

ETI TECH CORPORATION BERHAD (667845-M)
(Incorporated in Malaysia)
QUARTERLY REPORT FOR THE SECOND QUARTER ENDED 31 AUGUST 2013

PART A - EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) No. 134

A1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with the requirements of Chapter 9, Continuing Disclosure, Paragraph 9.22 of the Main Market Listing Requirements (“LR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) and in compliance with Malaysian Financial Reporting Standards (“MFRSs”) 134, Interim Financial Reporting issued by Malaysian Accounting Standards Board (MASB), and should be read in conjunction with the Group’s annual audited financial statements for the eighteen months period ended 28 February 2013.

The significant accounting policies, methods of computation and basis of consolidation adopted by the Group for the preparation of the interim financial report are consistent with those adopted in the annual audited financial statements for the eighteen months period ended 28 February 2013 except for the newly MFRS and IC Interpretations (“IC Int.”) to be applied by all Entities Other Than Private Entities for the financial period beginning on 1 January 2013:-

MFRS 3	Business Combination
MFRS 10	Consolidated Financial Statement
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interest in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (Revised)
MFRS 127	Consolidated and Separate Financial Statements
MFRS 128	Investment in Associates
Amendment to MFRS 1	First-time Adoption of MFRS – Government Loans
Amendments to MFRS 7	Financial Instruments : Disclosure – Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 10	Consolidated Financial Statements : Transition Guidance
Amendments to MFRS 11	Joint Arrangement : Transition Guidance
Amendments to MFRS 12	Disclosure of Interest in Other Entities : Transition Guidance
Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income
IC Int. 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvement to IC Interpretations and MFRSs 2009 -2011 Cycle	

The adoption of the above pronouncements did not have any impact to the Group.

The Group has not adopted the following MFRSs, Amendments to MFRSs and IC Interpretations, which were issued but not yet effective:-

Effective date : 1 January 2014

Amendments to MFRS 10	Consolidated Financial Statements : Investment Entities
Amendments to MFRS 12	Disclosure of Interest in Other Entities : Investment Entities
Amendments to MFRS 127	Consolidated and Separate Financial Statements : Investment Entities
Amendments to MFRS 132	Financial Instruments : Presentation – Offsetting Financial Assets and Financial Liabilities

Effective date : 1 January 2015

MFRS 9	Financial Instruments
Amendments to MFRS 9	Mandatory Effective Date of MFRS 9 and Transition Disclosures

Effective date : 1 January 2013

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interest on Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits
MFRS 127	Separate Financial Statements
MFRS 128	Investments in Associates and Joint Ventures
Amendments to MFRS 1	Government Loans
Amendments to MFRS 7	Disclosure - Offsetting Financial Assets and Financial Liabilities
IC Int. 20	Stripping Costs in the Production Phase of a Surface Mine

Effective date : 1 January 2014

Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities
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Effective date : 1 January 2015

MFRS 9	Financial Instruments
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A2. Changes in accounting policies

There is no material changes in Statement in Financial Position, Statement of Comprehensive Income and Statement of Cash Flows presented under MFRS framework and the Statement of Comprehensive Income and Statement of Cash Flows presented under FRS framework.

A3. Seasonal or cyclical operations

There is no material seasonal or cyclical fluctuation in the operations of the Group.

A4. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size or incidence

There was no item of unusual nature or amount affecting the assets, liabilities, equity, net income or cash flows during the current quarter under review.

A5. Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year, which give a material effect in the current interim period

There was no material change in the estimates of amounts reported in prior interim periods of the current financial year or prior years that have a material effect on the current quarter under review.

A6. Issuances, cancellations, repurchases, resale and repayments of debt and equity securities

There were no issuance, cancellations, repurchase, resale and repayments of debts and equity securities during the current quarter under review and the Company had not engaged in any share buyback scheme or implemented any share cancellation.

A7. Dividend paid

No dividend was declared or paid during the current quarter under review.

A8. Segmental information

The ETICB Group operates in one industry and accordingly, only geographical segmental information is presented as follows:-

	Current Quarter 31.08.2013 RM'000	Current Period To Date 31.08.2013 RM'000
<i>Revenue</i>		
Domestic sales	10	145

A9. Valuation of property, plant and equipment

There was no valuation on any of the ETICB Group's property, plant and equipment during the current quarter under review.

A10. Acquisition of property, plant and equipment

There was no material acquisition or disposal of property, plant and equipment of the ETICB Group during the current quarter under review.

A11. Significant events during the current quarter

On 26 June 2013, Bursa Malaysia Securities Berhad (Bursa Malaysia Securities) has publicly reprimanded ETICB for breaching paragraphs 9.03(1) and 9.04(1) of the Bursa Malaysia Securities Main Market Listing Requirements (Main LR) read together with paragraph 2.1(d) of Practice Note 1 (PN1) for failing to make an immediate announcement in respect of the default in payments of credit facilities by its major subsidiary, ETI Tech (M) Sdn. Bhd ("ETMSB").

On 1 July 2013, the Board of Directors of ETICB announced that the Company will not be able to issue its Audited Financial Statements for the financial period ended 28 February 2013 ("AFS") by 30 June 2013 i.e. within a period of not more than 4 months from the close of the financial year ("Relevant Timeframe") to Bursa Malaysia Securities Berhad ("Bursa Securities") as required under Paragraph 9.23(2) of Main LR; and subsequently, the trading of the Company's shares was suspended on the 8 July 2013 upon expiry of the relevant timeframe pursuant to Paragraphs 9.23(2) and 9.28(5) of the Main LR.

On 9 July 2013, the Board of Directors of ETICB announced that the Company needed more time to finalise its Audited Financial Statements for the financial period ended 28 February 2013 (AFS) to provide the information requested by the External Auditors which were brought to the attention of the Audit Committee and the Board on 08 July 2013.

On 16 July 2013, the Board of Directors of ETICB informed that the information requested by the External Auditors (as mentioned in the announcement dated 09 July 2013), refers to 3 years profit forecast of the ETI Group to justify the carrying value of the development expenditure.

On 29 July 2013, the Board of Directors of ETICB announced that the Audited Financial Statements for the financial period ended 28 February 2013 (AFS) is still pending due to additional supporting documents are required by the auditors for the assumptions made for the 3 years profit forecast.

The AFS is expected to be issued within 7 market days from the date of the announcement

On 1 August 2013, the Company submitted the AFS to Bursa Securities and on 2 August 2013, the Board of Directors of ETICB announced that the Company's External Auditors had qualified their report on the AFS.

On 5 August 2013, the suspension of trading in the Company's shares was uplifted.

On 12 August 2013, the Board of Directors of ETICB informed that ETIMSB and ETICB had been served with the following Writs of Summons and Statement of Claims issued by the Penang High Court in relation to the following claims filed by Standard Chartered Bank Malaysia :

- 1) The sum of RM5,033,557.46 being the overdraft facility amount owing by ETI-M as at 31 May 2013;
- 2) Interests on the sum of RM5,033,557.46 at the rate of the Plaintiff's Base Lending Rate (a fluctuating rate which is currently at 6.60% per annum) + margin of 1% per annum + default rate of 1% per annum, from 01 June 2013 until the date of full settlement;
- 3) The sum of USD937,918.92 being the Export Bills amount owing by ETI-M as at 31 May 2013;
- 4) Interests on the sum of USD915,000.00 at the rate of the Plaintiff's Foreign Currency Cost of Fund at 0.9% per annum + margin of 1.5% per annum + default rate of 1% per annum, from 01 June 2013 until the date of full settlement;
- 5) Costs on a solicitors and client basis; and
- 6) Such further and/or other relief as the Court deems fit.

The Penang High Court had fixed the matter for Case Management on 29 August 2013

On 16 August 2013, and pursuant to the announcements dated 19 March 2013 in relation to the appointment of BDO Governance Advisory Sdn Bhd ("BDO") the Board of Directors of ETICB informed that BDO had issued the report on specific concerns of the Board in relation to the procurement of raw materials and as a result of the procedures performed by BDO, and the observations made, BDO had drawn a conclusion that the procurement of raw materials amounting to RM 16.5 million from Flexi Power Sdn Bhd ("FPSB") appear to be valid transactions, albeit transacted in a poorly controlled manner. The Board took note of the weaknesses and steps will be taken immediately to rectify the Group's financial and administrative management. Nevertheless, the Board had issued legal notices to recover the payments made to FPSB in respect of the raw materials purchased which were subsequently returned to FPSB after having failed quality control checks. The Board also informed that the Company will seek further legal advice on its next course of action to recover the monies paid to FPSB in respect of the raw materials purchased which were subsequently returned to FPSB. The said prepayment amounting to RM 16.5 million had been impaired in the AFS.

A12. Changes in the composition of the ETICB Group

There was no change in the composition of the ETICB Group during the current quarter under review.

A13. Contingent liabilities

As at the date of this report, the Group has no material contingent liabilities save for a corporate guarantee of RM40.46 million granted to financial institutions in respect of credit facilities extended to a subsidiary company.

A14. Material events subsequent to the end of the interim reporting period

Save as disclosed below and Note B6, there were no material events subsequent to the end of the current quarter under review:-

On 6 September 2013, the Board of Directors of ETICB informed that judgement had been obtained against ETIMSB and ETICB in relation to the case management filed by Standard Chartered Bank Malaysia ("SCB") in the Penang High Court, and pursuant to the Judgement dated 29 August 2013 served on ETIMSB as the 1st Defendant and the ETICB as the 2nd Defendant received on 05 September 2013, wherein ETIMSB and ETICB are liable to pay SCB the following :

- a) RM5,033,557.46 calculated as at 31.05.2013;
- b) interests on the sum of RM5,033,557.46 at the rate of the Plaintiff's Base Lending Rate (a fluctuating rate which is currently at 6.60% per annum) + margin of 1% per annum + default rate of 1% per annum from 01.06.2013 until the date of full settlement;
- c) the sum of USD937,918.92 calculated as at 31.05.2013;
- d) interests on the sum of USD915,000.00 at the rate of the Plaintiff's Foreign Currency Cost of Fund at 0.9% per annum + margin of 1.5% per annum + default rate of 1% per annum from 01.06.2013 until the date of full settlement; and
- e) costs of RM1,000.00.

Both ETIMSB and ETICB had made an application to set aside the above judgement and the hearing has now been fixed on 18 November 2013.

On 30 October 2013, the Board of Directors informed that on 14 October 2013, the Shah Alam High Court has granted an order, inter alia, that all proceedings and/or actions and/or any further proceedings in any actions and/or commencement of any proceedings and/or actions and/or any intended proceedings against ETICB and its wholly-owned subsidiary, ETIMSB (collectively, “the Applicants”) including but not limited to winding up, execution, foreclosure, disposal of assets and/or arbitration proceedings as well as any proceedings and/or actions to be taken via the security or collaterals given by the Applicants to any banking institutions and/or creditors be forthwith restrained and stayed pursuant to Section 176 (10) of the Companies Act, 1965 for a period of 3 months (90 days) from the date of the order, except by leave by the Court and subject to such terms as the Court may impose. The sealed copy of the Restraining Order was received by the Company on 29 October 2013.

The Group’s businesses are experiencing a significant slowdown due to delay in realization of projects and is a PN1 status company pursuant to the Main Market Listing Requirements. The lenders of ETIMSB namely Standard Chartered Bank Berhad, Hong Leong Bank Berhad, Malayan Banking Berhad and Maybank Islamic Berhad respectively has commenced legal proceedings against the Applicants for recovery of their debts.

Nevertheless, the Group is working on a restructuring plan to strengthen its financial position. With the successful implementation of the restructuring plan, the financial position of the Group is expected to be improved and the management will be able to concentrate on strengthening and growing the business. The details of the proposed schemes of arrangement will be announced in due course.

The Restraining Order will allow ETICB to focus on formalizing the proposed schemes of arrangements unhindered without having to divert its attention and resources to defending and dealing with any proceedings and/or actions from the lenders and/or creditors.

The Restraining Order is not expected to have any material impact on the financial and operational matters of ETICB Group.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE MAIN MARKET

B1. Review of performance

For the second quarter ended 31 August 2013, the Group registered revenue of RM0.01 million as compared to RM33.69 million in the corresponding quarter of the preceding year. The decrease in revenue by RM33.68 million was mainly due to delay in securing orders for negotiated projects.

The Group registered a loss before taxation (“LBT”) for the second quarter ended 31 Aug 2013 of approximately RM2.82 million as compared to RM8.74 million in the corresponding quarter of the preceding year. The LBT in the reporting quarter was mainly due to the significant drop in the sales whereas the LBT in the corresponding quarter of the preceding year was due to impairment losses on development expenditure and inventories and provision for doubtful debts amounting to approximately of RM8.67 million

B2. Variation of results against preceding quarter

Compared to the preceding quarter, the Group’s revenue of approximately RM 10 thousand (immediate preceding quarter: RM135 thousand) for the current quarter under review, recorded a decrease of approximately RM125 thousand or 92.6%. This was mainly due to delay in securing orders for negotiated projects.

The Group recorded a LBT of approximately RM2.82 million (immediate preceding quarter: RM1.96 million) for the quarter under review, an increase in loss of approximately RM0.86 million or 43.88%. This was mainly due to lower sales recorded in the current quarter.

B3. Prospects for the period ending 28 February 2014

As the world's demand for energy grows, along with concerns over depleting energy sources and global warming, the Group, which provides innovative energy storage solutions, still strongly believe there is great demand in green energy products worldwide.

After having undergone a period of R&D and consumer awareness, the Group feels that it is now better prepared to meet the expected demands of consumers for its green energy products.

The Group is currently experiencing a challenging time and is working on a restructuring plan to strengthen its position and is in continuous discussions with corporate consultants for the Group's proposed restructuring plan.

With the successful implementation of the restructuring plan, the financial position of the Group is expected be significantly improved and the management will be able to fully concentrate on strengthening and growing the business.

Barring any unforeseen circumstances, the Group is confident of achieving better performance in the near future.

B4. Variance on forecast profit/profit guarantee

The Group is not subjected to any profit forecast or profit guarantee.

B5. Tax Income / (expense)

There is no income tax charge for the ETICB Group because:-

- i) The income of its wholly-owned subsidiary, ETMSB is exempted from tax due to its pioneer status granted by Multimedia Development Corporation Sdn Bhd ("MDC"). Under this incentive, 100% of ETMSB's statutory income derived from the development and commercialisation of the Polymer Lithium Ion ("PLi") battery series version 1, 2, 3, 4, 6, 8 and above, 14S EV battery packs, MCU based PCM's, Green Genset, Mobile charger with added features and High Power Battery Bank are exempted from income tax for a period of five (5) years from 15 July 2008 to 14 July 2013.
- ii) The income of its wholly-owned subsidiary, Power Mac has been given approval in principal for pioneer status under Promotion of Investment Act, 1986 for 'design, development and manufacture of polymer lithium-ion cells and battery packs. The company is currently in the process of applying the pioneer certificate.

B6. Status of corporate proposals

On 28 June 2013, ETI Tech (M) Sdn Bhd ("ETMSB"), a wholly-owned subsidiary of ETICB, announced that on 28 June 2013, had entered into a conditional Sale and Purchase of Shares Agreement ("SPA") with Musyarakah Equity Venture Sdn Bhd ("MEV") to dispose of its entire equity interest held in Power Mac Sdn Bhd ("PMSB") for a total cash consideration of RM5,878,000.00 upon such terms and conditions as set out in the SPA. A Circular to Shareholders in relation to the Proposed Disposal of Power Mac will be issued in due course.

B7. ETICB Group's borrowings and debt securities

The ETICB Group's borrowings at the end of the financial quarter are as follows:

	Payable within twelve (12) months RM'000	Payable after twelve (12) months RM'000
<u>Secured</u>		
Hire Purchase	2,959	-
Term loan	2,994	-
Trade facilities	8,836	-
Bank Overdraft	11,921	-
	<u>26,710</u>	<u>-</u>

There was no unsecured debt during the current quarter under review and financial period-to-date. The ETICB Group does not have any foreign borrowing or debt securities as at the date of this announcement.

B8. Breakdown of realised and unrealised profits or losses of the Group

	As at 31.08.2013 RM'000
Realised loss	(24,941)
Unrealised loss	-
Total retained loss	<u>(24,941)</u>

B9. Changes in material litigation

On 18 April 2013, the Board of Directors of ETICB informed that ETMSB and ETICB had been served with a Writ of Summons and Statement of Claim both dated 8 April 2013 issued by the Penang High Court in relation to a claim of RM 5,454,447.32 filed by Malayan Banking Berhad ("MBB") being the amount owing by ETMSB as at 31 March 2013. The Penang High Court had earlier fixed the matter for case management on 2 May 2013 had been postponed several times and is now fixed for Hearing on 29 November 2013.

On 30 April 2013, the Board of Directors of ETICB informed that ETMSB and ETICB had been served with a Writ of Summons dated 16 April 2013 and Statement of Claim dated 15 April 2013 issued by the Penang High Court in relation to a claim of RM 5,496,047.54 filed by Maybank Islamic Berhad being the amount owing by ETMSB as at 31 March 2013. The Penang High Court had earlier fixed the matter for case management on 9 May 2013 had been postponed several times and is now fixed for on 31 Oct 2013.

On 6 June 2013, the Board of Directors of ETICB informed that ETMSB and ETICB had been served with the following Writs of Summons and Statement of Claims issued by Alor Setar High Court in relation to the claims filed by Hong Leong Bank (HLB) as ETMSB has failed to settle the outstanding balances of trade facilities, bank overdraft and hire purchase payables :

- 1) Writ of Summons dated 15 May 2013 and Statement of Claim dated 10 May 2013,
- 2) Writ of Summons dated 21 May 2013 and Statement of Claim dated 17 May 2013.

The above suits were fixed for Hearing of the Plaintiff's application for summary judgement on 20 August 2013 and is now postponed to 30 Oct 2013.

On 12 August 2013, the Board of Directors of ETICB informed that ETIMSB and ETICB had been served with the following Writs of Summons and Statement of Claims issued by the Penang High Court in relation to the following claims filed by Standard Chartered Bank Malaysia (“SCB”) :

- 1) The sum of RM5,033,557.46 being the overdraft facility amount owing by ETI-M as at 31 May 2013;
- 2) Interests on the sum of RM5,033,557.46 at the rate of the Plaintiff’s Base Lending Rate (a fluctuating rate which is currently at 6.60% per annum) + margin of 1% per annum + default rate of 1% per annum, from 01 June 2013 until the date of full settlement;
- 3) The sum of USD937,918.92 being the Export Bills amount owing by ETI-M as at 31 May 2013;
- 4) Interests on the sum of USD915,000.00 at the rate of the Plaintiff’s Foreign Currency Cost of Fund at 0.9% per annum + margin of 1.5% per annum + default rate of 1% per annum, from 01 June 2013 until the date of full settlement;
- 5) Costs on a solicitors and client basis; and
- 6) Such further and/or other relief as the Court deems fit.

Judgement in favour of SCB was obtained on 29 August 2013 and both ETIMSB and ETICB had made an application to set aside the judgement dated 29 August 2013 and the hearing which was earlier fixed on the 24 September 2013 has now been postponed to 18 November 2013

B10. Dividend

No dividend was proposed and declared in the current quarter under review.

B11. Audit report of preceding annual financial statements

The preceding year’s annual audited financial statements of the ETICB Group were not subject to any qualification except for the auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to whether the carrying amount of the plant and machinery included in the property, plant and equipment as well as the development expenditure of the Group amounting to RM 4.3 million and RM 26.7 million respectively will generate sufficient future economic benefits that will flow to the Group as well as to the subsidiary company. Consequently, the auditors are also unable to determine the extent of the impairment required to be provided on the cost of investment incurred by the Company for the said subsidiary company.

B12. (Loss) / Earnings per share

	Current quarter 31.08.2013	Preceding year corresponding quarter 31.08.2012	Current year to date 31.08.2013	Preceding year corresponding period 31.08.2012
Net (loss) / profit after tax from continuing operations (RM’000)	(2,821)	(8,332)	(4,776)	(7,985)
Net (loss) / profit after tax from discontinued operation (RM’000)	62	-	(566)	-
Restated weighted average number of ordinary shares in issue (’000)	696,931	706,272	696,931	706,272
Basic (loss) / earnings per share (sen) from continuing operations	(0.40)	(1.18)	(0.69)	(1.13)
Basic (loss) / earnings per share (sen) from discontinued operation	0.01	-	(0.08)	-

B13. (Loss) / Profit before Tax

The following items have been included in arriving at (loss) / profit before tax:

	Current quarter 31.08.2013 RM'000	Preceding year corresponding quarter 31.08.2012 RM'000	Current year to date 31.08.2013 RM'000	Preceding year corresponding period 31.08.2012 RM'000
After charging:-				
Interest expense	569	459	1,131	809
Amortisation & impairment loss of development expenditure	1,130	3,300	2,261	3,648
Depreciation	171	722	765	1,310
Loss on foreign exchange				
- realised	-	2	-	43
- unrealised	-	-	-	24
Provision for doubtful debts		5,369		5,369
After crediting:-				
Gain on foreign exchange				
- realised	-	202	-	215
- unrealized		-		-
Interest income		25		25

Save as disclosed above, the other items as required under Appendix 9B, Part A(16) of the Bursa Securities Main Market Listing Requirements are not applicable.