Board (via the NC) evaluates the effectiveness of the Board as a whole, all committees of the Board and the contribution of each individual Director. This evaluation which is done annually is facilitated by the Joint Company Secretaries and conducted using the evaluation forms set out in Bursa Malaysia Berhad's Corporate Governance Guide (3rd Edition) covering the following aspects:

(i) Board and Board committees

- Board mix and composition
- Quality of information and decision making
- Boardroom activities
- Board's relationship with the management

(ii) Directors

- Fit and proper
- Contribution and performance
- Calibre

As for the AC, the annual evaluation is done in two (2) components:

(i) The AC as a whole - This evaluation which covers the below aspects is done by the MD as all the AC members constitute the entire membership of the NC:

- Quality and composition
- Skills and competencies
- Meeting administration and conduct

(ii) Self and peer evaluation by the AC members

Completed evaluation forms and the results of the evaluations are collated into a report and deliberated on by the NC and subsequently by the Board and key issues arising thereon are identified for further action by Executive Management.

Based on the evaluation carried out for FY2020, the NC has informed the Board that it was satisfied with the effectiveness of the Board and Board committees and the contribution and performance of each individual Director.

The MD has also informed the Board that he was satisfied with effectiveness of the AC. In addition, the NC having reviewed the self and peer evaluations of the AC members has informed the Board that the AC is performing effectively.

The Board currently has a female among its eight (8) members. The Board is on a continuing outlook for potential women Directors and shall appoint additional women Directors as and when suitable candidates are identified. No timeframe has been set for the search concerned.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

(b) Board Composition (cont'd)

(ii) Self and peer evaluation by the AC members (cont'd)

The Board is committed to provide fair and equal opportunities and nurturing diversity in the Group. In this respect, all persons, regardless of age, gender, ethnicity, cultural background or other personal factors, with appropriate experience and qualifications will be considered equally during recruitment and promotion. The Board is also committed to workplace diversity ensuring that we value and respect our differences and that our workplace is fair, accessible, flexible and inclusive and free from discrimination.

(c) Remuneration

The Board (via the RC) will ensure that the Group's levels of remuneration commensurate with the skills and responsibilities expected of Senior Management as well as the Directors and that it must be sufficient to attract and retain talent needed to run the Group successfully. The Board, as a whole, determines the remuneration of the Directors and each individual Director is required to abstain from discussing his/her own remuneration. The RC is guided by market norms and industry practices when making recommendations for the compensation and benefits of Directors and Senior Management.

The RC's recommended remuneration for Directors and Senior Management is subject to Board's approval as it is the ultimate responsibility of the Board to approve the remuneration of the Directors and Senior Management.

In relation to the fees and allowances for Directors, it will be presented at the Annual General Meeting ("AGM") for shareholders' approval.

The details of the Group's remuneration policies and practices are included in the Group's Remuneration Policy which is available on the Group's website.

The detailed disclosure on a named basis for the remuneration of individual Directors is set out in Directors' Report on page 41 of this Annual Report.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

(a) AC

The AC currently comprises four (4) members, all of whom are Independent Directors. The AC Chairman is Mr Lu Chee Leong.

The AC has policies and procedures to review, assess and monitor the performance, suitability and independence of the external auditors. Prior to the commencement of the annual audit, the AC will seek confirmation from the external auditors as to their independence. This independence confirmation would be re-affirmed by the external auditors to the AC upon their completion of the annual audit. These confirmations were made pursuant to the independence guidelines of the Malaysian Institute of Accountants.

Further details on the work performed by AC in furtherance of its oversight role are set out in the AC Report on pages 31 to 34 of this Annual Report.

(b) Risk Management and Internal Control Framework

The Board fulfils its responsibilities in the risk governance and oversight functions via a risk management framework which adopts a structured and integrated approach in managing key business risks. This framework together with the system of internal control are designed to manage the Group's risks within its risk appetite rather than to eliminate, the risk of failure to achieve the Group's business and corporate objectives.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

(b) Risk Management and Internal Control Framework (cont'd)

As for the adequacy and effectiveness of the system of internal control, it is reviewed by the AC with assistance from the internal auditors. The internal audit function is outsourced to an independent professional consulting firm to provide an independent and objective assurance on the effectiveness of governance, risk management processes and internal control system of the Group. The internal auditors' independence is maintained by reporting functionally to the Board through the AC and administratively to Executive Management. Internal audit reports which are issued have to be tabled to the AC for review and Executive Management is required to be present at AC meetings to respond and provide feedback on the audit findings and recommended improvements. In addition, Executive Management is also required to present to the AC in meeting, status updates on significant matters and changes in key processes that could impact the Group's operations.

Based on the above, the Board is of the view that the risk management process and system of internal control were in place during FY2020 for identifying, evaluating and managing significant risks faced or potentially to be encountered by the Group.

Further details of the risk management and internal control framework are set out in the Statement on Risk Management and Internal Control on pages 25 to 30 of this Annual Report.

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

(a) Communication with Stakeholders

The Board is committed to ensuring that communications to stakeholders and the investing public in general, regarding the businesses, operations and financial performance of the Group is timely and factual and are available on an equal basis.

The release of announcements and information by the Group to Bursa Securities, is handled by the MD and/or the Joint Company Secretaries within the prescribed requirements of the AMLR and the Shareholder Communication and Corporate Disclosure Policy ("SCCDP"). The SCCDP outlined the procedures and processes to be followed in ensuring compliance by all Directors, officers and employees of the Group. The full text of the SCCDP is available on the Group's website.

Information is disseminated via annual reports, circulars/statements to shareholders, quarterly and annual financial statements, and announcements from time to time. As these announcements and information can be price-sensitive, they are only be released after having reviewed by the MD and/or the Board where necessary.

The Group's website also provides all relevant information to stakeholders and the investing community. Quarterly and annual financial statements, announcements, financial information, annual reports, and circular/statements to shareholders are uploaded onto the website for investors and the public.

Any shareholders' queries or concerns relating to the Group may be conveyed to our MD at our Registered Office as detailed below:

3, Jalan Anggerik Mokara 31/48
Kawasan Industri Kota Kemuning
40460 Shah Alam, Selangor Darul Ehsan, Malaysia
Tel: +60-3-5525-3863
Fax: +60-3-5525-3873
Email: mikro@itmikro.com

Dr. Tou Teck Yong, our Senior Independent Director is designated by the Board to be the contact for consultation and direct communication with shareholders on matters that could not be resolved through the normal channels of contact with the MD. He too can be contacted at the above address.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (CONT'D)

(b) Conduct of General Meetings

The AGM serves as a principal forum for the Group's dialogue with shareholders. All shareholders are encouraged to attend the AGM, during which they can participate and given the opportunity to ask questions and vote on important matters affecting the Group, including the election/re-election of Directors, business operations, and the financial performance and position of the Group.

Barring unforeseen circumstances, all Directors (which include the Chairs of all mandated Board committees) shall be attending the forthcoming 14th AGM to address shareholders' queries at the meeting. The external auditors will also be present at the meeting to answer shareholders' queries on their audit process and report, the accounting policies adopted by the Group, and their independence.

In line with Practice 12.1 of the Code, the Company's Notice of the forthcoming 14th AGM shall be given to shareholders at least 28 days prior to the meeting.

This Corporate Governance Overview Statement is made in accordance with a resolution of the Board on 23 October 2020.

OTHER DISCLOSURE REQUIREMENTS

1. UTILISATION OF PROCEEDS FROM CORPORATE EXERCISE

The Company did not carry out any fund-raising corporate proposal during FY2020.

2. MATERIAL CONTRACTS

Neither the Company nor any of its subsidiary companies have entered into any material contracts which involved the Directors' and/or major shareholders' interest, which were still subsisting at the end of FY2020 or which were entered into since the end of the previous financial year ended 30 June 2019.

3. AUDIT AND NON-AUDIT FEES

The audit fees paid or payable by the Company and the Group to the external auditors for FY2020 amounted to RM35,000 and RM125,000 respectively. As for non-audit fees incurred for services rendered to the Company and the Group by the external auditors or a firm or corporation affiliated to the external auditors during FY2020, the amounts concerned were RM76,000 for the Company and the Group.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors of Mikro MSC Berhad (“Mikro”) is pleased to provide the statement on risk management and internal control pursuant to Paragraph 15.26(b) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad and the revised Malaysian Code on Corporate Governance 2017 (“MCCG 2017”) that requires the Directors of listed issuers to establish a sound risk management framework and internal control to safeguard shareholders’ investments and the Group’s assets. Mikro has also embarked on a journey to continuously improve its corporate governance framework by adopting, in stages, the recommendations in MCCG 2017.

BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility in the establishment and oversight of the Group’s risk management framework and internal control which includes seeking regular assurance on the adequacy and integrity of the internal control system. The framework should be responsive to changes in the business environment and clearly communicated to all levels.

The Group has in place an ongoing control structure and process for identifying, analysing, evaluating and managing the significant risks in the achievement of strategies, policies and business objectives throughout the financial year under review up to date of approval of this statement.

Due to inherent limitations of the system of risk management and internal control, this system can only reduce rather than eliminate risks that impede the achievement of the Group’s business objective. Therefore, the internal control can only provide reasonable but not absolute assurance against material misstatement or loss.

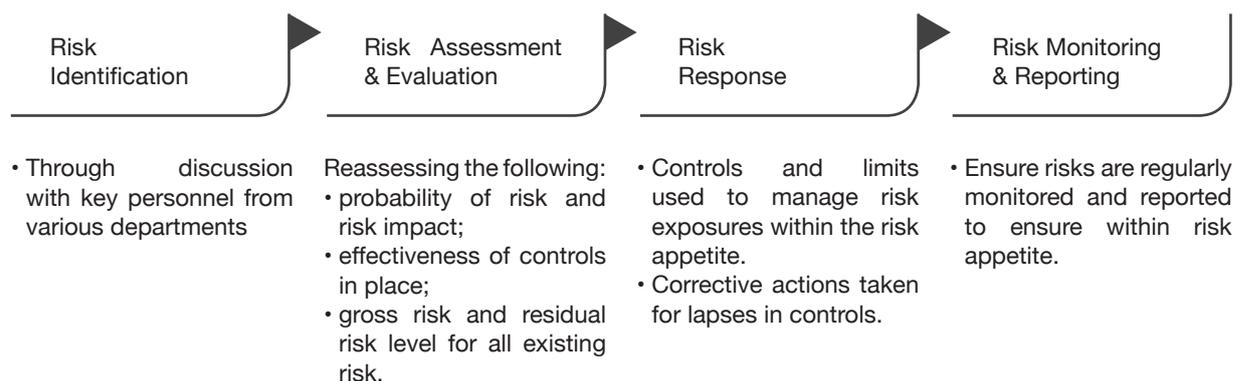
For the year under review, the Board assisted by the Risk Management Committee (“RMC”) to identify, assess and monitor key business risks to pre-empt and/or mitigate adverse impacts on achieving strategic objectives with a view to safeguard shareholders’ investments and company’s assets. The RMC has actively reviewed the risk management processes and responsibilities and also assessed the extent of reasonable assurance that all the identified risks were monitored and managed within a tolerable level.

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES

The structures and processes that have been established from reviewing the adequacy and effectiveness of the risk management and internal control system are primarily the Group’s Risk Management framework and the three (3) lines of defense in addressing risks and internal controls, as explained in the following:

A. RISK MANAGEMENT FRAMEWORK

To ensure effective corporate governance is practised throughout the Group, the Group adopts an Enterprise Risk Management (“ERM”) framework which incorporates the principles and guidelines of ISO 31000:2009 Risk Management- Principles and Guidelines. The framework provides the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the Group. The ERM framework is shown as follows:



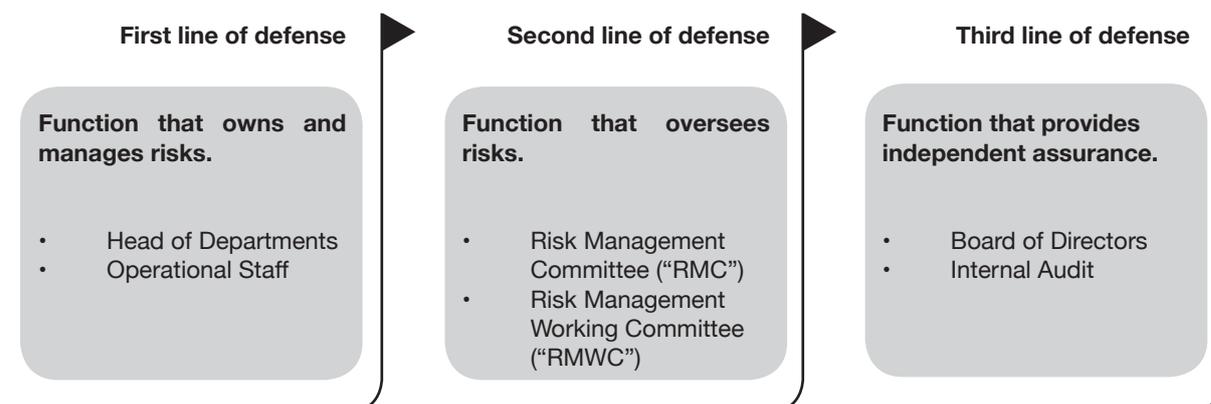
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES (CONT'D)

A. RISK MANAGEMENT FRAMEWORK (CONT'D)

Three (3) Lines of Defense

Our Group's risk management approach is based on the 3 lines of defence concept whereby risks are managed from the point of risk-taking activities. This is to ensure clear accountability of risk across our Group and risk management as an enabler of the business units. As a first line of defence, the line management, including all business units and units which undertake client facing activities, are primarily responsible for risk management on day-to-day basis by taking appropriate actions to mitigate risk through effective controls. The second line of defence provides oversight functions, perform independent monitoring of business activities and reporting to management to ensure that our Group is conducting business and operating within the approved appetite and also in compliance to regulations. The third line of defence is Internal Audit party who provides independent assurance to our Board that the internal controls and risk management activities are functioning effectively. The summary of the 3 lines of defense are shown as follows:



The Group recognises that it is obliged to systematically manage and regularly review its risk profile at a strategic, financial, compliance and operational level. The Board is assisted by the RMC to identify, evaluate and manage the significant risks faced by the Group.

The establishment of RMC reaffirms the Board's commitment to safeguard shareholders' interests and Group's assets. The RMWC is assisted by Management through head of departments. Discussions with the RMWC were held to deliberate on the actions to be taken to address risk management and internal control matters identified by the outsourced internal audit function.

Risk management is a continuous process and through the Risk Management Committee, regularly monitors and reviews the effectiveness of the risk management process of the Group. The RMC oversees the risk management processes design and implementation by the Management that is in accordance with the Group's strategic vision, objectives and overall risk appetite.

The Group's risk profiles were reviewed and reported on a yearly basis to the Risk Management Committee with the function of ERM being outsourced to an external risk management consultant, Talent League Sdn Bhd. This exercise is performed once a year by reassessing the existing risk parameters, identifying new risk, identifying existing controls and identifying additional controls placed by management.

Top three (3) risks

The following represents the Group's top strategic and operational risks that may create a significant or material adverse impact to the Group as well as impede the achievement of the established objectives and affect the Group's ability to create value over the short, medium and long term period.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES (CONT'D)

A. RISK MANAGEMENT FRAMEWORK (CONT'D)

Top three (3) risks (cont'd)

Occupational Health, Safety and Environment (“HSE”)

Accidents occur at the workplace. In order to foster a safe and healthy work environment, controls have been put in place to prevent injuries to Mikro’s employees and stakeholders. These controls include labelling and storing chemicals in designated room, segregation of waste and disposal in accordance to the Environmental Management System. Proper HSE training and safety awareness campaign are provided to employees.

Credit risk

Mikro intensified its efforts in addressing this risk by strengthening its credit management policy and procedures and beefing up its collection management and treatment of delinquent accounts. These efforts included the application of credit limits and credit terms, having dealer screening process in place and obtaining proper approval, monitoring of overdue balances and issuance of monthly debtors’ statement.

Research and Development

In order to stay relevant in a consumer driven world where product development and innovation moves at a lightning pace, we need to be able to keep up with the pace. The Company maintains constant communication with and obtains feedbacks from end-users thus enabling the Company to produce products with added required features. Also, constant updates of technological changes and product development through technical journals, attending industry courses/seminars/talks are efforts that keep us up to date in the industry.

The Board is aware of these and other risks within the Group and necessary remedy actions are taken continuously as an effort to build a stronger risk awareness culture and robust ERM framework as an integral part of its overall strategy to enhance shareholder value and meet the expectations of stakeholders.

B. KEY ELEMENTS OF THE SYSTEM ON INTERNAL CONTROL

The key processes of the Group’s internal controls include the following:

1. The Group has in place an organisation structure that supports business and operational requirements, with clearly defined levels of responsibilities, lines of accountability and delegated authority with appropriate reporting procedures. The roles and responsibilities of the Board is set out in the Board Charter;
2. The Audit Committee reviews the quarterly financial reports, annual financial statement and the internal audit reports on a periodic basis;
3. Documented internal procedures and standard operating procedures have been put in place together with surveillance system and certification audits conducted on a periodic basis by assessors of the ISO certification body to ensure that standard operating procedures are being adhered;
4. Recruitment of adequately experienced, skilled and professional staff with the necessary caliber to fulfil the respective responsibilities and ensuring that effective controls are in place;
5. The Executive Directors are actively involved in the day-to-day business operations of the Group. Scheduled operational and management meetings are held with senior management to identify, discuss and resolve business and operational issues. They report to the Board on significant changes in the business and external environment, which may affect the operations of the Group; and
6. Training and development programs are being attended by Directors and employees with the objective of enhancing their knowledge and competency.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES (CONT'D)

C. OTHER ELEMENTS OF INTERNAL CONTROL

Whistle Blowing Policy

The Group is committed to the highest standard of integrity, openness and accountability in the conduct of its businesses and operations. It aspires to conduct its affairs in an ethical, responsible and transparent manner. This Policy was introduced to ensure that a process is in place to allow stakeholders to report alleged improper or unlawful conduct without fear of retribution.

The Group views seriously any detrimental action taken against a whistleblower or any person related to or associated with the whistleblower in reprisal for a disclosure of improper conduct and will treat such action as gross misconduct. Employees are expected to be vigilant about any wrongdoings, malpractices or irregularities at the workplace and to report or disclose concerns about unethical behaviour, malpractices, illegal acts or failure to comply with regulatory requirements that is taking place/has taken place/may take place in the future. Reporting may be made through telephone call or e-mail to the Managing Director. If reporting to management is a concern, reporting may be made through Senior Independent Director or to the Chairman of the Audit Committee. Contact details are available on Mikro's website for employees and the public to report their concerns.

This Policy aims to:

- encourage stakeholders to feel confident in raising serious concerns and to question and act upon noting concerns;
- provide avenues to raise those concerns and receive feedback on any action taken;
- ensure that whistleblowers receive a response and are aware of how to pursue further action if they are not satisfied; and
- provide reassurance that whistleblower will be protected from possible retaliation.

Grievance Policy

The Group has also established a Grievance Policy and Procedure to bring to the attention of the management of Mikro any dissatisfaction or feeling of injustice which may exist in respect of the workplace. The management will attempt to resolve the grievance in a manner which is acceptable to the employee concerned and the Group.

Code of Conducts and Ethics

This Code of Conduct and Ethics defines the standards of conduct that are expected of Directors and employees to help them make the right decision in the course of performing their jobs to the highest standards of ethic, integrity and governance.

Among others, the Code requires the employees to ensure the following:

- maintain full and accurate Company records;
- all assets and property of the Company will be used only for the benefit of the Company;
- always dealing with customers and suppliers based on merit and fairness;
- engage competitors in a fair manner and not to engage in any unfair or illegal practice in order to gain an unfair advantage;
- always act to ensure a workplace environment that is free from harassment and discrimination; and
- deal with all team members with respect, courtesy and fairness.

All employees are required to adhere to the Group's Code of Conducts and Ethics. These codes can be found in the employee handbook. Management is currently enhancing their Code of Conduct by reviewing it yearly, including an Annual Ethics Declaration Form.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

KEY RISK MANAGEMENT AND INTERNAL CONTROL PROCESSES (CONT'D)

C. OTHER ELEMENTS OF INTERNAL CONTROL

Anti-Bribery and Anti-Corruption Policy

The Company has developed an Anti-Bribery and Anti-Corruption policy to ensure healthy corporate culture which promotes ethical conduct by its employees and the Board.

Its aim is to limit its exposure to bribery by:

- setting out a clear Anti-Bribery & Anti-Corruption policy;
- training employees so that they can recognise and avoid the use of bribery by themselves and others; and
- encouraging employees to be vigilant and to report any suspicion of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately.

No Gift Policy

The Group has established a No Gift Policy as part of the Group's continuous efforts to uphold the Anti-Corruption Principles.

All employees and Directors are required to demonstrate commitment to treating all people and organisations impartially, with unbiased professionalism and non-discriminatory actions in relation to all suppliers, customers, contractors, employees, potential suppliers, potential employees and any other individual or organisation.

The Group will work towards creating a business environment that is free from corruption, protect the interests of the shareholders and will uphold the above principles in the conduct of its business.

INTERNAL AUDIT

The Group's internal audit function is outsourced to an external professional firm, which provides support to the Audit Committee in discharging its duties regarding the adequacy and effectiveness of system of internal controls and governance processes. During the financial year under review, the Internal Auditor conducted internal audits based on an approved annual internal audit plan.

Internal control weaknesses have been identified and are being addressed by the Board and Audit Committee so as to ensure that the integrity of internal controls can be enhanced in the future. None of the weaknesses have resulted in any material losses, contingencies or uncertainties. The Management of the Group continues to take measures to strengthen the internal control environment from time to time based on the recommendations proposed by the Internal Auditors.

REVIEW OF THIS STATEMENT

As required by the Bursa Securities' Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their review was performed in accordance with Audit and Assurance Practice Guide 3 ("AAPG 3") issued by the Malaysian Institute of Accountants (MIA). Their review has been conducted to assess whether the Statement on Risk Management and Internal Control is both supported by the documentation prepared by or for the Directors and appropriately reflects the process the Directors have adopted in reviewing the adequacy and integrity of risk management and the system of internal control for the Group.

AAPG 3 does not require the external auditors to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of the Group's risk and control procedures. Based on the procedures performed, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is not prepared in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, nor is factually inaccurate.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

CONCLUSION

The Board has obtained assurances from the RMC and Audit Committee respectively that the Group's system of risk management and internal controls are operating adequately and effectively, in all material aspects. Taking into consideration the assurance from the Management Team and input from the relevant assurance providers, the Board is of the view that the risk management framework and internal control systems are satisfactory and adequate to safeguard shareholders' investments, customers' interests and the Group's assets and have not resulted in any material loss, contingency or uncertainty. The Board together with the Management will continue to review and strengthen the current system of risk management and internal control of the Group.

AUDIT COMMITTEE REPORT

The Audit Committee was formed by the Board of Directors on 18 September 2009. The primary objective of the audit committee is to assist the board of directors in discharging its statutory duties and responsibilities relating to the corporate accounting and practices for the company and all its subsidiaries (“Group”) and to ensure the adequacy and effectiveness of the Group’s internal control measures.

COMPOSITION AND ATTENDANCE

The Audit Committee is made up of four (4) Independent Non-Executive Directors.

There were four (4) Audit Committee meetings held during the financial year and the attendance record is as follows:-

| Name of Board Member | Designation | Number of Meetings Attended (Out of 4 held) |
|---------------------------------|---|---|
| Mr Lu Chee Leong (Chairman) | Independent Non-Executive Director | 4/4 |
| Datuk Aznam Bin Mansor (Member) | Independent Non-Executive Chairman | 4/4 |
| Dr. Tou Teck Yong (Member) | Senior Independent Non-Executive Director | 4/4 |
| Woon Yeow Thong (Member) | Independent Non-Executive Director | 4/4 |

TERMS OF REFERENCE

The Audit Committee’s Terms of Reference is available on the company’s website. The Terms of Reference discloses the following in compliance to listing requirements:

- i. Board composition
- ii. Objectives of the committee
- iii. Meetings and access to information
- iv. Authority
- v. Duties and Responsibilities

SUMMARY OF AUDIT COMMITTEE WORK DURING THE FINANCIAL YEAR

The main activities undertaken by the Audit Committee during the financial year are as follows:-

Financial Reporting

- Monitoring the integrity of financial reporting and ensuring suitable accounting policies were adopted and applied consistently; and
- Reviewed quarterly unaudited financial statements of the Group in compliance with approved accounting standards and the ACE Market Listing Requirements before submission to the Board for consideration and approval; and
- Reviewed and monitored any related party transactions and conflict of interest situation that may arise within the Company and the Group.

External Audit

- Reviewed External Audit reports and Management’s response and actions taken in respect of these (where actions are not taken within an adequate timeframe by the management, the Audit Committee will report the matter to the Board);
- Discussed and reviewed the audit plan and scope of work of the external auditors for financial year 2020;
- Assessed the objectivity, performance and independence of External Auditors;

AUDIT COMMITTEE REPORT

SUMMARY OF AUDIT COMMITTEE WORK DURING THE FINANCIAL YEAR (CONT'D)

The main activities undertaken by the Audit Committee during the financial year are as follows (cont'd):-

External Audit (cont'd)

- Ensured that the financial statements are prepared on a timely and accurate manner with frequent reviews of the adequacy of allowances against contingencies and impaired assets; and
- Met with the External Auditors twice without the presence of the Management or Executive Directors to discuss any key concerns and to obtain feedback.

Internal Audit

- Reviewed internal audit reports issued by Internal Auditors, audit recommendations and Management action plan regarding these recommendations (where appropriate, Audit Committee instructs management to rectify and improve the systems of internal controls based on Internal Auditor's recommendations and suggestions);
- Reviewed and followed-up on implementation and disposition of previous internal audit findings and recommendation;
- Reviewed the internal auditors' adequacy of the scope of work, competency and resources of the internal audit function and that it has the necessary authority to carry out its work;
- Reviewed the internal audit plan, processes, the results of the internal audit assessments investigation undertaken and whether or not appropriate action is taken on the recommendations;
- Assessed the objectivity, performance and independence of Internal Auditors; and
- Meet with the Internal Auditors without the presence of the Management or Executive Directors to discuss any key concerns and to obtain feedback as and when necessary.

Risk Management and Internal Control

- Assessed the quality and effectiveness of the systems of internal controls and the efficiency of the Group's operations;
- Made recommendation on adequacy and effectiveness of the systems of internal controls to the Board;
- Evaluated and managed significant business risks affecting the day-to-day operations of the Company and of the Group;
- Recommended improvements on risk management practices within the Company and the Group; and
- Based on review of risks and internal control findings, ensured that management and employees are aware of risks and actively take steps to address them.

SUMMARY OF INTERNAL AUDIT WORK

The Group's Internal Audit Function has been outsourced to Talent League Sdn. Bhd., an external professional firm headed by the Mr Roy Thean Chong Yew ("Mr Thean"). Mr. Thean is a professional member of the Institute of Internal Auditors Malaysia as well as members of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants. He was assisted by four other internal auditors in all assignments during the financial year under review. The team is well equipped with an appropriate level of qualified internal auditing skills, knowledge and experience. The Internal Auditor reports directly to the Audit Committee and assist the Board of Directors in fulfilling its fiduciary responsibilities in monitoring and managing risks, internal controls and governance to ensure compliance with the Malaysian Code on Corporate Governance.

A three (3) years Internal Audit Plan has been developed from the risk assessment carried out, to ensure that significant risks and the controls put in place to address those risks are audited. The internal audit aims to provide the Audit Committee with independent and objective reports on the state of internal control, highlighting any areas for improvement and updates on the extent to which the recommendations have been implemented. Issues raised from discussion between Internal Auditors and management's actions were addressed within required time frame to ensure risks are mitigated or remain within acceptable levels.

AUDIT COMMITTEE REPORT

SUMMARY OF INTERNAL AUDIT WORK (CONT'D)

The main objectives of the internal audit outlined by Internal Auditors are as follows:-

- To ascertain whether the controls pertaining to the processes under review are suitably designed and adequate to manage the Company's key risks;
- To ascertain whether the controls currently in place for the processes under review adhere to the Company's established policies, procedures and guidelines; and
- To highlight improvement opportunities and weaknesses identified within the processes under review and recommend remedial solutions.

The internal audit was carried out in accordance with the Institute of Internal Auditors Malaysia's guidance on risk based internal auditing. The internal audit approaches are as follows:-

- Meeting with key staff to gain an understanding of the risks along with the processes reviewed, and the controls put in place;
- Reviewing key documents that support the processes and controls in place;
- Performing walkthrough test and test of control, and in particular management oversight controls, in order to provide assurance as to the design and operational effectiveness of the internal control; and
- Comparing existing processes with established best practices.

The summary of works undertaken by the internal auditors during the year comprised the following:

- Reviewed compliance with policies, procedures and standards, relevant external rules and regulations;
- Assessed the adequacy and effectiveness of the Group's system of internal control and recommended appropriate actions to be taken where necessary;
- The internal audits performed met the objective of highlighting to the Audit Committee the audit findings which required follow-up actions by the Management, any outstanding audit issues which required corrective actions to be taken to ensure an adequate and effective internal control system within the Group, as well as any weaknesses in the Group's internal control system;
- Ensured that those weaknesses were appropriately addressed and that recommendations from the internal audit reports and corrective actions on reported weaknesses were taken appropriately within the required timeframe by the Management; and
- Presentation of audit findings and corrective actions to be taken by Management in the quarterly Audit Committee Meetings.

The areas audited during the year were as follows:-

- Production and Resource Management
- Research and Development
- Human Resource Management and Management Information System

The total cost incurred for the Internal Audit service for the financial year was RM28,906.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

The allocation of options was reviewed by the Audit Committee to ensure compliance with the allocation criteria determined by the Option Committee and in accordance with the By-Laws of the ESOS.

ESOS granted to Directors and Key Senior Management

There were no options offered to and exercised by Directors and Key Senior Management for financial year under review.

AUDIT COMMITTEE REPORT

EXTERNAL AUDIT FUNCTION

Suitability and Independence of External Audit

The Group has processes and procedures in place to assess the performance, independence and competence of the External Auditors. Meetings with External Auditors are held to discuss the integrity of the Auditor's Report, as well as issues raised during the External Audit. Private discussions between Audit Committee and External Auditor were held to discuss independence issues, existing and potential conflict of interest situation, and rotation of engagement Audit Partner.

The Group is in the midst of formalising an External Auditors Assessment Policy to enhance the External Auditors assessment processes and procedures. This Policy provides a structured, formalised/documentated assessment, review and supervision of the performance, suitability and independence of External Auditors, to facilitate accountability and transparency of the Group's dealing with its External Auditors.

The policy would contain detailed procedures to assess the independence and service level of the External Auditors, which amongst others, include reviewing the External Auditors' performance and quality of work, timeliness of service deliverables, non-audit services provided and the rotation of the External Auditor engaged. The External Auditors' service level is to be rated based on the Assessment Questionnaire issued to key personnel across the Group who have a working relationship with the External Auditors. They are requested to review the service level of the External Auditors and confirm that the External Auditors have a reasonable understanding of Mikro's business and are able to support Mikro from an accounting standpoint.

The Group is also in the midst of establishing a policy to govern the circumstances under which former key audit partners of former or present external auditors can be appointed by the board or be employed by the company. This policy will ensure the quality of independence of audits and to avoid potential threats that may arise due to the appointment.

The Audit Committee reviews the independence of External Auditors annually and ensures that any provision of non-audit services by the External Auditors is not in conflict with their audit function. The current External Auditors, BDO were engaged with the Company for twelve (12) years. The Audit Committee ensures that there is a rotation of the External Auditor's Engagement Partner at least once every five years or less. The Audit Committee has also obtained a written assurance on the status of independence of the External Auditors and the internal processes undertaken by them to determine their independence.

The Board of Directors, having assessed the objectivity, performance and independence of the External Auditors, is satisfied that BDO had met the set criteria set by the Board of Directors and recommends their re-appointment, upon which the shareholders' approval will be sought at the AGM.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of Directors (“Board”) of the Company is required by the Companies Act, 2016 (“Act”) to make a statement expressing an opinion on the financial statements. The Board is of the opinion that the financial statements for the financial period ended 30 June 2020 have been drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at the end of the financial year and of their financial performance and cash flows for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards and the requirements of the Act.

In preparing the financial statements, the Board has:

- reviewed the accounting policies and ensured that they were consistently applied; and
- in cases where judgements and estimates were made, the judgements and estimates concerned were based on reasonableness and prudence.

The Board has relied on the Group’s system of internal control to ensure that the information generated for the preparation of the financial statements from the underlying accounting records is accurate and reliable.

This Statement of Directors’ Responsibility is made in accordance with a resolution of the Board dated 23 October 2020.

LIST OF ALL PROPERTIES HELD

| Location/Address | Description | Current Use | Tenure and Approximate Age of Building (Years) | Land Area (sq.ft.) | Net Book value | Revaluation value | Date of last revaluation/ Date of acquisition |
|--|--|------------------|--|--------------------|----------------|-------------------|---|
| No. 1, Jalan TP 7/7, Sime UEP Industrial Park, 40400 Shah Alam, Selangor | Double Storey Terrace Shoplot, Corner lot / Office & Factory | Plant and Office | Freehold, 23 years | 6,135 sq ft | RM1,309,692 | 2,200,000 | 15th October 2012 |
| No. 3, Jalan TP 7/7, Sime UEP Industrial Park, 40400 Shah Alam, Selangor | Double Storey Terrace Shoplot/ Office & Factory | Plant and Office | Freehold, 23 years | 3,000 sq ft | RM806,592 | 1,000,000 | 15th October 2012 |
| No. 3, Jalan Anggerik Mokara 31/48, Kota Kemuning, Section 31, 40460 Shah Alam, Selangor | A Single (1)-Storey Warehouse, With An Annexed Three (3)-Storey Office Block, A Guard House And A Refuse Chamber | Plant and Office | Freehold, 13 years | 43,562 sq ft | RM15,336,151 | - | 1st September 2015 |

5

FINANCIAL STATEMENTS

| | |
|----|---|
| 38 | DIRECTORS' REPORT |
| 44 | STATEMENT BY DIRECTORS |
| 44 | STATUTORY DECLARATION |
| 45 | INDEPENDENT AUDITORS' REPORT |
| 50 | STATEMENTS OF FINANCIAL POSITION |
| 52 | STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME |
| 53 | CONSOLIDATED STATEMENT OF CHANGES IN EQUITY |
| 55 | STATEMENT OF CHANGES IN EQUITY |
| 56 | STATEMENTS OF CASH FLOWS |
| 58 | NOTES TO THE FINANCIAL STATEMENTS |

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2020.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research, development, design and manufacturing of analogue, digital and computer controlled electronic systems or devices for use in electrical, electronic and other industries and provision of technical and maintenance services. The principal activities and the details of the subsidiaries are set out in Note 9 to the financial statements. There have been no significant changes in the nature of these activities of the Group and of the Company during the financial year.

RESULTS

| | Group RM | Company RM |
|---|-------------|---------------|
| Profit for the financial year | 3,145,221 | 2,246,542 |
| Profit attributable to owners of the parent | 3,145,221 | 2,246,542 |

DIVIDEND

No dividend has been paid, declared or proposed by the Company since the end of the previous financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

ISSUE OF SHARES AND DEBENTURES

During the financial year, the issued and fully paid-up ordinary shares of the Company was increased from 430,892,808 to 589,226,140 by way of issuance of 158,333,332 new ordinary shares for a total purchase consideration of RM34,041,666 to acquire EPE Busway Sdn. Bhd. and Mittric Systems Sdn. Bhd. as disclosed in Note 9(e) to the financial statements.

The newly issued ordinary shares rank pari passu in all respect with the existing ordinary shares of the Company. There were no other issue of shares during the financial year.

The Company did not issue any debentures during the financial year.

EMPLOYEES' SHARE OPTION SCHEME

On 22 April 2015, an ESOS scheme was established ("2015 ESOS"), which will be in force for a period of five (5) years until 22 April 2020. The main features of 2015 ESOS are as follows:

- (a) The eligible persons are employees and Directors of the Company and its subsidiaries ("the Group"), who are employed by the Group on a full-time basis and must be confirmed in service;
- (b) The maximum number of shares to be offered shall not exceed 15% of the issued and paid-up ordinary share capital of the Company at any one time during the duration of the ESOS;
- (c) The options granted may be exercised at any time within the option period from the date of offer;

DIRECTORS' REPORT

EMPLOYEES' SHARE OPTION SCHEME (CONT'D)

On 22 April 2015, an ESOS scheme was established ("2015 ESOS"), which will be in force for a period of five (5) years until 22 April 2020. The main features of 2015 ESOS are as follows (cont'd):

- (d) The option price of a new ordinary share under the ESOS shall be the average of the weighted average market price of the shares as quoted in the Daily Official List issued by the Bursa Malaysia Securities Berhad for the five (5) trading days preceding the offer date with an allowance for a discount of not more than ten percent (10%) or at par, whichever is higher;
- (e) The ESOS shall be for a minimum of 100 ordinary shares and a maximum of 1,600,000 ordinary shares in multiples of 100 ordinary shares for 2015 ESOS; and
- (f) The employees and Directors to whom the options have been granted shall not participate at any time in more than one (1) employee share option scheme currently implemented by any company within the Group.

The details of the options over the ordinary shares of the Company are as follows:

| | Adjusted option price* RM | [-----Number of options over ordinary shares-----] | | | | |
|----------------------|------------------------------------|--|---|-------------|-----------------------------------|-----------------------------------|
| | | Outstanding as at 1.7.2019 | Movements during the [-----financial year-----] Exercised Lapsed | | Outstanding as at 30.6.2020 | Exercisable as at 30.6.2020 |
| Date of offer | | | | | | |
| 2015 ESOS | | | | | | |
| - first tranche | 0.26 | 226,800 | - | (226,800) | - | - |
| - third tranche | 0.26 | 585,480 | - | (585,480) | - | - |
| - fourth tranche | 0.26 | 483,840 | - | (483,840) | - | - |
| - fifth tranche | 0.26 | 490,140 | - | (490,140) | - | - |
| | | 1,786,260 | - | (1,786,260) | - | - |

* Exercise price of the share options have been adjusted pursuant to the Bonus Issue of Shares in 2018. The details of the adjusted exercise prices were shown in the table below:

| Date of offer | Before Bonus Shares (RM) | After Bonus Shares (RM) |
|------------------|-----------------------------|----------------------------|
| - first tranche | 0.36 | 0.26 |
| - third tranche | 0.36 | 0.26 |
| - fourth tranche | 0.36 | 0.26 |
| - fifth tranche | 0.36 | 0.26 |

DIRECTORS' REPORT

DIRECTORS

The Directors who have held office during the financial year and up to the date of this report are as follow:

Mikro MSC Berhad

Datuk Aznam Bin Mansor
 Yim Yuen Wah
 Fong See Ni
 Lu Chee Leong
 Dr. Tou Teck Yong
 Woon Yeow Thong
 Goh Yoke Chee
 Michael Aw Ming Han (Appointed on 28 August 2019)

Subsidiaries of Mikro MSC Berhad (excluding those who are already listed above)

Liu Marn Cole

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in the ordinary shares of the Company and of its related corporations during the financial year ended 30 June 2020 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016 in Malaysia were as follows:

| Shares in the Company | [-----Number of ordinary shares-----] | | | Balance as at 30.6.2020 |
|------------------------|--|----------|------|-------------------------|
| | Balance as at 1.7.2019/ date of appointment | Acquired | Sold | |
| Direct interests: | | | | |
| Yim Yuen Wah | 147,459,200 | - | - | 147,459,200 |
| Fong See Ni | 31,660,650 | - | - | 31,660,650 |
| Dr. Tou Teck Yong | 504,000 | - | - | 504,000 |
| Datuk Aznam Bin Mansor | 7,055,645 | - | - | 7,055,645 |
| Woon Yeow Thong | 336,000 | - | - | 336,000 |
| Goh Yoke Chee | 83,000 | - | - | 83,000 |
| Michael Aw Ming Han | 22,804,166 | 692,800 | - | 23,496,966 |

By virtue of Section 8(4) of the Companies Act 2016 in Malaysia, Yim Yuen Wah is also deemed to be interested in the ordinary shares of all the subsidiaries to the extent that the Company has an interest.

The other Director holding office at the end of the financial year did not hold any interest in ordinary shares in the Company or ordinary shares of its related corporations during the financial year.

DIRECTORS' REPORT

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors have received or become entitled to receive any benefit (other than those benefits included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements made during and at the end of the financial year, to which the Company is a party, which had the object of enabling the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate except for the shares options granted pursuant to the Company's ESOS as mentioned in Note 29 to the financial statements.

DIRECTORS' REMUNERATION

Details of Directors' remuneration during the financial year are as follows:

| Group | | | | | | | |
|--------------------------------|------------|--------------------------------------|----------------------------|-------------|--|--------------------------|-------------|
| Name | Fees RM | Salary/ Other emoluments RM | Meeting allowance RM | Bonus RM | Contribution to defined contribution plan RM | Benefit in kind RM | Total RM |
| Executive Directors | | | | | | | |
| Yim Yuen Wah | - | 752,998 | - | - | 90,366 | 28,600 | 871,964 |
| Fong See Ni | - | 511,466 | - | - | 61,377 | 15,825 | 588,668 |
| Goh Yoke Chee | 48,000 | 180,009 | - | 8,109 | 22,672 | 18,000 | 276,790 |
| Liu Marn Cole | - | 222,000 | - | 20,000 | 29,040 | 5,280 | 276,320 |
| Non-executive Directors | | | | | | | |
| Datuk Aznam Bin Mansor | 48,000 | - | 8,000 | - | - | - | 56,000 |
| Lu Chee Leong | 48,000 | - | 7,000 | - | - | - | 55,000 |
| Dr. Tou Teck Yong | 48,000 | - | 8,000 | - | - | - | 56,000 |
| Woon Yeow Thong | 48,000 | - | 8,000 | - | - | - | 56,000 |
| Michael Aw Ming Han | 48,000 | - | 4,000 | - | - | - | 52,000 |
| | 288,000 | 1,666,473 | 35,000 | 28,109 | 203,455 | 67,705 | 2,288,742 |

| Company | | | | | | | |
|--------------------------------|------------|--------------------------------------|----------------------------|-------------|--|--------------------------|-------------|
| Name | Fees RM | Salary/ Other emoluments RM | Meeting allowance RM | Bonus RM | Contribution to defined contribution plan RM | Benefit in kind RM | Total RM |
| Executive Director | | | | | | | |
| Goh Yoke Chee | 48,000 | - | - | - | - | - | 48,000 |
| Non-executive Directors | | | | | | | |
| Datuk Aznam bin Mansor | 48,000 | - | 8,000 | - | - | - | 56,000 |
| Lu Chee Leong | 48,000 | - | 7,000 | - | - | - | 55,000 |
| Dr. Tou Teck Yong | 48,000 | - | 8,000 | - | - | - | 56,000 |
| Woon Yeow Thong | 48,000 | - | 8,000 | - | - | - | 56,000 |
| Michael Aw Ming Han | 48,000 | - | 4,000 | - | - | - | 52,000 |
| | 288,000 | - | 35,000 | - | - | - | 323,000 |

DIRECTORS' REPORT

INDEMNITY AND INSURANCE FOR DIRECTORS, OFFICERS AND AUDITORS

There were no indemnity given by the Group and the Company to any Directors, officers or auditors of the Group and of the Company during the financial year.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

- (a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and had satisfied themselves that there were no known bad debts to be written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

- (c) The Directors are not aware of any circumstances:
 - (i) which would necessitate the writing off of bad debts or render the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;
 - (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and
 - (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) In the opinion of the Directors:
 - (i) there has not arisen any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and
 - (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

- (e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.
- (f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.
- (g) The Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 32 to the financial statements.

SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Significant event subsequent to the end of the reporting period is disclosed in Note 33 to the financial statements.

AUDITORS

The auditors, BDO PLT (LLP0018825-LCA & AF 0206), have expressed their willingness to continue in office.

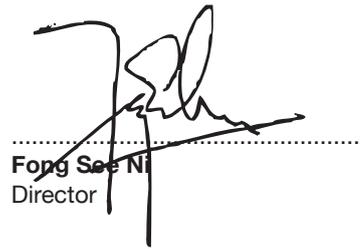
Auditors' remuneration of the Group and of the Company for the financial year ended 30 June 2020 amounted to RM125,000 and RM35,000 respectively.

Signed on behalf of the Board in accordance with a resolution of the Directors.



.....
Yim Yuen Wah
Director

Kuala Lumpur
15 September 2020



.....
Fong See Ni
Director

STATEMENT BY DIRECTORS & STATUTORY DECLARATION

STATEMENT BY DIRECTORS

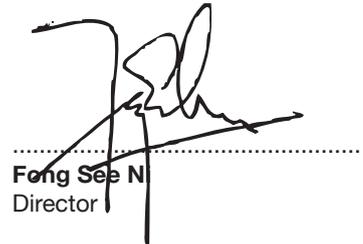
In the opinion of the Directors, the financial statements set out on pages 50 to 102 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2020 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board,



Yim Yuen Wah
Director

Kuala Lumpur
15 September 2020



Fong See N
Director

STATUTORY DECLARATION

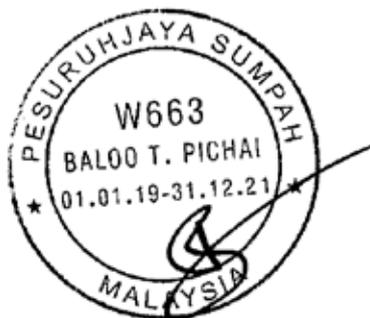
I, Yim Yuen Wah, being the Director responsible for the financial management of Mikro MSC Berhad, do solemnly and sincerely declare that the financial statements set out on pages 50 to 102 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
declared by the abovenamed at)
Kuala Lumpur this)
15 September 2020)



Yim Yuen Wah

Before me:



Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
Damansara Heights
50490 Kuala Lumpur

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MIKRO MSC BERHAD

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mikro MSC Berhad, which comprise the statements of financial position as at 30 June 2020 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 50 to 102.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2020, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters of the Group

a) Impairment assessment of goodwill

As disclosed in Note 7 to the financial statements, the Group has a goodwill of RM24.2 million which arose from the acquisition of EPE Busway Sdn. Bhd. and Mittric Systems Sdn. Bhd.. The goodwill has been allocated to EPE Busway Sdn. Bhd. and Mittric Systems Sdn. Bhd. as a single cash generating unit ("CGU").

This CGU has been tested for impairment during the financial year to assess the recoverability of the carrying amount of the goodwill. The management assessed the recoverable amount of the goodwill by determining the CGU's value-in-use using the discounted cash flows method.

We determined this to be a key audit matter because it requires management to exercise significant judgements in determining the value-in-use as well as the use of appropriate future cash flow forecast and projections, operating profit margin, pre-tax discount rate and growth rate.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MIKRO MSC BERHAD

Key Audit Matters (cont'd)

Audit response

Our audit procedures include the following:

- (a) Compared cash flow projection against recent performance, and assessed the reasonableness of the key assumptions used in projection;
- (b) Verified growth rate and operating profit margin to support the key assumptions in the projection;
- (c) Verified pre-tax discount rate for the CGU by comparing to the weighted average cost of capital of the Group and relevant risk factors; and
- (d) Performed sensitivity analysis of our own to stress test the key assumptions in the impairment model.

b) Impairment assessment of intangible assets

Development costs capitalised as intangible assets of the Group and of the Company amounted to RM11.7 million and RM14.3 million respectively as at 30 June 2020, as disclosed in Note 8 to the financial statements.

We determined this to be a key audit matter because it requires management to exercise significant judgement in estimating the future results and key assumptions applied to cash flow projections in determining the recoverable amount. These key assumptions include budgeted gross margin, growth rate and pre-tax discount rate.

Audit response

Our audit procedures include the following:

- (a) Compared prior period projection against actual outcome to assess reliability of management forecasting process;
- (b) Compared cash flow projection against recent performance, and assessed the reasonableness of the key assumptions used in projection;
- (c) Verified growth rate and budgeted gross margin to support the key assumptions in the projection;
- (d) Verified pre-tax discount rate by comparing to the weighted average cost of capital of the Group and relevant risk factors; and
- (e) Performed sensitivity analysis of our own to stress test the key assumptions in the impairment model.

c) Impairment of trade receivables

As at 30 June 2020, the gross trade receivables of the Group was RM17.2 million and the associated impairment losses of trade receivables was RM2.1 million, as disclosed in Note 11 to the financial statements.

We determined this to be a key audit matter because it requires management to exercise significant judgements in determining the probability of default by trade receivables as well as the use of appropriate forward-looking information.

Audit response

Our audit procedures include the following:

- (a) Recomputed the probability of default using historical data and forward-looking information adjustment applied by the Group;

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MIKRO MSC BERHAD

Key Audit Matters (cont'd)

Key Audit Matters of the Group (cont'd)

c) Impairment of trade receivables (cont'd)

Audit response (cont'd)

- (b) Recomputed the correlation coefficient between forward-looking factors used by the Group and historical credit losses to determine the appropriateness of the forward-looking information used by the Group;
- (c) Inquired of management to assess the rationale underlying the relationship between the forward-looking information and expected credit losses; and
- (d) Challenged management on the basis for determining cash flows recoverable in worst-case scenarios.

Key Audit Matter of the Company

a) Impairment assessment of investments in subsidiaries

As at 30 June 2020, the carrying amount of the investments in subsidiaries for unquoted equity shares were RM52.3 million as disclosed in Note 9 to the financial statements.

We determined this to be a key audit matter because it requires management to exercise significant judgements in determining the recoverable amount, estimating the future results and key assumptions applied to cash flow projections of these subsidiaries. These key assumptions include forecast growth in future revenues and operating profit margin, as well as determining an appropriate pre-tax discount rate.

Audit response

Our audit procedures include the following:

- (a) Compared cash flow projection against recent performance, and assessed the reasonableness of the key assumptions used in projection;
- (b) Verified growth rates and operating profit margin to support the key assumptions in the projection;
- (c) Verified pre-tax discount rate used by each subsidiary by comparing to the weighted average cost of capital of the Group and relevant risk factors; and
- (d) Performed sensitivity analysis of our own to stress test the key assumptions in the impairment model.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MIKRO MSC BERHAD

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MIKRO MSC BERHAD

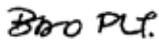
Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

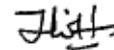
Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



BDO PLT
LLP0018825-LCA & AF 0206
Chartered Accountants

15 September 2020
Kuala Lumpur



Pang Zhi Hao
03450/09/2021 J
Chartered Accountant

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| | Note | Group | | Company | |
|--|------|--------------------|-------------------|--------------------|-------------------|
| | | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 5 | 22,430,156 | 21,333,522 | 2,118,916 | 2,045,943 |
| Right-of-use assets | 6 | 1,198,908 | - | 1,917,503 | - |
| Goodwill | 7 | 24,160,566 | - | - | - |
| Intangible assets | 8 | 11,695,585 | 11,252,003 | 14,263,217 | 14,416,273 |
| Investments in subsidiaries | 9 | - | - | 52,295,717 | 17,554,051 |
| | | 59,485,215 | 32,585,525 | 70,595,353 | 34,016,267 |
| Current assets | | | | | |
| Inventories | 10 | 12,978,533 | 12,485,160 | 9,777,313 | 12,013,499 |
| Trade and other receivables | 11 | 16,611,991 | 12,156,944 | 26,517,642 | 30,735,135 |
| Current tax assets | | 6,391,347 | 4,621,206 | 2,350,060 | 1,500,060 |
| Cash and bank balances | 12 | 17,881,462 | 12,092,847 | 416,878 | 233,333 |
| | | 53,863,333 | 41,356,157 | 39,061,893 | 44,482,027 |
| TOTAL ASSETS | | 113,348,548 | 73,941,682 | 109,657,246 | 78,498,294 |
| EQUITY AND LIABILITIES | | | | | |
| Equity attributable to owners of the parent | | | | | |
| Share capital | 13 | 77,529,419 | 43,487,753 | 77,529,419 | 43,487,753 |
| Reserves | 14 | 19,499,692 | 16,231,830 | 5,190,802 | 2,944,260 |
| | | 97,029,111 | 59,719,583 | 82,720,221 | 46,432,013 |
| Non-controlling interest | 9 | - | 834,548 | - | - |
| TOTAL EQUITY | | 97,029,111 | 60,554,131 | 82,720,221 | 46,432,013 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| | Note | 2020 RM | Group 2019 RM | 2020 RM | Company 2019 RM |
|-------------------------------------|------|-------------|---------------------|-------------|-----------------------|
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 15 | 8,158,368 | 8,666,716 | - | - |
| Deferred tax liabilities | 17 | 1,302,359 | 860,243 | 872,848 | 413,221 |
| Lease liabilities | 6 | 295,323 | - | 1,541,705 | - |
| | | 9,756,050 | 9,526,959 | 2,414,553 | 413,221 |
| Current liabilities | | | | | |
| Trade and other payables | 18 | 5,488,688 | 3,300,429 | 24,135,637 | 31,653,060 |
| Borrowings | 15 | 432,032 | 560,163 | - | - |
| Current tax liabilities | | 299,147 | - | - | - |
| Lease liabilities | 6 | 343,520 | - | 386,835 | - |
| | | 6,563,387 | 3,860,592 | 24,522,472 | 31,653,060 |
| TOTAL LIABILITIES | | 16,319,437 | 13,387,551 | 26,937,025 | 32,066,281 |
| TOTAL EQUITY AND LIABILITIES | | 113,348,548 | 73,941,682 | 109,657,246 | 78,498,294 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

| | Note | Group | | Company | |
|--|------|--------------|--------------|--------------|-------------|
| | | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Revenue | 21 | 50,425,535 | 41,133,057 | 17,272,970 | 8,633,358 |
| Cost of sales | 22 | (33,872,877) | (22,784,666) | (14,210,298) | (4,139,030) |
| Gross profit | | 16,552,658 | 18,348,391 | 3,062,672 | 4,494,328 |
| Other operating income | | 2,797,049 | 1,107,924 | 2,736,201 | - |
| Selling and distribution expenses | | (4,730,392) | (6,236,375) | - | - |
| Administrative expenses | | (5,953,640) | (5,414,078) | (2,881,453) | (1,904,359) |
| Other operating expenses | | (3,826,640) | (2,381,149) | (187,939) | (176,258) |
| Finance costs | 23 | (49,727) | (57,072) | (23,312) | - |
| Profit before tax | 24 | 4,789,308 | 5,367,641 | 2,706,169 | 2,413,711 |
| Tax expense | 25 | (1,644,087) | (1,025,730) | (459,627) | (349,097) |
| Profit for the financial year | | 3,145,221 | 4,341,911 | 2,246,542 | 2,064,614 |
| Other comprehensive income, net of tax | | - | - | - | - |
| Total comprehensive income | | 3,145,221 | 4,341,911 | 2,246,542 | 2,064,614 |
| Profit attributable to: | | | | | |
| Owners of the parent | | 3,145,221 | 4,221,019 | 2,246,542 | 2,064,614 |
| Non-controlling interest | 9 | - | 120,892 | - | - |
| | | 3,145,221 | 4,341,911 | 2,246,542 | 2,064,614 |

Earnings per ordinary share attributable to equity holders of the Company (sen):

| | | | |
|-----------|----|------|------|
| - Basic | 26 | 0.55 | 0.98 |
| - Diluted | 26 | 0.55 | 0.98 |

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

| Group | Note | Non-distributable | | | Distributable | | Total attributable to owners of the parent RM | Non-controlling interest RM | Total equity RM |
|--|------|-------------------|--------------------------|-------------|----------------------|---------|---|-----------------------------|-----------------|
| | | Share capital RM | Share options reserve RM | Share RM | Retained earnings RM | RM | | | |
| Balance as at 1 July 2018 | | 43,487,753 | 131,930 | 15,319,442 | 58,939,125 | 713,656 | 59,652,781 | | |
| Profit for the financial year | | - | - | 4,221,019 | 4,221,019 | 120,892 | 4,341,911 | | |
| Other comprehensive income, net of tax | | - | - | - | - | - | - | | |
| Total comprehensive income | | - | - | 4,221,019 | 4,221,019 | 120,892 | 4,341,911 | | |
| Transactions with owners | | | | | | | | | |
| Share options granted under ESOS | 28 | - | 6,573 | - | 6,573 | - | 6,573 | | |
| Dividends paid | 27 | - | - | (3,447,134) | (3,447,134) | - | (3,447,134) | | |
| Total transactions with owners | | - | 6,573 | (3,447,134) | (3,440,561) | - | (3,440,561) | | |
| Balance as at 30 June 2019 | | 43,487,753 | 138,503 | 16,093,327 | 59,719,583 | 834,548 | 60,554,131 | | |

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY** FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

| Group | Note | Non-distributable | | | Distributable | | Total attributable to owners of the parent RM | Non-controlling interest RM | Total equity RM |
|---|------|-------------------|--------------------------|-----------|----------------------|-----------------------------|---|-----------------------------|-----------------|
| | | Share capital RM | Share options reserve RM | Share RM | Retained earnings RM | Non-controlling interest RM | | | |
| Balance as at 1 July 2019, as previously reported | | 43,487,753 | 138,503 | 138,503 | 16,093,327 | 834,548 | 59,719,583 | 834,548 | 60,554,131 |
| Adjustments on initial application of MFRS 16 | 34.1 | - | - | - | (11,907) | - | (11,907) | - | (11,907) |
| Balance as at 1 July 2019, as restated | | 43,487,753 | 138,503 | 138,503 | 16,081,420 | 834,548 | 59,707,676 | 834,548 | 60,542,224 |
| Profit for the financial year | | - | - | - | 3,145,221 | - | 3,145,221 | - | 3,145,221 |
| Other comprehensive income, net of tax | | - | - | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | 3,145,221 | - | 3,145,221 | - | 3,145,221 |
| Transactions with owners | | | | | | | | | |
| Ordinary shares issued as consideration for acquisition of new subsidiaries | 13 | 34,041,666 | - | - | - | - | 34,041,666 | - | 34,041,666 |
| Acquisition of shares from non-controlling interest | | - | - | - | 134,548 | (834,548) | 134,548 | (834,548) | (700,000) |
| Shares options lapsed | | - | (138,503) | - | 138,503 | - | - | - | - |
| Total transactions with owners | | 34,041,666 | (138,503) | (138,503) | 273,051 | (834,548) | 34,176,214 | (834,548) | 33,341,666 |
| Balance as at 30 June 2020 | | 77,529,419 | - | - | 19,499,692 | - | 97,029,111 | - | 97,029,111 |

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

| Company | Note | Share capital RM | Non-distributable Share options reserve RM | Distributable Retained earnings RM | Total equity RM |
|---|------|---------------------|--|---|-----------------------|
| Balance as at 1 July 2018 | | 43,487,753 | 131,930 | 4,188,277 | 47,807,960 |
| Profit for the financial year | | - | - | 2,064,614 | 2,064,614 |
| Other comprehensive income, net of tax | | - | - | - | - |
| Total comprehensive income | | - | - | 2,064,614 | 2,064,614 |
| Transactions with owners | | | | | |
| Share options granted under ESOS | 28 | - | 6,573 | - | 6,573 |
| Dividends paid | 27 | - | - | (3,447,134) | (3,447,134) |
| Total transactions with owners | | - | 6,573 | (3,447,134) | (3,440,561) |
| Balance as at 30 June 2019 | | 43,487,753 | 138,503 | 2,805,757 | 46,432,013 |
| Profit for the financial year | | - | - | 2,246,542 | 2,246,542 |
| Other comprehensive income, net of tax | | - | - | - | - |
| Total comprehensive income | | - | - | 2,246,542 | 2,246,542 |
| Transactions with owners | | | | | |
| Ordinary shares issued as consideration for acquisition of new subsidiaries | 13 | 34,041,666 | - | - | 34,041,666 |
| Share options lapsed | | - | (138,503) | 138,503 | - |
| Total transactions with owners | | 34,041,666 | (138,503) | 138,503 | 34,041,666 |
| Balance as at 30 June 2020 | | 77,529,419 | - | 5,190,802 | 82,720,221 |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

| | Note | Group | | Company | |
|--|-------|-------------|-------------|--------------|-------------|
| | | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before tax | | 4,789,308 | 5,367,641 | 2,706,169 | 2,413,711 |
| Adjustments for: | | | | | |
| Amortisation of intangible assets | 8 | 2,782,653 | 743,321 | 1,438,291 | 624,332 |
| Depreciation of property, plant and equipment | 5 | 1,065,460 | 870,727 | 320,683 | 119,989 |
| Depreciation of right-of-use assets | 6 | 527,036 | - | 136,965 | - |
| Dividend income | 24 | - | - | (2,300,000) | - |
| Inventories written down | 10(e) | 442,133 | - | 442,133 | - |
| Interest expense | 23 | 49,727 | 57,072 | 23,312 | - |
| Interest income | 24 | (42,832) | (24,783) | - | - |
| Gain on disposal of property, plant and equipment | 24 | (79,449) | - | - | - |
| Reversal of inventories previously written down | 10(d) | (322,621) | (280) | (320,476) | - |
| Reversal of impairment loss on trade and other receivables | 11(h) | (1,028,329) | - | - | - |
| Share options granted under ESOS | 28 | - | 6,573 | - | 6,573 |
| Unrealised gain on foreign exchange | 24 | (824,779) | (1,003,399) | - | - |
| Operating profit before changes in working capital | | 7,358,307 | 6,016,872 | 2,447,077 | 3,164,605 |
| Decrease/(Increase) in inventories | | 2,316,955 | (928,947) | 2,114,529 | 65,988 |
| Decrease/(Increase) in trade and other receivables | | 5,888,384 | 2,281,263 | (2,808,091) | (8,580,606) |
| (Decrease)/Increase in trade and other payables | | (2,954,748) | (802,540) | (10,997,276) | 1,471,808 |
| Cash generated from/(used in) operations | | 12,608,898 | 6,566,648 | (9,243,761) | (3,878,205) |
| Interest received | | 42,832 | 24,783 | - | - |
| Interest paid | | (11,473) | (57,072) | - | - |
| Tax paid | | (3,388,823) | (3,823,111) | (850,000) | (1,588,708) |
| Tax refunded | | 272,865 | 278,162 | - | 2,000 |
| Net cash from/(used in) operating activities | | 9,524,299 | 2,989,410 | (10,093,761) | (5,464,913) |

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

| | | Group | | Company | |
|---|-------|-------------|-------------|-------------|-------------|
| | Note | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Acquisition of subsidiaries, net of cash acquired | 9(e) | 13,225 | - | - | - |
| Acquisition of additional interests in a subsidiary | 9(d) | - | - | (700,000) | - |
| Additions of intangible assets | 8 | (1,285,235) | (1,585,329) | (1,285,235) | (1,585,329) |
| Additions of right-of-use assets | 6(g) | (136,530) | - | - | - |
| Advances from subsidiaries | | - | - | 12,805,437 | 10,714,703 |
| Consideration paid on acquisition of shares from non-controlling interest | | (700,000) | - | - | - |
| Purchase of property, plant and equipment | 5 | (1,870,176) | (4,415,672) | (393,656) | (52,093) |
| Proceeds from disposal of property, plant and equipment | | 81,000 | - | - | - |
| Net cash (used in)/from investing activities | | (3,897,716) | (6,001,001) | 10,426,546 | 9,077,281 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Dividends paid | 27 | - | (3,447,134) | - | (3,447,134) |
| Repayments of flexi loan | 15(f) | (243,560) | (347,335) | - | - |
| Repayments of hire purchase creditors | 15(f) | - | (388,826) | - | - |
| Repayments on lease liabilities | 6(f) | (457,918) | - | (149,240) | - |
| Net cash used in financing activities | | (701,478) | (4,183,295) | (149,240) | (3,447,134) |
| Net increase/(decrease) in cash and cash equivalents | | 4,925,105 | (7,194,886) | 183,545 | 165,234 |
| Effects of exchange rate changes on cash and cash equivalents | | 863,510 | 876,241 | - | - |
| Cash and cash equivalents at beginning of financial year | | 12,092,847 | 18,411,492 | 233,333 | 68,099 |
| Cash and cash equivalents at end of financial year | 12 | 17,881,462 | 12,092,847 | 416,878 | 233,333 |

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the ACE Market of Bursa Malaysia Securities Berhad.

The registered office and principal place of business of the Company are located at No. 3, Jalan Anggerik Mokara 31/48, Kawasan Industri Kota Kemuning, 40460 Shah Alam, Selangor.

The consolidated financial statements for the financial year ended 30 June 2020 comprise the Company and its subsidiaries. These financial statements are presented in Ringgit Malaysia (“RM”), which is also the functional currency of the Company.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 15 September 2020.

2. PRINCIPAL ACTIVITIES

The Company is principally engaged in the research, development, design and manufacturing of analogue, digital and computer controlled electronic systems or devices for use in electrical, electronic and other industries and provision of technical and maintenance services. The principal activities and the details of the subsidiaries are set out in Note 9 to the financial statements. There have been no significant changes in the nature of these activities of the Group and of the Company during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards (“IFRSs”) and the requirements of the Companies Act 2016 in Malaysia.

The accounting policies adopted are consistent with those of the previous financial year except for the effects of adoption of new MFRSs during the financial year. The new MFRSs and Amendments to MFRSs adopted during the financial year are disclosed in Note 34.1 to the financial statements.

The Group and the Company applied MFRS 16 *Leases* for the first time during the current financial year, using the cumulative effect method as at 1 July 2019. Consequently, the comparative information were not restated and are not comparable to the financial information of the current financial year.

The Group has also early adopted Amendment to MFRS 16 Covid-19-Related Rent Concessions during the financial year and elected to apply the practical expedient to all rent concession relating to leases with similar characteristics and similar circumstances.

The financial statements of the Group and of the Company have been prepared under the historical cost convention except as otherwise stated in the financial statements.

4. OPERATING SEGMENTS

(a) Business segments

The business of the Group and of the Company is generated from the sales of analogue, digital and computer-controlled electronic systems or devices and there was only one business segment identified.

The Group evaluates performance on the basis of profit or loss from operations before tax.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

4. OPERATING SEGMENTS (CONT'D)

(b) Geographical information

The manufacturing facilities and sales offices of the Group are based in Malaysia.

In presenting information on the basis of geographical areas, segment revenue is based on the geographical location of its customers.

Segment assets are based on the geographical location of the assets of the Group.

| | 2020 RM | 2019 RM |
|--|------------|------------|
| Revenue from external customers | | |
| Malaysia | 28,973,660 | 21,141,670 |
| Vietnam | 12,365,872 | 12,804,560 |
| Indonesia | 1,935,204 | 2,445,327 |
| Singapore | 1,643,256 | 105,690 |
| India | 1,083,756 | 864,548 |
| Bangladesh | 736,504 | 1,033,988 |
| Pakistan | 600,987 | - |
| Taiwan | 550,833 | 252,117 |
| Others | 2,535,463 | 2,485,157 |
| | 50,425,535 | 41,133,057 |

| | 2020 RM | 2019 RM |
|---------------------------|------------|------------|
| Non-current assets | | |
| Malaysia | 59,485,215 | 32,585,525 |

(c) Major customers

The following are major customers with revenue equal or more than ten percent (10%) of Group revenue:

| | 2020 RM | 2019 RM |
|------------|------------|------------|
| Customer A | 11,564,824 | 12,804,560 |
| Customer B | - | 4,518,646 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

- (a) All items of property, plant and equipment are initially measured at cost. After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.
- (b) Depreciation is calculated to write off the cost of the assets to their residual values on a straight-line basis over their estimated useful lives. The estimated useful lives represent the common life expectancies applied in the industry within which the Group operates. The principal annual depreciation rates are as follows:

| | |
|-------------------------------------|-----------|
| Factory buildings | 2% |
| Factory equipment | 10% - 14% |
| Furniture and fittings | 10% |
| Motor vehicles | 14% |
| Office equipment | 14% - 20% |
| Software applications and equipment | 14% |
| Renovation | 14% |

Freehold land has unlimited useful life and is not depreciated.

- (c) In the previous financial year, included in property, plant and equipment of the Group were assets acquired under hire purchase arrangements with a carrying amount of RM935,733.
- (d) As at the end of the reporting period, freehold land and factory building of the Group with a carrying amount of RM15,336,151 (2019: RM14,900,813) have been charged to a bank for flexi loan facility granted to the Group.
- (e) The Group and the Company revised the depreciation rates of factory equipment, furniture and fittings, motor vehicles, office equipment, software applications and equipment and renovation with effect from 1 July 2018. The revisions were accounted for prospectively as a change in accounting estimate and as a result, the depreciation charge of the Group and of the Company in the previous financial year had been decreased by RM391,563 and RM96,693 respectively.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

6. LEASES

The Group as lessee

Right-of-use assets

| | Balance as at 1.7.2019 RM | Effects of adoption of MFRS 16 (Note 34.1) RM | Addition RM | Depreciation RM | Balance as at 30.6.2020 RM |
|------------------------|------------------------------------|--|----------------|--------------------|-------------------------------------|
| Carrying amount | | | | | |
| Buildings | - | 353,681 | - | (179,947) | 173,734 |
| Motor vehicles | - | 935,733 | 436,530 | (347,089) | 1,025,174 |
| | - | 1,289,414 | 436,530 | (527,036) | 1,198,908 |

Lease liabilities

| | Balance as at 1.7.2019 RM | Effects of adoption of MFRS 16 (Note 34.1) RM | Addition RM | Principal RM | Lease payments Interest RM | Interest expense RM | Balance as at 30.6.2020 RM |
|------------------------|------------------------------------|--|----------------|-----------------|-------------------------------------|---------------------------|-------------------------------------|
| Carrying amount | | | | | | | |
| Buildings | - | 365,588 | - | (182,090) | (14,271) | 14,271 | 183,498 |
| Motor vehicles | - | 392,919 | 300,000 | (237,574) | (23,983) | 23,983 | 455,345 |
| | - | 758,507 | 300,000 | (419,664) | (38,254) | 38,254 | 638,843 |

The Company as lessee

Right-of-use assets

| | Balance as at 1.7.2019 RM | Addition RM | Depreciation RM | Balance as at 30.6.2020 RM |
|------------------------|------------------------------------|----------------|--------------------|-------------------------------------|
| Carrying amount | | | | |
| Buildings | - | 2,054,468 | (136,965) | 1,917,503 |

Lease liabilities

| | Balance as at 1.7.2019 RM | Addition RM | Principal RM | Lease payments Interest RM | Interest expenses RM | Balance as at 30.6.2020 RM |
|------------------------|------------------------------------|----------------|-----------------|-------------------------------------|----------------------------|-------------------------------------|
| Carrying amount | | | | | | |
| Buildings | - | 2,054,468 | (125,928) | (23,312) | 23,312 | 1,928,540 |

Represented by:

| | Group 2020 RM | Company 2020 RM |
|---|---------------------|-----------------------|
| Current liabilities | 343,520 | 386,835 |
| Non-current liabilities | 295,323 | 1,541,705 |
| | 638,843 | 1,928,540 |
| Lease liabilities owing to financial institutions | 455,345 | - |
| Lease liabilities owing to non-financial institutions | 183,498 | 1,928,540 |
| | 638,843 | 1,928,540 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

6. LEASES (CONT'D)

- (a) The right-of-use assets are initially measured at cost, which comprise the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date of the leases.

After initial recognition, right-of-use assets are stated at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of the lease liabilities.

- (b) The right-of-use assets are depreciated on the straight-line basis over the earlier of the estimated useful lives of the right-of-use assets or the end of the lease term. The lease terms of right-of-use assets are as follows:

| | |
|----------------|-------------|
| Buildings | 2 - 5 years |
| Motor vehicles | 7 years |

- (c) The Group has certain leases of machineries and equipment with lease term of twelve (12) months or less, and low value leases of office equipment of RM20,000 and below. The Group applies the “short-term lease” and “lease of low-value assets” exemptions for these leases.

- (d) The following are the amounts recognised in profit or loss:

| | Group 2020 RM | Company 2020 RM |
|--|------------------------------|--------------------------------|
| Depreciation charge of right-of-use assets (included in cost of sales and other operating expenses) | 527,036 | 136,965 |
| Interest expense on lease liabilities (included in finance costs) | 38,254 | 23,312 |
| Expense relating to short-term leases (included in cost of sales and other operating expenses) | 110,092 | 112,000 |
| Expense relating to leases of low-value assets (included in other operating expenses) | 9,780 | - |
| | 685,162 | 272,277 |

- (e) The table below summarises the maturity profile of the lease liabilities of the Group and the Company at the end of the reporting period based on contractual undiscounted repayment obligations as follows:

| Group 30 June 2020 | Weighted average incremental borrowing rate per annum % | On demand or within one year RM | One to five years RM | Total RM |
|---------------------------------|--|--|-------------------------------------|---------------------|
| Lease liabilities | 4.13% | 379,718 | 317,958 | 697,676 |
| Company 30 June 2020 | | | | |
| Lease liabilities | 3.55% | 447,720 | 1,641,640 | 2,089,360 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

6. LEASES (CONT'D)

(f) Reconciliation of liabilities arising from financing activities:

| | Group RM | Company RM |
|--|-------------|---------------|
| As at 1 July 2019, as previously reported | - | - |
| Effects of adoption of MFRS 16 (Note 34.1) | 758,507 | - |
| As at 1 July 2019, as restated | 758,507 | - |
| Cash flows | (457,918) | (149,240) |
| Non-cash flows: | | |
| - Addition of right-of-use assets | 300,000 | 2,054,468 |
| - Unwinding of interest | 38,254 | 23,312 |
| | 638,843 | 1,928,540 |

(g) During the financial year, the Group made the following cash payments to purchase right-of-use assets:

| | Group 2020 RM |
|--|---------------------|
| Purchase of right-of-use assets | 436,530 |
| Financed by lease liabilities | (300,000) |
| Cash payments on purchase of right-of-use assets | 136,530 |

(h) Sensitivity analysis for fixed rate lease liabilities at the end of the reporting period is not presented as fixed rate instruments are not affected by changes in interest rates.

7. GOODWILL

| Group | Balance as at 1.7.2019 RM | Acquisition of subsidiaries (Note 9(e)) RM | Balance as at 30.6.2020 RM |
|------------------------|---------------------------------|---|----------------------------------|
| Carrying amount | | | |
| Goodwill | - | 24,160,566 | 24,160,566 |

(a) Goodwill recognised in a business combination is an asset at the acquisition date and is initially measured at cost. After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

(b) Goodwill is tested for impairment on an annual basis by comparing the carrying amount with the recoverable amount of the CGU based on value-in-use. Value-in-use is determined by discounting the future cash flows to be generated from the continuing use of the CGU based on the following assumptions:

- (i) The value-in-use calculations apply discounted cash flow projections prepared and approved by management, covering a 5-year period.
- (ii) Cash flows are projected based on management's expectations of revenue growth, operating cost and margins based on their recent experience.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

7. GOODWILL (CONT'D)

- (b) Goodwill is tested for impairment on an annual basis by comparing the carrying amount with the recoverable amount of the CGU based on value-in-use. Value-in-use is determined by discounting the future cash flows to be generated from the continuing use of the CGU based on the following assumptions (cont'd):
- (iii) The forecasted growth rate of 15% is based on historical results achieved in the preceding two (2) financial years adjusted to reflect anticipated demand and introduction of new products.
- (iv) Pre-tax discount rate of 7.8% is applied to the cash flow projections. The discount rate is estimated based on the weighted average cost of capital of the Group and relevant risk factors.
- (c) Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the subsidiaries and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Based on the impairment assessment undertaken by the Group, no impairment loss is required for the carrying amount of the goodwill as at 30 June 2020 as the recoverable amount is in excess of the carrying amount.

The management is not aware of any reasonably possible change in the above key assumptions that would cause the carrying amounts of the CGU to materially exceed their recoverable amounts.

8. INTANGIBLE ASSETS

| Group | Balance as at 1.7.2019 RM | Acquisition of subsidiaries (Note 9(e)) RM | Additions RM | Amortisation charge for the financial year RM | Balance as at 30.6.2020 RM |
|------------------------|------------------------------|--|-----------------|--|-------------------------------|
| Carrying amount | | | | | |
| Development costs | 11,252,003 | - | 1,285,235 | (841,653) | 11,695,585 |
| Customer contracts | - | 1,941,000 | - | (1,941,000) | - |
| | 11,252,003 | 1,941,000 | 1,285,235 | (2,782,653) | 11,695,585 |

[----- As at 30.6.2020 -----]

| | Cost RM | Accumulated amortisation RM | Accumulated impairment losses RM | Carrying amount RM |
|---------------------|------------|--------------------------------|-------------------------------------|-----------------------|
| Development costs | 20,483,355 | (7,461,796) | (1,325,974) | 11,695,585 |
| Testing certificate | 207,286 | (207,286) | - | - |
| Customer contracts | 1,941,000 | (1,941,000) | - | - |
| | 22,631,641 | (9,610,082) | (1,325,974) | 11,695,585 |

| Group | Balance as at 1.7.2018 RM | Additions RM | Amortisation charge for the financial year RM | Balance as at 30.6.2019 RM |
|------------------------|------------------------------|-----------------|--|-------------------------------|
| Carrying amount | | | | |
| Development costs | 10,409,995 | 1,585,329 | (743,321) | 11,252,003 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

8. INTANGIBLE ASSETS (CONT'D)

| | [----- As at 30.6.2019 -----] | | | |
|---------------------|-------------------------------|-----------------------------------|---|--------------------------|
| | Cost RM | Accumulated amortisation RM | Accumulated impairment losses RM | Carrying amount RM |
| Development costs | 19,198,120 | (6,620,143) | (1,325,974) | 11,252,003 |
| Testing certificate | 207,286 | (207,286) | - | - |
| | 19,405,406 | (6,827,429) | (1,325,974) | 11,252,003 |

| Company | Balance as at 1.7.2019 RM | Additions RM | Amortisation charge for the financial year RM | Balance as at 30.6.2020 RM |
|------------------------|---------------------------------|-----------------|--|----------------------------------|
| Carrying amount | | | | |
| Development costs | 14,416,273 | 1,285,235 | (1,438,291) | 14,263,217 |

| | [----- As at 30.6.2020 -----] | | | |
|-------------------|-------------------------------|-----------------------------------|---|--------------------------|
| | Cost RM | Accumulated amortisation RM | Accumulated impairment losses RM | Carrying amount RM |
| Development costs | 28,581,326 | (13,063,611) | (1,254,498) | 14,263,217 |

| Company | Balance as at 1.7.2018 RM | Additions RM | Transfer from a subsidiary RM | Amortisation charge for the financial year RM | Balance as at 30.6.2019 RM |
|------------------------|---------------------------------|-----------------|-------------------------------------|--|----------------------------------|
| Carrying amount | | | | | |
| Development costs | 8,709,341 | 1,585,329 | 4,745,935 | (624,332) | 14,416,273 |

| | [----- As at 30.6.2019 -----] | | | |
|-------------------|-------------------------------|-----------------------------------|---|--------------------------|
| | Cost RM | Accumulated amortisation RM | Accumulated impairment losses RM | Carrying amount RM |
| Development costs | 27,296,091 | (11,625,320) | (1,254,498) | 14,416,273 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

8. INTANGIBLE ASSETS (CONT'D)

- (a) Expenditure on development activities of internally developed products is recognised as an intangible asset when it relates to the production of new or substantively improved products and processes and when the Group can demonstrate that it is technically feasible to develop the product or processes, adequate resources are available to complete the development and that there is an intention to complete and sell the product or processes to generate future economic benefits.
- (b) Capitalised development costs are amortised on a straight line basis over a period of twelve years (12) years (2019: twelve (12) years) based on the assessment of the existing products' market lifespan. Development expenditure not satisfying the criteria mentioned and expenditure arising from research or from the research phase of internal projects are recognised in profit or loss as incurred.
- (c) The testing certificate acquired separately for the purpose of selling imported products from overseas in Malaysia is measured on initial recognition at cost.
- (d) Following initial recognition, the testing certificate is carried at costs less any accumulated amortisation and accumulated impairment losses, if any. The useful life of the testing certificate is assessed to be finite and is amortised on a straight-line basis over the estimated economic useful life of twelve (12) years (2019: twelve (12) years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least once at the end of each reporting period. The amortisation expense on the testing certificate with finite useful life is recognised in the profit or loss.
- (e) The customer contracts were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition, and are subsequently amortised on a straight-line basis based on the timing of projected cash flows of the contracts over their estimated economic useful life of one (1) year.
- (f) During the financial year, amortisation for intangible assets of the Group and of the Company amounting to RM2,782,653 (2019: RM743,321) and RM1,438,291 (2019: RM624,332) respectively has been recognised in profit or loss under cost of sales.
- (g) The Group carried out an impairment test based on the estimation of the value in use of each cash generating units ("CGU") to which the intangible assets are allocated. Estimating the value in use required the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Where actual results differ from the original projections, the differences may impact the carrying amount of development costs.
- (h) The Group and the Company revised the amortisation period of development costs and testing certificate with effect from 1 July 2018. The revisions were accounted for prospectively as a change in accounting estimate and as a result, the amortisation charge of the Group and of the Company in the previous financial year had been decreased by RM992,115 and RM424,758 respectively.
- (i) Management has segregated intangible assets into respective CGUs, which comprise series of products. In respect of these CGUs, management had carried out a review of the recoverable amounts of the intangible assets. The recoverable amounts of these CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a twelve (12) years period. The calculations of value in use for these CGUs are most sensitive to the following assumptions:
- (i) Budgeted gross margin
- The budgeted gross margin of 40% (2019: 45%) are based on historical averages achieved in the preceding two (2) financial years, adjusted to reflect anticipated efficiency and productivity improvement.
- (ii) Growth rate
- The forecasted growth rate of 11% (2019: 5%) is based on historical results achieved in the preceding two (2) financial years adjusted to reflect anticipated demand and introduction of new products.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

8. INTANGIBLE ASSETS (CONT'D)

(i) Management has segregated intangible assets into respective CGUs, which comprise series of products. In respect of these CGUs, management had carried out a review of the recoverable amounts of the intangible assets. The recoverable amounts of these CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a twelve (12) years period. The calculations of value in use for these CGUs are most sensitive to the following assumptions (cont'd):

(iii) Pre-tax discount rate

Pre-tax discount rate of 7.5% (2019: 8.8%) is applied to the cash flow projections. The discount rate is estimated based on the weighted average cost of capital of the Group and relevant risk factors.

A reasonable change in the above assumptions would not cause any other impairment loss on development costs at each individual CGU level.

9. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|-------------------|------------|------------|
| | 2020 RM | 2019 RM |
| At cost: | | |
| - Unquoted shares | 52,295,717 | 17,554,051 |

(a) Investments in subsidiaries are measured at cost. Non-controlling interests are measured at proportionate share of the net assets of subsidiaries, unless another measurement basis is required by MFRSs.

(b) The Company has assessed whether there were any indicators of impairment during the financial year. The Company determines whether an impairment loss is required by evaluating the extent to which the recoverable amount is less than its carrying amount. The recoverable amount is determined based on the value-in-use. Value-in-use is the net present value of the projected future cash flows, which involve judgements in estimating the key assumptions, including growth rate, operating profit margin as well as determining an appropriate pre-tax discount rate.

(c) The details of the subsidiaries are as follows:

| Name of company | Country of incorporation/ Principal place of business | Effective interest in equity | | Principal activities |
|---------------------------------------|--|------------------------------|------|--|
| | | 2020 | 2019 | |
| Mikro Sdn. Bhd. | Malaysia | 100% | 100% | Sales of analogue, digital and computer controlled electronic devices for the purpose of protecting, monitoring and programming in an electrical system. |
| Formula Concept Sdn. Bhd. | Malaysia | 100% | 100% | Manufacturing of analogue, digital and computer controlled electronic devices for the purpose of protecting, monitoring and programming in an electrical system. |
| Mikrocap Sdn. Bhd. ("Mikrocap") | Malaysia | 100% | 51% | Trading of capacitors. |
| EPE Busway Sdn. Bhd. ("Busway") | Malaysia | 100% | - | Manufacturing and dealing of medium voltage and low voltage busway system. |
| Mittric Systems Sdn. Bhd. ("Mittric") | Malaysia | 100% | - | Trading of busduct. |

All subsidiaries are audited by BDO PLT in Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

9. INVESTMENTS IN SUBSIDIARIES (CONT'D)

- (d) Accretion of interests in a subsidiary during the financial year ended 30 June 2020

On 30 September 2019, the Company had acquired the remaining 49% equity interest, representing 49 ordinary shares in Mikrocap for a total cash consideration of RM700,000. Pursuant to that, Mikrocap's equity interest in the Company increased from 51% to 100% and Mikrocap became a wholly owned subsidiary of the Company.

- (e) Acquisition of subsidiaries during the financial year ended 30 June 2020

On 30 April 2019, the Company had entered into Share Sale Agreement (“SSA”) with the former shareholders of EPE Busway Sdn. Bhd. (“Busway”) and Mittric Systems Sdn. Bhd. (“Mittric”) respectively to acquire 100% equity interest, representing 5,000,000 ordinary shares in Busway and 100,000 ordinary shares in Mittric (“Proposed Acquisition”) for a total purchase consideration of RM34,041,666 to be satisfied entirely via issuance of 158,333,332 new ordinary shares in the Company.

The conditions precedent as set out in the Busway SSA and Mittric SSA have been fulfilled on 17 July 2019 in accordance with the respective terms of Busway SSA and Mittric SSA. Accordingly, Busway and Mittric became wholly owned subsidiaries of the Company.

The fair values of the identifiable assets and liabilities acquired were as follows:

| | Busway At date of acquisition RM | Mittric At date of acquisition RM | Total At date of acquisition RM |
|------------------------------------|---|--|--|
| Property, plant and equipment | 1,208,507 | 20,695 | 1,229,202 |
| Intangible assets | - | 1,941,000 | 1,941,000 |
| Inventories | 1,892,256 | 1,037,584 | 2,929,840 |
| Trade and other receivables | 3,294,253 | 6,045,700 | 9,339,953 |
| Cash and bank balances | 1,414,574 | 351,742 | 1,766,316 |
| Trade and other payables | (1,418,565) | (3,710,562) | (5,129,127) |
| Borrowings | (215,351) | (1,537,740) | (1,753,091) |
| Current tax liabilities | (251,700) | (119,444) | (371,144) |
| Deferred tax liabilities | (71,849) | - | (71,849) |
| Total identified net assets | 5,852,125 | 4,028,975 | 9,881,100 |
| Goodwill arising from acquisition | | | 24,160,566 |
| Net assets acquired | | | 34,041,666 |

The effects on cash flows arising from the acquisitions were as follows:

| | Busway RM | Mittric RM | Total RM |
|--|----------------------|-----------------------|---------------------|
| Total deemed purchase consideration | 17,020,833 | 17,020,833 | 34,041,666 |
| Less: Ordinary shares issued | (17,020,833) | (17,020,833) | (34,041,666) |
| Cash consideration | - | - | - |
| Less: Balances acquired | | | |
| Cash and bank balances | 1,414,574 | 351,742 | 1,766,316 |
| Bank overdraft | (215,351) | (1,537,740) | (1,753,091) |
| Net cash inflow/(outflow) of the Group on acquisition | 1,199,223 | (1,185,998) | 13,225 |

Had the acquisition occurred on 1 July 2019, revenue and profit after tax of the Group for the financial year ended 30 June 2020 would have been RM52,042,434 and RM3,535,592 respectively.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

9. INVESTMENTS IN SUBSIDIARIES (CONT'D)

- (f) The Group does not have any subsidiary that has non-controlling interests for the financial year ended 30 June 2020. In the previous financial year, the subsidiary of the Group that had non-controlling interests ("NCI") was as follows:

| | Mikrocap | Total |
|--|----------|---------|
| 2019 | | |
| NCI percentage of ownership interest and voting interest | 49% | |
| Carrying amount of NCI (RM) | 834,548 | 834,548 |
| Profit allocated to NCI (RM) | 120,892 | 120,892 |

- (g) The summarised financial information before intra-group elimination of the subsidiary that had NCI as at the end of each reporting period were as follows:

| | Mikrocap RM | Total RM |
|---|----------------|-------------|
| 2019 | | |
| Assets and liabilities | | |
| Current assets | 1,755,842 | 1,755,842 |
| Non-current liabilities | (30,392) | (30,392) |
| Current liabilities | (22,292) | (22,292) |
| Net assets | 1,703,158 | 1,703,158 |
| Results | | |
| Revenue | 5,046,178 | 5,046,178 |
| Profit for the financial year | 246,718 | 246,718 |
| Total comprehensive income | 246,718 | 246,718 |
| Cash flows from operating activities | 219,475 | 219,475 |
| Net increase in cash and cash equivalents | 219,475 | 219,475 |

10. INVENTORIES

| At cost | Group | | Company | |
|------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Raw materials | 4,713,195 | 3,564,237 | 2,582,032 | 3,564,237 |
| Work-in-progress | 2,055,011 | 1,916,493 | 1,580,011 | 1,916,493 |
| Finished goods | 6,210,327 | 7,004,430 | 5,615,270 | 6,532,769 |
| | 12,978,533 | 12,485,160 | 9,777,313 | 12,013,499 |

- (a) Inventories are stated at the lower of cost and net realisable value.
- (b) Cost is determined using the weighted average method. The cost of raw materials comprises all costs of purchase, plus the cost of bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

10. INVENTORIES (CONT'D)

- (c) During the financial year, inventories of the Group and of the Company recognised as cost of sales amounted to RM25,386,105 and RM9,448,265 (2019: RM18,559,219 and RM2,615,622) respectively.
- (d) During the financial year, the Group and the Company have recognised the reversal of RM322,621 and RM320,476 (2019: RM280 and RM Nil) respectively, being part of an inventories written down in the previous financial years, as the inventories were sold above the carrying amounts.
- (e) During the financial year, the amounts of inventories written down of the Group and of the Company recognised as expenses amounted to RM442,133 (2019: RM Nil).

11. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---------------------------------------|-------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Trade receivables | | | | |
| Third parties | 17,212,193 | 10,647,034 | - | - |
| Amount owing by a subsidiary | - | - | 26,421,936 | 23,345,393 |
| | 17,212,193 | 10,647,034 | 26,421,936 | 23,345,393 |
| Less: Impairment losses | | | | |
| - Third parties | (2,060,063) | (109,105) | - | - |
| | 15,152,130 | 10,537,929 | 26,421,936 | 23,345,393 |
| Other receivables and deposits | | | | |
| Amount owing by a subsidiary | - | - | - | 7,025,584 |
| Other receivables | 792,249 | 976,490 | 53,186 | 32,938 |
| Deposits | 93,248 | 158,301 | 9,020 | 75,220 |
| | 885,497 | 1,134,791 | 62,206 | 7,133,742 |
| Total receivables | | | | |
| Prepayments | 16,037,627 | 11,672,720 | 26,484,142 | 30,479,135 |
| | 574,364 | 484,224 | 33,500 | 256,000 |
| | 16,611,991 | 12,156,944 | 26,517,642 | 30,735,135 |

- (a) Total receivables are classified as financial assets measured at amortised cost.
- (b) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group and the Company ranged from 30 to 150 days (2019: 30 to 150 days). They are recognised at their original invoices amounts, which represent their fair values on initial recognition.
- (c) Trade amount owing by a subsidiary is on normal credit terms of the Company. In the previous financial year, the non-trade amount owing by a subsidiary was unsecured, interest free and repayable within next twelve (12) months in cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(d) The currency exposure profile of receivables (excluding prepayments) is as follows:

| | Group | | Company | |
|------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Ringgit Malaysia | 12,619,378 | 7,552,207 | 26,442,956 | 30,451,901 |
| US Dollar | 3,418,249 | 4,120,513 | 41,186 | 27,234 |
| | 16,037,627 | 11,672,720 | 26,484,142 | 30,479,135 |

(e) Sensitivity analysis of RM against foreign currency at the end of the reporting period, assuming that all other variables remain constant, is as follows:

| Effects of 3% changes to RM against foreign currency | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Profit after tax | ±77,936 | ±93,948 | ±939 | ±621 |

(f) The ageing analysis of trade receivables of the Group and of the Company are as follows:

| Group 2020 | Gross RM | Impaired RM | Total RM |
|----------------------------|-------------|----------------|-------------|
| Current (not past due) | 8,861,395 | (265,553) | 8,595,842 |
| 1 to 30 days past due | 1,651,346 | (60,443) | 1,590,903 |
| 31 to 60 days past due | 1,039,135 | (96,043) | 943,092 |
| 61 to 90 days past due | 717,339 | (83,532) | 633,807 |
| More than 90 days past due | 4,561,927 | (1,173,441) | 3,388,486 |
| | 7,969,747 | (1,413,459) | 6,556,288 |
| Credit impaired | | | |
| Individually impaired | 381,051 | (381,051) | - |
| | 17,212,193 | (2,060,063) | 15,152,130 |
| 2019 | | | |
| Current (not past due) | 8,290,824 | (64,366) | 8,226,458 |
| 1 to 30 days past due | 1,972,302 | (37,159) | 1,935,143 |
| 31 to 60 days past due | 278,671 | (4,778) | 273,893 |
| 61 to 90 days past due | 3,216 | (63) | 3,153 |
| More than 90 days past due | 102,021 | (2,739) | 99,282 |
| | 2,356,210 | (44,739) | 2,311,471 |
| | 10,647,034 | (109,105) | 10,537,929 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(f) The ageing analysis of trade receivables of the Group and of the Company are as follows (cont'd):

| Company 2020 | Gross RM | Impaired RM | Total RM |
|----------------------------|-------------|----------------|-------------|
| Current (not past due) | 1,871,906 | - | 1,871,906 |
| 1 to 30 days past due | 736,752 | - | 736,752 |
| 31 to 60 days past due | 404,052 | - | 404,052 |
| 61 to 90 days past due | 1,297,713 | - | 1,297,713 |
| More than 90 days past due | 22,111,513 | - | 22,111,513 |
| | 24,550,030 | - | 24,550,030 |
| | 26,421,936 | - | 26,421,936 |
| 2019 | | | |
| Current (not past due) | 181,161 | - | 181,161 |
| 1 to 30 days past due | 231,405 | - | 231,405 |
| 31 to 60 days past due | 211,559 | - | 211,559 |
| 61 to 90 days past due | 2,718,837 | - | 2,718,837 |
| More than 90 days past due | 20,002,431 | - | 20,002,431 |
| | 23,164,232 | - | 23,164,232 |
| | 23,345,393 | - | 23,345,393 |

(g) Impairment for trade receivables that do not contain a significant financing component are recognised based on the simplified approach using the lifetime expected credit losses and are calculated based on the common credit risk characteristics - type of product purchased.

The Group considers credit loss experience and observable data such as current changes and future forecasts in economic conditions to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

During this process, the probability of non-payment by the trade receivables is adjusted by forward looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. The Group uses roll rate method to measure the expected credit loss of trade receivables and has identified the gross domestic product and lending rate as the key macroeconomic factors. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised in the consolidated statement of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

It requires management to exercise significant judgement in determining the probability of default by trade receivables and appropriate forward-looking information.

As at the end of each reporting period, the credit risks exposures and concentration relating to trade receivables of the Group are summarised in the table below:

| | Group | |
|-----------------------------|-------------|-------------|
| | 2020 RM | 2019 RM |
| Maximum exposure | 17,212,193 | 10,647,034 |
| Collateral obtained | (2,631,450) | (3,007,891) |
| Net exposure to credit risk | 14,580,743 | 7,639,143 |

During the financial year, the Group did not renegotiate the terms of any trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(h) Movements in the impairment allowance for trade receivables of the Group are as follows:

| Group | Lifetime allowance RM | Credit impaired RM | Total RM |
|------------------------------|--------------------------------------|-----------------------------------|---------------------|
| 30 June 2020 | | | |
| Balance as at 1 July | 109,105 | - | 109,105 |
| Acquisition of subsidiaries | 2,503,541 | 475,746 | 2,979,287 |
| Reversal during the year | (933,634) | (94,695) | (1,028,329) |
| Balance as at 30 June | 1,679,012 | 381,051 | 2,060,063 |
| 30 June 2019 | | | |
| Balance as at 1 July/30 June | 109,105 | - | 109,105 |

Credit impaired refers to individually determined debtors who are in significant financial difficulties and have defaulted on payments to be impaired as at the end of the reporting period.

(i) Impairment for other receivables and amounts owing by subsidiaries is recognised based on the general approach within MFRS 9 using the forward-looking expected credit loss model. The Group and the Company have identified the gross domestic product as the key macroeconomic factors. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. At the end of the reporting period, the Group and the Company assess whether there has been a significant increase in credit risk for financial assets by comparing the risk for default occurring over the expected life with the risk of default since initial recognition. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Group and the Company defined significant increase in credit risk based on operating performance of the receivables, changes to contractual terms, payment trends and past due information.

The Group and the Company consider both quantitative and qualitative information that are reasonable and supportable, including historical experience and observable forward-looking information without undue cost or effort.

The probability of non-payment by other receivables and subsidiaries is adjusted by forward looking information and multiplied by the amount of the expected credit loss arising from default to determine the twelve month or lifetime expected credit loss for the other receivables and amounts owing by subsidiaries.

(j) No expected credit loss is recognised arising from other receivables and amounts owing by subsidiaries as it is negligible.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(k) The credit risk concentration profile of the trade receivables at the end of the reporting period are as follows:

| | Group | | | | Company | | | |
|-------------------|------------|---------------|------------|---------------|------------|---------------|------------|---------------|
| | 2020 RM | % of total | 2019 RM | % of total | 2020 RM | % of total | 2019 RM | % of total |
| By country | | | | | | | | |
| Malaysia | 13,856,772 | 81% | 6,572,427 | 62% | 26,421,936 | 100% | 23,345,393 | 100% |
| Vietnam | 2,242,503 | 13% | 2,684,406 | 25% | - | - | - | - |
| India | 243,430 | 1% | 528,165 | 5% | - | - | - | - |
| Indonesia | 85,534 | 1% | 306,109 | 3% | - | - | - | - |
| Singapore | 11,588 | 0% | 126,245 | 1% | - | - | - | - |
| Others | 772,366 | 4% | 429,682 | 4% | - | - | - | - |
| | 17,212,193 | 100% | 10,647,034 | 100% | 26,421,936 | 100% | 23,345,393 | 100% |

At the end of the reporting period, approximately:

- (i) Thirty-nine percent (39%) and hundred percent (100%) (2019: 70% and 100%) of the trade receivables of the Group and of the Company were due from five (5) major customers and one (1) major customer respectively.
- (ii) None of the trade and other receivables of the Group were due from related parties whilst all of the trade receivables of the Company were balances with subsidiaries.

12. CASH AND BANK BALANCES

| | Group | | Company | |
|-------------------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Cash and bank balances | 17,068,738 | 12,092,847 | 416,878 | 233,333 |
| Deposits with a licensed bank | 812,724 | - | - | - |
| | 17,881,462 | 12,092,847 | 416,878 | 233,333 |

- (a) Cash and bank balances are classified as financial assets measured at amortised cost.
- (b) During the financial year, deposits with a licensed bank of the Group with a carrying amount of RM812,724 are subject to fixed weighted average effective interest rates of 2.37%.
- (c) Sensitivity analysis for fixed rate deposits at the end of the reporting period is not presented as fixed rate instruments are not affected by changes in interest rates.
- (d) Cash and bank balances of the Group includes balances amounting to RM8,909,661 (2019: RM8,905,106) which are maintained as a current account to facilitate the servicing and/or repayment of the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

12. CASH AND BANK BALANCES

(e) The currency exposure profile of cash and bank balances is as follows:

| | Group | | Company | |
|------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Ringgit Malaysia | 14,932,934 | 10,996,976 | 416,878 | 233,333 |
| US Dollar | 2,948,528 | 1,095,871 | - | - |
| | 17,881,462 | 12,092,847 | 416,878 | 233,333 |

(f) Sensitivity analysis of RM against foreign currency at the end of the reporting period, assuming that all other variables remain constant, is as follows:

| Effects of 3% changes to RM against foreign currency | Group | |
|---|------------|------------|
| | 2020 RM | 2019 RM |
| Profit after tax | ±67,226 | ±24,986 |

(g) No expected credit loss is recognised arising from the cash and bank balances because the probability of default was negligible.

13. SHARE CAPITAL

| | Group and Company | | | |
|--|---------------------|------------|---------------------|------------|
| | 2020 | | 2019 | |
| | Number of shares | RM | Number of shares | RM |
| Issued and fully paid up ordinary shares | | | | |
| Balance as at 1 July 2019/2018 | 430,892,808 | 43,487,753 | 430,892,808 | 43,487,753 |
| Issuance of ordinary shares | 158,333,332 | 34,041,666 | - | - |
| Balance as at 30 June 2020/2019 | 589,226,140 | 77,529,419 | 430,892,808 | 43,487,753 |

(a) During the financial year, the issued and fully paid-up ordinary shares of the Company was increased from 430,892,808 to 589,226,140 by way of issuance of 158,333,332 new ordinary shares for a total purchase consideration of RM34,041,666 to acquire EPE Busway Sdn. Bhd. and Mittric Systems Sdn. Bhd. as disclosed in Note 9(e) to the financial statements.

The newly issued ordinary shares rank pari passu in all respect with the existing ordinary shares of the Company.

(b) The owners of the parent are entitled to receive dividends as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

14. RESERVES

| | Group | | Company | |
|-----------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Non-distributable: | | | | |
| Share options reserve | - | 138,503 | - | 138,503 |
| Distributable: | | | | |
| Retained earnings | 19,499,692 | 16,093,327 | 5,190,802 | 2,805,757 |
| | 19,499,692 | 16,231,830 | 5,190,802 | 2,944,260 |

Share options reserve

The share options reserve represented the equity-settled share options granted to employees. This reserve was made up of the cumulative value of services received from employees recorded on grant date of share options.

15. BORROWINGS

| | Note | Group | |
|--------------------------------|------|------------|------------|
| | | 2020 RM | 2019 RM |
| Current liabilities | | | |
| Hire purchase creditors | | - | 199,912 |
| Flexi loan | 16 | 432,032 | 360,251 |
| | | 432,032 | 560,163 |
| Non-current liabilities | | | |
| Hire purchase creditors | | - | 193,007 |
| Flexi loan | 16 | 8,158,368 | 8,473,709 |
| | | 8,158,368 | 8,666,716 |
| | | 8,590,400 | 9,226,879 |
| Total borrowings | | | |
| Hire purchase creditors | | - | 392,919 |
| Flexi loan | 16 | 8,590,400 | 8,833,960 |
| | | 8,590,400 | 9,226,879 |

- (a) Borrowings are classified as financial liabilities measured at amortised cost.
- (b) Borrowings are denominated in RM.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

15. BORROWINGS (CONT'D)

(c) Movements of borrowings upon adoption of MFRS 16 are as follows:

| Group | Note | Flexi loan RM | Hire purchase creditors RM | Total RM |
|---|------|------------------|----------------------------------|-------------|
| As at 1 July 2019, as previously reported | | 8,833,960 | 392,919 | 9,226,879 |
| Effects of adoption of MFRS 16 | 34.1 | - | (392,919) | (392,919) |
| As at 1 July 2019, as restated | | 8,833,960 | - | 8,833,960 |

(d) The table below summarises the maturity profile of the borrowings at the end of each reporting period based on contractual undiscounted repayment obligations.

| | On demand or within one year RM | One to five years RM | Over five years RM | Total RM |
|------------------------------|---|-------------------------------|--------------------------|-------------|
| As at 30 June 2020 | | | | |
| Group | | | | |
| Financial liabilities | | | | |
| Borrowings | 709,020 | 2,836,079 | 7,439,001 | 10,984,100 |
| As at 30 June 2019 | | | | |
| Group | | | | |
| Financial liabilities | | | | |
| Borrowings | 880,336 | 3,029,086 | 8,148,021 | 12,057,443 |

(e) The following table set out the financial instruments not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

| Group | Fair value of financial instruments not carried at fair value | | | | Total fair value RM | Carrying amount RM |
|---|--|---------------|---------------|-------------|------------------------------|--------------------------|
| | Level 1 RM | Level 2 RM | Level 3 RM | Total RM | | |
| 2019 | | | | | | |
| Financial liabilities | | | | | | |
| Financial liabilities measured at amortised cost | | | | | | |
| -Hire purchase creditors | - | 384,462 | - | 384,462 | 384,462 | 392,919 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

15. BORROWINGS (CONT'D)

(f) Reconciliation of liabilities arising from financing activities:

| Group | Flexi loan | | Hire purchase creditors | |
|------------|------------|------------|-------------------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| At 1 July | 8,833,960 | 9,181,295 | - | 781,745 |
| Cash flows | (243,560) | (347,335) | - | (388,826) |
| At 30 June | 8,590,400 | 8,833,960 | - | 392,919 |

(g) Hire purchase creditors

| | Group | |
|---|------------|------------|
| | 2020 RM | 2019 RM |
| Minimum hire purchase payments: | | |
| - not later than one (1) year | - | 233,317 |
| - later than one (1) year but not later than five (5) years | - | 193,007 |
| Total minimum hire purchase payments | - | 426,324 |
| Less: Future interest charges | - | (33,405) |
| Present value of hire purchase payments | - | 392,919 |
| Repayable as follows: | | |
| Current liabilities | | |
| - not later than one (1) year | - | 199,912 |
| Non-current liabilities | | |
| - later than one (1) year but not later than five (5) years | - | 193,007 |
| | - | 392,919 |

In the previous financial year, hire purchase of the Group was subject to fixed weighted average effective interest rate of 4.65%.

In the previous financial year, sensitivity analysis for fixed rate hire purchase was not presented as fixed rate instruments were not affected by changes in interest rates.

16. FLEXI LOAN

- (a) Flexi loan of the Group is secured by a charge over the freehold land and factory building of the Group. In addition, the loan is guaranteed by the Company.
- (b) Flexi loan of the Group with a carrying amount of RM8,590,400 (2019: RM8,833,960) is subject to weighted average floating interest rate of 3.55% (2019: 4.80%).

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

16. FLEXI LOAN (CONT'D)

- (c) Sensitivity analysis of interest rate at the end of the reporting period, assuming that all other variables remain constant, is as follows:

| Effects of 50bp changes to profit after tax | Group | |
|---|------------|------------|
| | 2020 RM | 2019 RM |
| Floating rate instrument | ±32,644 | ±33,569 |

17. DEFERRED TAX

- (a) The deferred tax liabilities and assets are made up of the following:

| | Group | | Company | |
|--|-------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Balance as at 1 July 2019/2018 | (860,243) | (52,139) | (413,221) | (20,628) |
| Acquisition of subsidiaries (Note 9(e)) | (71,849) | - | - | - |
| Recognised in profit or loss (Note 25) | (370,267) | (808,104) | (459,627) | (392,593) |
| Balance as at 30 June 2020/2019 | (1,302,359) | (860,243) | (872,848) | (413,221) |
| Presented after appropriate offsetting: | | | | |
| Deferred tax assets, net | - | - | - | - |
| Deferred tax liabilities, net | (1,302,359) | (860,243) | (872,848) | (413,221) |
| | (1,302,359) | (860,243) | (872,848) | (413,221) |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

17. DEFERRED TAX (CONT'D)

- (b) The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group

| | Property, plant and equipment RM | Other temporary differences RM | Total RM |
|--|---|---|-------------|
| Balance as at 1 July 2019 | (741,764) | (204,584) | (946,348) |
| Acquisition of subsidiaries | (76,886) | - | (76,886) |
| Recognised in profit or loss | (567,479) | (489,667) | (1,057,146) |
| Balance as at 30 June 2020, prior to off-setting | (1,386,129) | (694,251) | (2,080,380) |
| Off-setting | | | 778,021 |
| Balance as at 30 June 2020, after off-setting | | | (1,302,359) |
| Balance as at 1 July 2018 | (1,344,581) | - | (1,344,581) |
| Recognised in profit or loss | 602,817 | (204,584) | 398,233 |
| Balance as at 30 June 2019, prior to off-setting | (741,764) | (204,584) | (946,348) |
| Off-setting | | | 86,105 |
| Balance as at 30 June 2019, after off-setting | | | (860,243) |

Deferred tax assets of the Group

| | Unabsorbed capital allowances RM | Unused tax losses and provision RM | Total RM |
|--|---|---|-------------|
| Balance as at 1 July 2019 | - | 86,105 | 86,105 |
| Acquisition of subsidiaries | - | 5,037 | 5,037 |
| Recognised in profit or loss | 234,335 | 452,544 | 686,879 |
| Balance as at 30 June 2020, prior to off-setting | 234,335 | 543,686 | 778,021 |
| Off-setting | | | (778,021) |
| Balance as at 30 June 2020, after off-setting | | | - |
| Balance as at 1 July 2018 | 1,292,442 | - | 1,292,442 |
| Recognised in profit or loss | (1,292,442) | 86,105 | (1,206,337) |
| Balance as at 30 June 2019, prior to off-setting | - | 86,105 | 86,105 |
| Off-setting | | | (86,105) |
| Balance as at 30 June 2019, after off-setting | | | - |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

17. DEFERRED TAX (CONT'D)

- (b) The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows (cont'd):

Deferred tax liabilities of the Company

| | Property, plant and equipment RM | Other temporary differences RM | Total RM |
|--|---|---|-------------|
| Balance as at 1 July 2019 | (473,141) | - | (473,141) |
| Recognised in profit or loss | (474,453) | (460,200) | (934,653) |
| Balance as at 30 June 2020, prior to off-setting | (947,594) | (460,200) | (1,407,794) |
| Off-setting | | | 534,946 |
| Balance as at 30 June 2020, after off-setting | | | (872,848) |
| Balance as at 1 July 2018 | (20,628) | - | (20,628) |
| Recognised in profit or loss | (452,513) | - | (452,513) |
| Balance as at 30 June 2019, prior to off-setting | (473,141) | - | (473,141) |
| Off-setting | | | 59,920 |
| Balance as at 30 June 2019, after off-setting | | | (413,221) |

Deferred tax assets of the Company

| | Unabsorbed capital allowances RM | Unused tax losses and provision RM | Total RM |
|--|---|---|-------------|
| Balance as at 1 July 2019 | - | 59,920 | 59,920 |
| Recognised in profit or loss | 72,097 | 402,929 | 475,026 |
| Balance as at 30 June 2020, prior to off-setting | 72,097 | 462,849 | 534,946 |
| Off-setting | | | (534,946) |
| Balance as at 30 June 2020, after off-setting | | | - |
| Balance as at 1 July 2018 | - | - | - |
| Recognised in profit or loss | - | 59,920 | 59,920 |
| Balance as at 30 June 2019, prior to off-setting | - | 59,920 | 59,920 |
| Off-setting | | | (59,920) |
| Balance as at 30 June 2019, after off-setting | | | - |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

17. DEFERRED TAX (CONT'D)

- (b) The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows (cont'd):

Unrecognised deferred tax assets

The amount of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows:

| Group | 2020 RM | 2019 RM |
|--|------------|------------|
| Other deductible temporary differences | 4,114,336 | 5,047,970 |

Deferred tax assets of certain subsidiary have not been recognised in respect of this item as the future taxable profits may be insufficient to trigger the utilisation of this item.

The amount and availability of this item to be carried forward are subject to the agreement of the local tax authority.

- (c) The Group is entitled to claim reinvestment allowances of RM1,027,359 (2019:RM1,027,359) under Schedule 7A Income Tax Act, 1967. The unutilised reinvestment allowances for the year of assessment 2019 onwards will expire by year of assessment 2025 (within a period of seven (7) consecutive years of assessment).

18. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|------------------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Trade payables | | | | |
| Third parties | 2,417,202 | 1,264,380 | 1,378,840 | 1,251,459 |
| Related parties | 69,627 | - | - | - |
| Amount owing to a subsidiary | - | - | - | 10,801,516 |
| | 2,486,829 | 1,264,380 | 1,378,840 | 12,052,975 |
| Other payables | | | | |
| Amount owing to a subsidiary | - | - | 22,337,380 | 18,857,527 |
| Other payables | 1,699,535 | 494,413 | 140,557 | 247,934 |
| Accruals | 1,302,324 | 1,541,636 | 278,860 | 494,624 |
| | 3,001,859 | 2,036,049 | 22,756,797 | 19,600,085 |
| | 5,488,688 | 3,300,429 | 24,135,637 | 31,653,060 |

- (a) Trade and other payables are classified as financial liabilities measured at amortised cost.
- (b) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group and to the Company range from 30 to 90 days (2019: 30 to 90 days) from date of invoice.
- (c) The non-trade amount owing to a subsidiary is unsecured, interest free and payable within next twelve (12) months in cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

18. TRADE AND OTHER PAYABLES (CONT'D)

(d) The currency exposure profile of payables is as follows:

| | Group | | Company | |
|------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Ringgit Malaysia | 4,830,254 | 3,148,363 | 23,957,768 | 31,577,081 |
| Euro | - | 26,479 | - | 26,479 |
| US Dollar | 658,434 | 125,587 | 177,869 | 49,500 |
| | 5,488,688 | 3,300,429 | 24,135,637 | 31,653,060 |

(e) The maturity profile of the trade and other payables at the end of each reporting period based on contractual undiscounted repayment obligations is payable on demand or within one (1) year.

(f) Sensitivity analysis of RM against foreign currencies at the end of the reporting period, assuming that all other variables remain constant is as follows:

| Effects of 3% changes to RM against foreign currencies | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Profit after tax | ±15,012 | ±3,467 | ±4,055 | ±1,732 |

19. COMMITMENTS

(a) Operating lease commitments

The Group and the Company as lessee

The Group and the Company had entered into non-cancellable lease agreements for staff housing, office and factory rental, resulting in future rental commitments which can, subject to certain terms in the agreements, be revised annually based on prevailing market rates.

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Not later than one (1) year | - | 156,300 | - | 84,000 |
| Later than one (1) year and not later than five (5) years | - | 7,200 | - | - |
| | - | 163,500 | - | 84,000 |

(b) Capital commitments

| | Group | |
|--|------------|------------|
| | 2020 RM | 2019 RM |
| Capital expenditure in respect of purchase of property, plant and equipment: - Contracted but not provided for | - | 847,041 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

20. CONTINGENT LIABILITY

| | Company | |
|---|------------|------------|
| | 2020 RM | 2019 RM |
| Secured | | |
| Corporate guarantee given to a bank for credit facility granted to a subsidiary | | |
| Utilised | 8,590,400 | 8,833,960 |
| Limit | 10,000,000 | 10,000,000 |

The Group designates corporate guarantees given to banks for credit facilities granted to a subsidiary as insurance contracts as defined in MFRS 4 Insurance Contracts. The Group recognises this corporate guarantee as an insurance liability when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Directors are of the view that the chance of the financial institution to call upon the corporate guarantee is remote. Accordingly, the fair value of the corporate guarantee is negligible.

21. REVENUE

| | Group | | Company | |
|---------------------------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Sales of goods | 50,425,535 | 41,133,057 | 15,462,286 | 4,156,993 |
| Services rendered | - | - | 1,810,684 | 4,476,365 |
| Revenue from contracts with customers | 50,425,535 | 41,133,057 | 17,272,970 | 8,633,358 |

Disaggregation of revenue from contracts with customers of the Group has been presented in the operating segments, Note 4 to the financial statements, which has been presented based on geographical location from which the sales transactions originated.

The revenue of the Company is derived entirely in Malaysia.

Revenue from sale of goods is recognised at a point in time when the products has been transferred to the customer and coincides with the delivery of products and acceptance by customers.

Revenue from services rendered is recognised over time as income when the customer receives and consumes the benefits.

There is no right of return and warranty provided to the customers on the sale of goods and services rendered.

There is no significant financing component in the revenue arising from sale of products and services rendered as the sales or services are made on the normal credit terms not exceeding twelve months.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

22. COST OF SALES

| | Group | | Company | |
|--------------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Cost of inventories sold | 25,386,105 | 18,559,219 | 9,448,265 | 2,615,622 |
| Direct overhead | 3,866,816 | 2,209,555 | 1,884,543 | 590,511 |
| Others | 4,619,956 | 2,015,892 | 2,877,490 | 932,897 |
| | 33,872,877 | 22,784,666 | 14,210,298 | 4,139,030 |

23. FINANCE COSTS

| | Group | | Company | |
|---------------------------|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Interest expense on: | | | | |
| - hire purchase creditors | - | 35,504 | - | - |
| - flexi loan | 11,473 | 21,568 | - | - |
| - lease liabilities | 38,254 | - | 23,312 | - |
| | 49,727 | 57,072 | 23,312 | - |

24. PROFIT BEFORE TAX

Other than those disclosed elsewhere in the financial statements, the profit before tax is arrived at:

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| After charging: | | | | |
| Management fees from subsidiaries | - | - | 800,000 | 800,000 |
| Loss from foreign exchange | | | | |
| - realised | 231,703 | 603,812 | 187,939 | 70,607 |
| Rental of: | | | | |
| - buildings | - | 131,136 | - | 68,886 |
| And crediting: | | | | |
| Dividend income | - | - | 2,300,000 | - |
| Gain from foreign exchange | | | | |
| - unrealised | 824,779 | 1,003,399 | - | - |
| Gain on disposal of property, plant and equipment | 79,449 | - | - | - |
| Interest income | 42,832 | 24,783 | - | - |

Interest income is recognised as it accrues, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

25. TAX EXPENSE

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Current tax expense based on profit for the financial year | 1,206,664 | 422,371 | - | - |
| Under/(Over) provision in prior years | 67,156 | (204,745) | - | (43,496) |
| | 1,273,820 | 217,626 | - | (43,496) |
| Deferred tax (Note 17): | | | | |
| Relating to origination and reversal of temporary differences | 114,176 | 661,187 | 109,022 | 392,315 |
| Under provision in prior years | 256,091 | 146,917 | 350,605 | 278 |
| | 370,267 | 808,104 | 459,627 | 392,593 |
| | 1,644,087 | 1,025,730 | 459,627 | 349,097 |

The Malaysian income tax is calculated at the statutory tax rate of twenty-four percent (24%) (2019: 24%) of the estimated taxable profits for the fiscal year.

The numerical reconciliation between the tax expense and the product of accounting profit multiplied by the applicable tax rates of the Group and of the Company are as follows:

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Profit before tax | 4,789,308 | 5,367,641 | 2,706,169 | 2,413,711 |
| Tax at Malaysian statutory tax rate of 24% (2019: 24%) | 1,149,434 | 1,288,234 | 649,481 | 579,291 |
| Tax effects in respect of: | | | | |
| Non-allowable expenses | 445,363 | 507,564 | 11,541 | 193,503 |
| Non-taxable income | (49,885) | (380,479) | (552,000) | (380,479) |
| Utilisation of previously unrecognised deferred tax assets | (224,072) | (331,761) | - | - |
| | 1,320,840 | 1,083,558 | 109,022 | 392,315 |
| Under/(Over) provision of tax expense in prior years | 67,156 | (204,745) | - | (43,496) |
| Under provision of deferred tax in prior years | 256,091 | 146,917 | 350,605 | 278 |
| | 1,644,087 | 1,025,730 | 459,627 | 349,097 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

26. EARNINGS PER SHARE

(a) Basic

Basic earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year.

| | 2020 | Group 2019 |
|---|-------------|---------------|
| Profit attributable to equity holders of the parent (RM) | 3,145,221 | 4,221,019 |
| Weighted average number of ordinary shares in issue | 573,175,912 | 430,892,808 |
| Adjusted weighted average number of ordinary shares applicable to basic earnings per ordinary share | 573,175,912 | 430,892,808 |
| Basic earnings per ordinary share for profit for the financial year (sen) | 0.55 | 0.98 |

(b) Diluted

Diluted earnings per ordinary share for the financial year is calculated by dividing the profit for the financial year attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the financial year adjusted for the effects of dilutive potential ordinary shares.

| | 2020 | Group 2019 |
|---|-------------|---------------|
| Weighted average number of ordinary shares in issue applicable to basic earnings per ordinary share | 573,175,912 | 430,892,808 |
| Effect of dilution - ESOS | - | 1,786,260 |
| Adjusted weighted average number of ordinary shares applicable to diluted earnings per ordinary share | 573,175,912 | 432,679,068 |
| Diluted earnings per ordinary share for profit for the financial year (sen) | 0.55 | 0.98 |

As at 30 June 2020, there is no effect of dilution due to ESOS upon expiry of ESOS on 22 April 2020.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

27. DIVIDENDS

| | Group and Company | | | |
|--|--------------------|-----------------------------------|--------------------|-----------------------------------|
| | 2020 | 2019 | | |
| | Dividend per share | Amount of single tier dividend RM | Dividend per share | Amount of single tier dividend RM |
| Final single tier dividend in respect of the financial year ended 30 June 2018 | - | - | 0.5 sen | 2,154,461 |
| First interim single tier dividend in respect of the financial year ended 30 June 2019 | - | - | 0.3 sen | 1,292,673 |
| | | - | | 3,447,134 |

No dividend has been paid, declared or proposed by the Company during the financial year.

28. EMPLOYEE BENEFITS

| | Group | | Company | |
|--|------------|-----------|-----------|-----------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Operating expenses | | | | |
| Salaries, bonuses and allowances | 9,013,266 | 5,040,349 | 2,194,966 | 977,119 |
| Contributions to defined contribution plan | 932,669 | 527,252 | 225,740 | 60,727 |
| Share options granted under ESOS | - | 6,573 | - | 6,573 |
| Other benefits | 295,942 | 188,591 | 143,420 | 104,373 |
| | 10,241,877 | 5,762,765 | 2,564,126 | 1,148,792 |
| Capitalised as development costs | | | | |
| Salaries, bonuses and allowances | 1,141,457 | 1,307,736 | 1,141,457 | 1,307,736 |
| Contributions to defined contribution plan | 137,711 | 157,127 | 137,711 | 157,127 |
| Other benefits | 6,067 | 6,145 | 6,067 | 6,145 |
| | 1,285,235 | 1,471,008 | 1,285,235 | 1,471,008 |
| | 11,527,112 | 7,233,773 | 3,849,361 | 2,619,800 |

The main features of 2015 ESOS are as follows:

- The eligible persons are employees and Directors of the Company and its subsidiaries (“the Group”), who are employed by the Group on a full-time basis and must be confirmed in service;
- The maximum number of shares to be offered shall not exceed 15% of the issued and paid-up ordinary share capital of the Company at any one time during the duration of the ESOS;
- The options granted may be exercised any time within the option period from the date of offer;

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

28. EMPLOYEE BENEFITS (CONT'D)

- (d) The option price of a new ordinary share under the ESOS shall be the average of the weighted average market price of the share as quoted in the Daily Official List issued by the Bursa Malaysia Securities Berhad for the five (5) trading days preceding the offer date with an allowance for a discount of not more than ten percent (10%) or at par, whichever is higher;
- (e) The ESOS shall be for a minimum of 100 ordinary shares and a maximum of 1,600,000 ordinary shares in multiple of 100 ordinary shares for 2015 ESOS; and
- (f) The employees and Directors to whom the options have been granted shall not participate at any time in more than one (1) employee share option scheme currently implemented by any company within the Group.

The ESOS scheme was established on 22 April 2015, in force for a period of five (5) years and lapsed on 22 April 2020.

The exercise price of an option granted under the Scheme had been adjusted following the bonus issue of new ordinary shares in Mikro MSC Berhad ("Bonus Shares") in 2018 pursuant to the bonus issue exercise undertaken by the Company on the basis of 2 bonus shares for every 5 existing ordinary shares held by the shareholders of Mikro MSC Berhad.

The details of the adjusted exercise prices were shown in the table below:

| 2020 | Original exercise price (RM) | Adjusted exercise price (RM) |
|------------------|------------------------------|------------------------------|
| 2015 ESOS | | |
| - first tranche | 0.36 | 0.26 |
| - third tranche | 0.36 | 0.26 |
| - fourth tranche | 0.36 | 0.26 |
| - fifth tranche | 0.36 | 0.26 |

29. EMPLOYEE SHARE OPTIONS SCHEME ("ESOS")

The details of the options over ordinary shares of the Company are as follows:

| 2020 | [-----Number of options over ordinary shares-----] | | | | | |
|--|--|--|-------------|-----------|-----------------------------------|-----------------------------------|
| | Outstanding as at 1.7.2019 | Movements during the financial year | | | Outstanding as at 30.6.2020 | Exercisable as at 30.6.2020 |
| | | Adjustments (Bonus issue) | Lapsed | Exercised | | |
| 2015 ESOS | | | | | | |
| - first tranche | 226,800 | - | (226,800) | - | - | - |
| - third tranche | 585,480 | - | (585,480) | - | - | - |
| - fourth tranche | 483,840 | - | (483,840) | - | - | - |
| - fifth tranche | 490,140 | - | (490,140) | - | - | - |
| | 1,786,260 | - | (1,786,260) | - | - | - |
| Weighted average exercise prices (RM) | 0.26 | 0.26 | 0.26 | 0.26 | - | - |
| Weighted average remaining contractual life (months) | 10 | | | | | - |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

29. EMPLOYEE SHARE OPTIONS SCHEME (“ESOS”) (CONT’D)

The details of the options over ordinary shares of the Company are as follows (cont’d):

| | [-----Number of options over ordinary shares-----] | | | | | Outstanding as at 30.6.2019 | Exercisable as at 30.6.2019 |
|--|--|--|-----------|-----------|-----------|-----------------------------------|-----------------------------------|
| | Outstanding as at 1.7.2018 | Movements during the [-----financial year-----] | | | | | |
| 2019 | | Adjustments (Bonus issue) | Lapsed | Exercised | | | |
| 2015 ESOS | | | | | | | |
| - first tranche | 226,800 | - | - | - | 226,800 | 226,800 | |
| - second tranche | 13,440 | - | (13,440) | - | - | - | |
| - third tranche | 622,440 | - | (36,960) | - | 585,480 | 585,480 | |
| - fourth tranche | 622,440 | - | (138,600) | - | 483,840 | 483,840 | |
| - fifth tranche | 622,440 | - | (132,300) | - | 490,140 | 490,140 | |
| | 2,107,560 | - | (321,300) | - | 1,786,260 | 1,786,260 | |
| Weighted average exercise prices (RM) | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 | 0.26 |
| Weighted average remaining contractual life (months) | 22 | | | | | | 10 |

| | Weighted average exercise price RM | Exercise period |
|------------------|---------------------------------------|-----------------------|
| 2020 | | |
| 2015 ESOS | | |
| - first tranche | 0.26 | 22.4.2015 - 22.4.2020 |
| - third tranche | 0.26 | 22.4.2017 - 22.4.2020 |
| - fourth tranche | 0.26 | 22.4.2018 - 22.4.2020 |
| - fifth tranche | 0.26 | 22.4.2019 - 22.4.2020 |
| 2019 | | |
| 2015 ESOS | | |
| - first tranche | 0.26 | 22.4.2015 - 22.4.2020 |
| - second tranche | 0.26 | 22.4.2016 - 22.4.2020 |
| - third tranche | 0.26 | 22.4.2017 - 22.4.2020 |
| - fourth tranche | 0.26 | 22.4.2018 - 22.4.2020 |
| - fifth tranche | 0.26 | 22.4.2019 - 22.4.2020 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

29. EMPLOYEE SHARE OPTIONS SCHEME ("ESOS") (CONT'D)

The fair value of share options granted was estimated by using the Trinomial option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions are as follows:

| | Grant date 22.4.2015 |
|-----------------------------------|---------------------------------|
| Fair value of share options (RM): | |
| 22 April 2015 | |
| - first tranche | 0.16 |
| - second tranche | 0.10 |
| - third tranche | 0.09 |
| - fourth tranche | 0.07 |
| - fifth tranche | 0.04 |
| Weighted average share price (RM) | 0.39 |
| Exercise price (RM) | 0.36 |
| Expected volatility (%) | 44.35 |
| Expected life (years) | 5.00 |
| Risk free rate (%) | 3.78 |
| Expected dividend yield (%) | 4.80 |

30. RELATED PARTY DISCLOSURES

(a) Identities of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties could be individuals or other parties.

Related parties of the Group include:

- (i) Direct subsidiaries as disclosed in Note 9 to the financial statements;
- (ii) Mittric Sdn. Bhd. ("MSB") and Hyakin Power Sdn. Bhd. ("HPSB"), whereby a Director cum substantial shareholder of the Company is also a director in MSB and HPSB.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the financial year:

| | 2020 RM | 2019 RM |
|---|--------------------|--------------------|
| Group | | |
| Purchases of goods from MSB | 85,379 | - |
| Purchases of goods from HPSB | 171,133 | - |
| Company | | |
| Sales of goods to a subsidiary | 15,462,286 | 4,156,993 |
| Royalty fees receivable from subsidiaries | 24,395 | 823,283 |
| Software fees receivable from a subsidiary | 1,486,289 | 3,353,082 |
| Technical fees receivable from a subsidiary | 300,000 | 300,000 |
| Dividends received from subsidiaries | 2,300,000 | - |
| Management fee paid to a subsidiary | 800,000 | 800,000 |
| Lease payable to a subsidiary | 261,240 | 69,000 |

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

30. RELATED PARTY DISCLOSURES (CONT'D)

- (b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the financial year (continued):

The related party transactions described above were entered into in the normal course of business carried out based on negotiated terms and conditions and are mutually agreed with respective parties.

- (c) Compensation of key management personnel

Key management personnel are those persons who have the authorities and responsibilities for planning, directing and controlling the activities of the Group or the Company either directly or indirectly. This includes any Director, whether executive or otherwise, of the Group and the Company.

The remuneration of Directors during the financial year was as follows:

| | 2020 RM | Group 2019 RM |
|--|------------|---------------------|
| Short term employee benefits | 1,694,582 | 1,640,708 |
| Contributions to defined contribution plan | 203,455 | 196,998 |
| Other remuneration | 323,000 | 283,000 |
| | 2,221,037 | 2,120,706 |

31. CAPITAL AND FINANCIAL RISK MANAGEMENT

- (a) Capital management

The primary objective of the capital management of the Group is to ensure that entities of the Group would be able to continue as going concerns whilst maximising the return to shareholders through the optimisation of the debt and equity ratios. The overall strategy of the Group remains unchanged from that in the previous financial year.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 30 June 2020 and 30 June 2019.

The Group and the Company monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group and the Company include within net debt, borrowings, lease liabilities, amount owing to a subsidiary, less cash and bank balances. Borrowings comprise hire purchase creditors and flexi loan. Capital represents equity attributable to the owners of the parent.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

31. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Capital management (cont'd)

| | Group | | Company | |
|--|--------------|--------------|-------------|------------|
| | 2020 RM | 2019 RM | 2020 RM | 2019 RM |
| Borrowings | 8,590,400 | 9,226,879 | - | - |
| Lease liabilities | 638,843 | - | 1,928,540 | - |
| Amount owing to a subsidiary (other payables) | - | - | 22,337,380 | 18,857,527 |
| Total liabilities | 9,229,243 | 9,226,879 | 24,265,920 | 18,857,527 |
| Less: Cash and bank balances | (17,881,462) | (12,092,847) | (416,878) | (233,333) |
| Net (surplus)/debt | (8,652,219) | (2,865,968) | 23,849,042 | 18,624,194 |
| Total capital | 97,029,111 | 59,719,583 | 82,720,221 | 46,432,013 |
| Net (surplus)/debt | (8,652,219) | (2,865,968) | 23,849,042 | 18,624,194 |
| Total | 88,376,892 | 56,853,615 | 106,569,263 | 65,056,207 |
| Gearing ratio | N/A | N/A | 22% | 29% |

Pursuant to the requirements of Guidance Note No. 3/2006 of the Bursa Malaysia Securities Berhad, the Group is required to maintain a shareholders' equity equal to or not less than twenty-five percent (25%) of the issued and paid-up capital of the Company.

The Group has complied with these requirements for the financial year ended 30 June 2020.

The Group is not subject to any other externally imposed capital requirements.

(b) Financial risk management

The overall financial risk management objective of the Group is to optimise its shareholders' value and not to engage in speculative transactions.

The Group is exposed mainly to foreign currency risk, interest rate risk, credit risk and liquidity and cash flow risk. Information on the management of the related exposures is detailed below:

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group also holds cash and bank balances denominated in foreign currency for working capital purposes.

The policy of the Group is to minimise the exposure in foreign currency risk by matching foreign currency income against foreign currency cost. The Group also attempts to limit its exposure for all committed transactions by entering into foreign currency forward contracts. As such, the fluctuations in foreign currencies are not expected to have a significant financial impact to the Group.

The Group maintains a natural hedge, where possible, by borrowing in the currency of the country in which the investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments.

The foreign currency exposure profile and sensitivity analysis of foreign currency risk have been disclosed in Notes 11, 12, and 18 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

31. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Financial risk management (cont'd)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of the Group and of the Company will fluctuate because of changes in market interest rates. The exposure to market risk of the Group and of the Company for changes in interest rates relates primarily to the lease liabilities, borrowings and deposits with a licensed bank of the Group and of the Company.

The interest rate profile and sensitivity analysis of interest rate risk have been disclosed in Notes 6, 12 and 16 to the financial statements.

(iii) Credit risk

Exposure to credit risk arises mainly from sales made on credit terms and deposits with a licensed bank. The Group controls the credit risk on sales by ensuring that its customers have sound financial position and credit history. The Group also seeks to invest cash assets safely and profitably with approved financial institutions in line with the policy of the Group.

Exposure to credit risk

At the end of each reporting period, the maximum exposure to credit risk of the Group and of the Company is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Information regarding credit risk concentration for trade and other receivables is disclosed in Note 11 to the financial statements.

(iv) Liquidity and cash flow risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all operating, investing and financing needs are met. In executing its liquidity risk management strategy, the Group measures and forecasts its cash commitments and maintains a level of cash and cash equivalents deemed adequate to finance the activities of the Group.

The analysis of financial instruments by remaining contractual maturities have been disclosed in Notes 6, 15 and 18 to the financial statements.

32. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

- (a) In 30 April 2019, the Company had entered into Share Sale Agreement (“SSA”) with the former shareholders of EPE Busway Sdn. Bhd. (“Busway”) and Mittric Systems Sdn. Bhd. (“Mittric”) respectively to acquire 100% equity interest, representing 5,000,000 ordinary shares in Busway and 100,000 ordinary shares in Mittric (“Proposed Acquisition”) for a total purchase consideration of RM34,041,666 to be satisfied entirely via issuance of 158,333,332 new ordinary shares in the Company.

The conditions precedent as set out in the Busway SSA and Mittric SSA have been fulfilled on 17 July 2019 in accordance with the respective terms of Busway SSA and Mittric SSA. Accordingly, Busway and Mittric became wholly owned subsidiaries of the Company.

- (b) In 30 September 2019, the Company had acquired the remaining 49% equity interest, representing 49 ordinary shares in Mikrocap for a total cash consideration of RM700,000. Pursuant to that, Mikrocap’s equity interest in the Company increased from 51% to 100% and Mikrocap became a wholly owned subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

32. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONT'D)

- (c) The World Health Organisation declared the novel coronavirus ("COVID-19") a global pandemic on 11 March 2020. The Government of Malaysia imposed the Movement Control Order ("MCO") on 18 March 2020 and has subsequently entered into the recovery phase of the MCO until 31 December 2020.

The extent of the financial impact on the Group and the Company is difficult to assess at the date of authorisation of financial statements due to uncertainties arising from the pandemic. To mitigate its potential risks exposure, the Group and the Company have taken and will continue to take necessary steps to safeguard and preserve its financial condition, emphasising on liquidity management to meet its continuing financial commitments and liquidity needs of business operations.

33. SIGNIFICANT EVENT SUBSEQUENT TO THE END OF THE REPORTING PERIOD

- (a) In 11 August 2020, the Company had subscribed for 120,000 ordinary shares in Mikro SmartConnection Sdn. Bhd. ("MSSB") at an issue price of RM1.00 per share representing 60% of the issued share capital of MSSB for total consideration of RM120,000. Accordingly, MSSB became a subsidiary of the Company.

34. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs

34.1 New MFRSs adopted during the financial year

The Group and the Company adopted the following Standards and Amendments of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the financial year:

| Title | Effective Date |
|---|--------------------------------|
| MFRS 16 <i>Leases</i> | 1 January 2019 |
| IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> | 1 January 2019 |
| Amendments to MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i> | 1 January 2019 |
| Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i> | 1 January 2019 |
| Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i> | 1 January 2019 |
| Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i> | 1 January 2019 |
| Amendment to MFRS 16 <i>Covid-19-Related Rent Concessions</i> | 1 June 2020 (early adopted) |

Adoption of the above Standards and Amendments did not have any material effect on the financial performance or position of the Group and of the Company except for the adoption of MFRS 16 described in the following section.

MFRS 16 *Leases*

MFRS 16 supersedes MFRS 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the financial statements.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors would continue to classify leases as either operating or finance leases using similar principles as in MFRS 117.

The Group applied MFRS 16 using the modified retrospective approach, for which the cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

34. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (CONT'D)

34.1 New MFRSs adopted during the financial year (cont'd)

MFRS 16 Leases (cont'd)

On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the Group as of 1 July 2019. The weighted average incremental borrowing rate of the Group applied to the lease liabilities on 1 July 2019 was 4.13%.

In order to compute the transition impact of MFRS 16, a data extraction exercise was undertaken by management to summarise all property and equipment lease data such that the respective inputs could be uploaded into management’s model. The incremental borrowing rate method has been adopted where the implicit rate of interest in a lease is not readily determinable.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability respectively at the date of initial application. The measurement principles of MFRS 16 are only applied after that date.

In applying MFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- (i) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (ii) Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019;
- (iii) Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 and do not contain a purchase option as short-term leases;
- (iv) Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- (v) Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On transition to MFRS 16, the Group recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

| Group | Note | As at 30 June 2019 RM | Impact RM | As at 1 July 2019 RM |
|-------------------------------|------|-----------------------------|--------------|----------------------------|
| Property, plant and equipment | | 21,333,522 | (935,733) | 20,397,789 |
| Right-of-use assets | (a) | - | 1,289,414 | 1,289,414 |
| Borrowings | | 9,226,879 | (392,919) | 8,833,960 |
| Lease liabilities | (b) | - | 758,507 | 758,507 |
| Retained earnings | | 16,093,327 | (11,907) | 16,081,420 |

- (a) The associated right-of-use assets for property leases were measured on a cumulative basis as if the new rules had always been applied. Other right-of-use assets were measured at their carrying amounts as if the Standard had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

34. ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (CONT'D)

34.1 New MFRSs adopted during the financial year (cont'd)

MFRS 16 Leases (cont'd)

(b) Lease liabilities are measured as follows:

| | Group RM | Company RM |
|--|-------------|---------------|
| Operating lease commitments as at 30 June 2019 as disclosed under MFRS 117 | 163,500 | 84,000 |
| Weighted average incremental borrowing rate as at 1 July 2019 | 4.13% | 3.55% |
| Discounted operating lease commitments as at 1 July 2019 | 156,747 | 81,018 |
| Finance lease liabilities recognised as at 30 June 2019 | 392,919 | - |
| Recognition exemption for leases of low-value assets | (9,780) | - |
| Recognition exemption for leases with less than 12 months of lease term at transition date | (110,092) | (81,018) |
| Contracts reassessed as lease contracts | 328,713 | - |
| | 758,507 | - |

34.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2020

The following are Standards and Amendments of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group and the Company.

| Title | Effective Date |
|---|----------------|
| Amendments to <i>References to the Conceptual Framework in MFRS Standards</i> | 1 January 2020 |
| Amendments to MFRS 3 <i>Definition of a Business</i> | 1 January 2020 |
| Amendments to MFRS 101 and MFRS 108 <i>Definition of Material</i> | 1 January 2020 |
| Amendments to MFRS 9, MFRS 139 and MFRS 7 <i>Interest Rate Benchmark Reform</i> | 1 January 2020 |
| Amendments to MFRS 4 <i>Insurance Contract - Extension of the Temporary Exemption from Applying MFRS 9</i> | 17 August 2020 |
| Annual Improvements to MFRS Standards 2018 - 2020 | 1 January 2022 |
| Amendments to MFRS 3 <i>Reference to the Conceptual Framework</i> | 1 January 2022 |
| Amendments to MFRS 116 <i>Property, Plant and Equipment - Proceeds before Intended Use</i> | 1 January 2022 |
| Amendments to MFRS 137 <i>Onerous Contracts - Cost of Fulfilling a Contract</i> | 1 January 2022 |
| Amendments to MFRS 101 <i>Classification of Liabilities as Current or Non-current</i> | 1 January 2023 |
| MFRS 17 <i>Insurance Contracts</i> | 1 January 2023 |
| Amendments to MFRS 17 <i>Insurance Contracts</i> | 1 January 2023 |
| Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | Deferred |

The Group and the Company are in the process of assessing the impact of implementing these Standards and Amendments, since the effects would only be observable for future financial years.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

35. FINANCIAL REPORTING UPDATES

35.1 IFRIC Agenda Decision - An assessment of the lease term (IFRS 16)

The IFRS Interpretations Committee (“IFRIC”) issued a final agenda decision on 26 November 2019 regarding “Lease term and useful life of leasehold improvements (IFRS 16 and IAS 16)”.

The submission to the IFRIC raised a question pertaining the determination of the lease term of a cancellable lease or a renewable lease based on the requirements of IFRS 16.B34.

Based on the final agenda decision, the IFRIC concluded that the determination of the enforceable period of a lease and the lease term itself shall include broad economic circumstances beyond purely commercial terms.

The Group has implemented the requirements of this final agenda decision during the financial year ended 30 June 2020.

ANALYSIS OF SHAREHOLDINGS

AS AT 29 SEPTEMBER 2020

| | | |
|----------------------|---|-----------------------------|
| Issued Share Capital | : | 589,226,140 ordinary shares |
| Class of Shares | : | Ordinary Shares |
| Voting Rights | : | One vote per ordinary share |

SIZE OF SHAREHOLDINGS

as at 29 September 2020

| Size of Holdings | No. of Shareholders | Total Holdings | % |
|-------------------------------------|---------------------|----------------|--------|
| Less than 100 shares | 168 | 6,993 | 0.00 |
| 100 – 1,000 shares | 675 | 230,232 | 0.04 |
| 1,001 – 10,000 shares | 1,073 | 6,550,079 | 1.11 |
| 10,001 – 100,000 shares | 1,524 | 52,942,256 | 8.99 |
| 100,001 – below 5% of issued shares | 310 | 234,950,739 | 39.87 |
| 5% and above of issued shares | 4 | 294,545,841 | 49.99 |
| | 3,754 | 589,226,140 | 100.00 |

DIRECTORS' SHAREHOLDINGS

as at 29 September 2020

| No. | Name | Direct Interest | | Deemed Interest | |
|-----|------------------------|-----------------|-------|-----------------|---|
| | | Shares | % | Shares | % |
| 1. | Yim Yuen Wah | 147,459,200 | 25.03 | - | - |
| 2. | Fong See Ni | 31,660,650 | 5.37 | - | - |
| 3. | Michael Aw Ming Han | 23,496,966 | 3.99 | - | - |
| 4. | Datuk Aznam Bin Mansor | 7,055,645 | 1.20 | - | - |
| 5. | Dr. Tou Teck Yong | 504,000 | 0.09 | - | - |
| 6. | Woon Yeow Thong | 336,000 | 0.06 | - | - |
| 7. | Goh Yoke Chee | 83,000 | 0.01 | - | - |
| 8. | Lu Chee Leong | 0 | 0 | - | - |

SUBSTANTIAL SHAREHOLDERS

as at 29 September 2020

| No. | Name | Direct Interest | | Deemed Interest | |
|-----|--------------------------------|-----------------|--------|-----------------|---|
| | | Shares | % | Shares | % |
| 1. | Yim Yuen Wah | 147,459,200 | 25.03 | - | - |
| 2. | Low Khek Heng @ Low Choon Huat | 83,398,366 | 14.153 | - | - |
| 3. | Tham Su Liam | 32,027,625 | 5.44 | - | - |
| 4. | Fong See Ni | 31,660,650 | 5.37 | - | - |

ANALYSIS OF SHAREHOLDINGS AS AT 29 SEPTEMBER 2020

THIRTY (30) LARGEST SHAREHOLDERS

as at 29 September 2020

| No. | Names | No. of Shares held | % |
|-----|--|--------------------|-------|
| 1. | YIM YUEN WAH | 116,501,700 | 19.77 |
| 2. | LOW KHEK HENG @ LOW CHOON HUAT | 83,398,366 | 14.15 |
| 3. | THAM SU LIAM | 32,027,625 | 5.44 |
| 4. | YIM YUEN WAH | 29,855,000 | 5.07 |
| 5. | FONG SEE NI | 25,570,650 | 4.34 |
| 6. | MICHAEL AW MING HAN | 14,996,966 | 2.55 |
| 7. | CHEN CHUN HSIUNG | 12,119,525 | 2.06 |
| 8. | MALAYSIAN TRUSTEES BERHAD LOW KHEK HENG @LOW CHOON HUAT | 11,187,000 | 1.90 |
| 9. | LIU MARN COLE | 10,525,000 | 1.79 |
| 10. | NG MEI JIN | 8,628,000 | 1.46 |
| 11. | MICHAEL AW MING HAN | 8,500,000 | 1.44 |
| 12. | PAU YU TIONG | 7,104,200 | 1.21 |
| 13. | AZNAM BIN MANSOR | 7,055,645 | 1.20 |
| 14. | KOK WENG FONG | 7,016,666 | 1.19 |
| 15. | FONG SEE NI | 6,090,000 | 1.03 |
| 16. | CHAI SENG CHAI | 5,670,303 | 0.96 |
| 17. | TOH YEW BOON | 4,560,834 | 0.77 |
| 18. | AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR PAU YU TIONG | 4,411,300 | 0.75 |
| 19. | TANG HENG CHEONG | 3,859,166 | 0.65 |
| 20. | WONG YIN WAH | 3,765,625 | 0.64 |
| 21. | TAM KAH KEONG | 3,465,210 | 0.59 |
| 22. | LEE CHONG KIOW | 3,176,285 | 0.54 |
| 23. | MALAYSIAN TRUSTEES BERHAD MICHAEL AW MING HAN | 2,925,000 | 0.50 |
| 24. | CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR YOONG KAH YIN (MY2443) | 2,800,000 | 0.48 |
| 25. | MAYBANK NOMINEES (TEMPATAN) SDN BHD LIEW KAH LOONG | 2,759,800 | 0.47 |
| 26. | FONG SEE TING | 2,745,540 | 0.47 |
| 27. | PAU YU TIONG | 2,668,800 | 0.45 |
| 28. | CGS-CIMB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR CHEONG HO LENG (MY0083) | 2,479,980 | 0.42 |
| 29. | LONG YIN FEAI | 2,413,900 | 0.41 |
| 30. | CHEN SHU PING @ CHIN SHU PING | 2,283,750 | 0.39 |

NOTICE OF 14th ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fourteenth (“14th”) Annual General Meeting (“AGM”) of the Company will be held at Kota Permai Golf Country Club, No. 1, Jalan 31/100A, Kota Kemuning, Section 31, 40460 Shah Alam, Selangor Darul Ehsan on Thursday, 26 November 2020 at 10.00 a.m. for the purpose of transacting the following businesses: -

AGENDA

1. To receive the Audited Financial Statements of the Company for the financial year ended 30 June 2020 together with the Directors’ and Auditors’ Reports thereon.
2. To approve the payment of a final single tier dividend of 0.05 sen per ordinary share for the financial year ended 30 June 2020. **Ordinary Resolution 1**
3. To approve the payment of Directors’ Fees, Benefits and Meeting Allowance of up to RM 407,425.00 for the period from December 2020 until the next AGM in November 2021. **Ordinary Resolution 2**
4. To re-elect the following directors retiring pursuant to the Company’s Constitution and being eligible, have offered themselves for re-election :-
 - 4.1 Mr Yim Yuen Wah (Article 83) **Ordinary Resolution 3**
 - 4.2 Datuk Aznam Bin Mansor (Article 83) **Ordinary Resolution 4**
 - 4.3 Dr Tou Teck Yong (Article 83) **Ordinary Resolution 5**
5. To re-appoint Messrs BDO PLT as Auditors of the Company to hold office until the conclusion of the next AGM and to authorise the Board of Directors to fix their remuneration. **Ordinary Resolution 6**

AS SPECIAL BUSINESS

To consider, and if thought fit, to pass the following resolutions: -

6. **AUTHORITY TO ALLOT SHARES PURSUANT TO SECTION 75(1) OF THE COMPANIES ACT 2016** **Ordinary Resolution 7**

“THAT pursuant to Section 75(1) of the Companies Act 2016 (“Act”), and subject to the approvals of the relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered to allot new shares in the Company from time to time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that the aggregate number of shares allotted pursuant to this resolution does not exceed twenty 20% of the issued share capital of the Company thereat AND THAT the Directors be and are also hereby authorised to obtain the approval from Bursa Malaysia Securities Berhad for the listing and quotation of the additional shares so allotted AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company.”
7. **RETENTION OF DIRECTORS AS INDEPENDENT DIRECTORS OF THE COMPANY**

THAT the following directors who have served the Company for more than 9 years be retained as Independent Non-Executive Directors and to hold office until the conclusion of the next Annual General Meeting :-

 - 7.1 Datuk Aznam Bin Mansor **Ordinary Resolution 8**
 - 7.2 Mr Lu Chee Leong **Ordinary Resolution 9**
 - 7.3 Dr Tou Teck Yong **Ordinary Resolution 10**
 - 7.4 Mr Woon Yeow Thong **Ordinary Resolution 11**

NOTICE OF 14th ANNUAL GENERAL MEETING

8. To transact any other business which may properly be transacted at an AGM for which due notice shall have been given.

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

Subject to the approval of the shareholders, a final single tier dividend of 0.05 sen per ordinary share for the financial year ended 30 June 2020 will be paid on 22 December 2020 to Depositors registered in the Record of Depositors at the close of business at 5.00 p.m. on 3 December 2020.

A depositor shall qualify for entitlement only in respect of:-

- (a) Shares transferred into the Depositor's Securities Account before 4.30 p.m. on 3 December 2020 in respect of ordinary transfers; and
- (b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

By Order of the Board

M. CHANDRASEGARAN A/L S. MURUGASU (MAICSA NO. 0781031)

LIM SECK WAH (MAICSA NO. 0799845)

Company Secretaries

Dated: 30 October 2020

Selangor Darul Ehsan

Notes:-

1. For the purpose of determining a member who shall be entitled to attend, speak and vote at the Annual General Meeting, the Company shall be requesting the Record of Depositors as at 20 November 2020. Only a depositor whose name appears on the Record of Depositors as at 20 November 2020 shall be entitled to attend the said meeting or appoint proxies to attend, speak and vote in his/her stead.
2. A member entitled to attend and vote at this meeting is entitled to appoint up to two (2) proxies to attend in his/her stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
3.
 - (i) Where a member of the Company is an authorized nominee, as defined under the Central Depositories Act, it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds which is credited with ordinary shares of the Company. The appointment of two (2) proxies in respect of any particular securities account shall be invalid unless the authorized nominee specifies the proportion of its shareholding to be represented by each proxy.
 - (ii) Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds. The appointment of two (2) or more proxies in respect of any particular omnibus account shall be invalid unless the exempt authorized nominee specifies the proportion of its shareholding to be represented by each proxy.
4. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his attorney duly authorised in writing, and in the case of a corporation, shall be executed under its Common Seal or under the hand of an officer or attorney of the corporation duly authorised.

NOTICE OF 14th ANNUAL GENERAL MEETING

5. The instrument appointing the proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney, must be deposited at the Share Registrar's Office at Unit 32-01, Level 32, Tower A, Vertical Business Suites, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.

6. **Explanatory notes on Special Business**

6.1 Resolution on Renewal of Authority To Allot Shares

The proposed Ordinary Resolution 7 is to seek a new general mandate to empower the Directors of the Company pursuant to the Companies Act 2016, from the date of the above Meeting, to issue and allot ordinary shares of not more than twenty per centum (20%) for such purposes as the Directors of the Company consider would be in the best interest of the Company. This authority will, unless revoked or varied at a General Meeting, will expire at the conclusion of the next AGM of the Company.

The Board of Directors are of the view that the 20% General Mandate is in the best interest of the Company and its shareholders as due to the outbreak of the COVID 19 and hence, the imposition of the Movement Control Order ("MCO") by the government which has affected the Company's cashflow. Hence, this increase in mandate to 20% would allow the Company to raise funds quickly and efficiently during this challenging time to ensure the long-term sustainability and interest of the Company and its shareholders.

The Company had been granted a general mandate by its shareholders at the Thirteenth AGM of the Company held on 28 November 2019. However, no shares have been issued and allotted by the Company pursuant to Section 75(1) of the Companies Act 2016 since obtaining the said authority from its shareholders at the last AGM held on 28 November 2019.

The proposed resolution, if passed, will provide flexibility and enable the Directors to take swift action for allotment of shares for any possible fund-raising activities, including but not limited to further placement of shares for purpose of funding future investment project(s), working capital and/or acquisition(s) and to avoid delay and cost in convening general meetings to approve such issue of shares.

6.2 Resolution Pursuant to Retention As Independent Directors

The proposed Ordinary Resolutions 8, 9, 10 and 11 will allow the Directors, Datuk Aznam Bin Mansor, Mr Lu Chee Leong, Dr Tou Teck Yong and Mr Woon Yeow Thong who have served for more than 9 consecutive years, to continue to act as Independent Non-Executive Directors of the Company as: -

- i) They fulfil the criteria under the definition of an Independent Director as stated in the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, and thus they are able to function as check and balance, provide a broader view and bring an element of objectivity to the Board;
- ii) They understand the business nature and office structure;
- iii) They provide the Board valuable advice and insight;
- iv) They actively participate in Board deliberations and decision making in an objective manner; and
- v) They uphold independent decision and challenges the management objectively.

ADMINISTRATIVE GUIDE

FOURTEENTH ANNUAL GENERAL MEETING (“14th AGM”)

Day and Date : Thursday, 26th November 2020
Time : 10:00 a.m.
Venue : Kota Permai Golf Country Club, No. 1, Jalan 31/100A,
Kota Kemuning, Section 31, 40460 Shah Alam, Selangor

MEASUREMENT TO MINIMISE RISKS OF COVID-19 INFECTION

In view of the COVID-19 situation, the following steps will be taken for shareholders, proxies and others who will be attending the 14th AGM in order to minimize the risks of spreading the COVID-19 virus:

TEMPERATURE CHECKS AND FACE MASK

1. All persons attending the 14th AGM will be required to undergo a temperature check before entering the 14th AGM venue.
2. Any person who had recent travel history to overseas or any red zone areas in Malaysia during the last 14 days prior to the 14th AGM or had been in contact with a suspected or confirmed COVID-19 patient during the last 14 days prior to the 14th AGM, irrespective of nationality, will not be permitted to attend the 14th AGM.
3. Any person with a body temperature of more than 37.5 degrees Celsius and/or exhibit flu-like symptoms will not be allowed to attend the 14th AGM. Shareholders/proxies who are feeling unwell are strongly advised not to attend the 14th AGM.
4. All persons must practise proper hygiene including the use of hand sanitisers provided by the Company and are strongly advised to wear a face mask before entering the 14th AGM venue.

SOCIAL DISTANCING AND SEATING ARRANGEMENT

5. To enhance social distancing measures, the seats allocated for shareholders/proxies at the 14th AGM venue will be maintained at a certain distance from one another as per the guidelines and/or standing operating procedure provided by the relevant governmental and/or health authorities.

As the COVID-19 situation continues to evolve, the Company will closely monitor the situation and reserves the right to take further measures as appropriate up to the day of the 14th AGM of the Company, in accordance with the guidelines and/or standing operating procedure issued by the Malaysian Government and other relevant authorities in order to minimise any risk to shareholders and others attending the 14th AGM. The Company would like to thank all shareholders for their patience and co-operation in enabling us to hold our 14th AGM with the optimum safe distancing measures amidst the COVID-19 pandemic.

PRE-REGISTRATION TO ATTEND THE ANNUAL GENERAL MEETING

6. Shareholders are required to register ahead of the 14th AGM to allow the Company to make the necessary arrangements in relation to the meeting i.e. infrastructure, logistics and meeting venue(s) to accommodate the meeting participants and to ensure compliance with the directives or guidelines on public gathering issued by the relevant government authorities.

ADMINISTRATIVE GUIDE

FOURTEENTH ANNUAL GENERAL MEETING (“14th AGM”)

PRE-REGISTRATION TO ATTEND THE ANNUAL GENERAL MEETING (CONT'D)

7. Please do read and follow the following procedures to pre-register your physical attendance at the 14th AGM via the TIIH Online website at <https://tiih.online>.
 - Login in to TIIH Online website with your user name (i.e. e-mail address) and password under the “e-Services”. If you have not registered as a user of TIIH Online, please refer to the tutorial guide posted on the homepage for assistance to sign up.
 - Select the corporate event: “**(REGISTRATION) MIKRO 14TH AGM**”.
 - Read and agree to the Terms & Conditions and confirm the Declaration.
 - Select “Register for Physical Attendance at Meeting Venue”.
 - Review your registration and proceed to register.
 - System will send an e-mail to notify that your registration for Physical Attendance at Meeting Venue is received and will be verified.
 - After verification of your registration against the General Meeting Record of Depositors as at 20 November 2020, the system will send you an e-mail after **24 November 2020** to approve or reject your registration to attend physically at the Meeting Venue.

REGISTRATION ON THE DAY OF 14th AGM

8. Registration will commence at 9:00 a.m.
9. Please present your original National Registration Identity Card (NRIC) or Passport to the registration staff for verification.
10. A voting slip and an identification wristband will be given to you thereafter. No one will be allowed to enter the meeting room without an identification wristband.
11. Registration must be done in person. No person is allowed to register on behalf of another.
12. The registration counter will handle verification of identity, registration and revocation of proxy/proxies.

PROXY

13. A member entitled to attend and vote in the meeting is allowed to appoint proxy. Please submit your Form of Proxy in accordance with the notes stated in the Proxy Form.
14. The Form of Proxy is not required if you are attending as shareholder.
15. If you have submitted your Form of Proxy prior to the meeting and subsequently decided to attend the meeting in person, please proceed to the registration counter to revoke the appointment of your proxy.
16. Please ensure that the original Form of Proxy is deposited at the Poll Administrator’s address at Unit 32-01, Level 32, Tower A, Vertical Business Suites, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the meeting time. No proof of sending of Form of Proxy will be entertained.

GENERAL MEETING RECORD OF DEPOSITORS

17. For the purpose of determining who shall be entitled to attend the 14th Annual General Meeting, the Company will be requesting Bursa Malaysia Depository Sdn. Bhd. to issue a General Meeting Record of Depositors as at 20 November 2020 and only a depositor whose name appears on such Record of Depositors shall be entitled to attend the said meeting.

ADMINISTRATIVE GUIDE

FOURTEENTH ANNUAL GENERAL MEETING (“14th AGM”)

NO RECORDING OR PHOTOGRAPHY

18. No recording or photography of the 14th AGM proceedings is allowed without the prior written permission of the Company.

MOBILE DEVICES

19. Please ensure all mobile devices i.e. phones/other sound emitting devices are put on silence mode during the 14th AGM to ensure smooth and uninterrupted proceedings.

14th AGM ENQUIRY

20. For any enquiry prior to the 14th AGM, please contact the following during office hours

Tricor Investor & Issuing House Services Sdn Bhd
Sazali Husin +603-2783 9280 (Sazali@my.tricorglobal.com)
Amier Aried +603-2783 9250 (Amier.Arief@my.tricorglobal.com)

| | |
|----------------------------|--|
| No of ordinary Shares held | |
| CDS A/C No. | |

I/We _____ I/C No./Co. No _____
(Full name in block letters)

of _____ Telephone No _____
(Full address)

being a member/members of MIKRO MSC BERHAD hereby appoint the following person(s):-

| Name of proxy, NRIC No. & Address | No. of shares to be represented by proxy |
|-----------------------------------|--|
| 1. _____ _____ | _____ |
| 2. _____ _____ | _____ |

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Fourteenth Annual General Meeting of the Company to be held at Kota Permai Golf Country Club, No. 1, Jalan 31/100A, Kota Kemuning, Section 31, 40460 Shah Alam, Selangor Darul Ehsan, Malaysia on Thursday, 26 November 2020 at 10.00 a.m.. My/our proxy/proxies is/are to vote as indicated below:-

| | FIRST PROXY | | SECOND PROXY | |
|------------------------|-------------|---------|--------------|---------|
| | FOR | AGAINST | FOR | AGAINST |
| Ordinary Resolution 1 | | | | |
| Ordinary Resolution 2 | | | | |
| Ordinary Resolution 3 | | | | |
| Ordinary Resolution 4 | | | | |
| Ordinary Resolution 5 | | | | |
| Ordinary Resolution 6 | | | | |
| Ordinary Resolution 7 | | | | |
| Ordinary Resolution 8 | | | | |
| Ordinary Resolution 9 | | | | |
| Ordinary Resolution 10 | | | | |
| Ordinary Resolution 11 | | | | |

(Please indicate with a "√" or "X" in the space provided how you wish your vote to be cast. If no instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

Dated this _____ day of _____ 2020

.....
Signature/Common Seal

Notes:-

- For the purpose of determining a member who shall be entitled to attend, speak and vote at the Annual General Meeting, the Company shall be requesting the Record of Depositors as at 20 November 2020. Only a depositor whose name appears on the Record of Depositors as at 20 November 2020 shall be entitled to attend the said meeting or appoint proxies to attend, speak and vote in his/her stead.
- A member entitled to attend and vote at this meeting is entitled to appoint up to two (2) proxies to attend in his/her stead. A proxy may but need not be a member of the Company and a member may appoint any person to be his proxy. Where a member appoints two (2) proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy.
- (i) Where a member of the Company is an authorized nominee, as defined under the Central Depositories Act, it may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds which is credited with ordinary shares of the Company. The appointment of two (2) proxies in respect of any particular securities account shall be invalid unless the authorized nominee specifies the proportion of its shareholding to be represented by each proxy.
- (ii) Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds. The appointment of two (2) or more proxies in respect of any particular omnibus account shall be invalid unless the exempt authorized nominee specifies the proportion of its shareholding to be represented by each proxy.
- The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his attorney duly authorised in writing, and in the case of a corporation, shall be executed under its Common Seal or under the hand of an officer or attorney of the corporation duly authorised.
- The instrument appointing the proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney, must be deposited at the Share Registrar's Office of the Company at Unit 32-01, Level 32, Tower A, Vertical Business Suites, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.

Fold along this line [1]

AFFIX STAMP
HERE

MIKRO MSC BERHAD 200601018418 (738171-M)
c/o Tricor Investor & Issuing House Services Sdn Bhd

Unit 32-01, Level 32, Tower A
Vertical Business Suites
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

Fold along this line [1]