

MULTI-CODE ELECTRONICS INDUSTRIES (M) BERHAD (193094-K)
(Incorporated in Malaysia)

**NOTES TO THE INTERIM FINANCIAL REPORT – 2ND QUARTER ENDED
31 JANUARY 2012**

**PART A – COMPLIANCE WITH THE FINANCIAL REPORTING STANDARD 134 ON
“INTERIM FINANCIAL REPORTING” AND BURSA LISTING
REQUIREMENTS**

A1 Accounting Policies and Method of Computation

The interim financial report is unaudited and is prepared in accordance with Financial Reporting Standards (“FRS”) 134, Interim Financial Reporting and Chapter 9 Part K of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 July 2011. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 July 2011.

The same accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 July 2011.

The Group has not early adopted any new or revised standards, amendments or IC Interpretations which are applicable to the Group that have been issued by the MASB but are not yet effective for the Group’s current financial year ended 31 July 2012.

A2 Disclosure of Audit Report Qualification

The auditors' report of the Group's most recent audited financial statements for the financial year ended 31 July 2011 did not contain any qualification.

A3 Seasonal or Cyclical Factors Affecting Operations

The principal business operations of the Group are not significantly affected by any seasonal or cyclical factors.

A4 Unusual Items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group for the financial period ended 31 January 2012.

A5 Material Changes in Estimates

There were no changes in estimates that have a material effect in the current quarter.

A6 Changes in Debt and Equity Securities

There were no issuance and repayment of debt securities, share buy back, share cancellations, shares held as treasury shares and resale of treasury shares for the financial period ended 31 January 2012.

A7 Dividends Paid

Details of the dividend paid during the quarter under review are as follows:

Second interim dividend for financial year	31 July 2011
Amount per share (tax-exempt)	2.5 sen
Approved and declared on	30 September 2011
Entitlement to dividends based on	
Record of Depositors as at	20 October 2011
Date paid	11 November 2011

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A8 Segmental Reporting

No segmental information has been prepared as the Group is primarily engaged in manufacturing activities. The other activities of the Group are not significant.

No segmental information is provided on a geographical basis as the Group's activities are conducted primarily in Malaysia.

A9 Material Events Subsequent to the end of the Reporting Period

There were no material events subsequent to the end of the current financial period that have not been reflected in the interim financial reports for the said period other than as disclosed under Note B9(iii) as at the date of this report.

A10 Changes in the Composition of the Group

There were no changes in the composition of the Group in the current quarter except for the disposal of unquoted investment in an associate company in the current quarter.

A11 Contingent Liabilities and Contingent Assets

The Group has no contingent liabilities or contingent assets as at 31 January 2012.

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**PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

B1 Review of Performance

Comparison to preceding year corresponding quarter

For the second quarter ended 31 January 2012, the Group achieved consolidated revenue of RM25.28 million which was approximately 4.16% higher than the preceding year corresponding quarter. The increase in revenue was attributable to sales of a newly introduced product offering in the current quarter. The Group recorded a profit after tax of RM2.17 million for the current quarter as compared to RM1.80 million in the preceding year corresponding quarter. This was mainly due to a specific non-recurring expense incurred in the preceding year corresponding quarter.

Comparison to preceding year corresponding period

For the 6-month cumulative period ended 31 January 2012, the Group achieved consolidated revenue of RM53.90 million which was approximately 12.30% higher than the preceding year corresponding period. The increase was attributable to sales of a newly introduced product offering in the current period. The Group recorded a profit after tax of RM5.32 million for the current period as compared to RM3.51 million for the same period in preceding year. This was mainly due to higher revenue and lower fixed overhead costs against revenue for the current period.

B2 Material Changes in Profit before Taxation for the Current Quarter with Immediate Preceding Quarter

	Current Quarter 31 Jan 2012 RM'000	Preceding Quarter 31 Oct 2011 RM'000
Revenue	25,282	28,621
Pre-tax profit before non-controlling interests and after share of profit after tax of associate company	2,894	4,439

For the current quarter, the Group achieved revenue of RM25.28million, representing a decrease of 11.67% as compared to the preceding quarter ended 31 October 2011. The decrease was attributable to lower domestic vehicles demand by its main customers for the current quarter partly due to seasonal year-end factor and the apparent impact of the more stringent financial requirement for vehicle purchase imposed recently. The Group recorded pre-tax profit before non-controlling interests and after share of profit after tax of associate company of RM2.89 million for the quarter under review as compared to RM4.44 million for the preceding quarter attributed mainly to the drop in revenue coupled with the higher overhead costs against revenue for the current quarter.

B3 Prospects Commentary

The Group will continue its drive to build its revenue base by enhancing and differentiating its product offerings for its targeted markets. Towards this purpose, the Group is actively taking various product design and development initiatives and seeking opportunities to secure new businesses. The Group has started supply of fog lamps to one of its customers and is expected to supply a rear combination lamp and fog lamp to an existing customer from April/ May 2012.

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B3 Prospects Commentary (Continued)

The Group expects the business operating environment to continue to be challenging in view of the uncertain global economic situation. To remain resilient, the Group continues to undertake various measures to improve productivity and operational effectiveness. Barring any unforeseen circumstances, the Board of Directors is optimistic that the Group will be able to sustain on the current performance for the remaining periods.

B4 Variance of Actual Profit from Forecast Profit & Shortfall on Profit Guarantee

There is no profit forecast prepared for public release and no profit guarantee provided by the Group for the current financial period.

B5 Taxation

	Current Quarter 31-Jan-12 RM'000	Cumulative Quarters 31-Jan-12 RM'000
Income tax:		
- current period	344	2,033
- over-provision in prior year	(36)	(36)
	308	1,997
Deferred tax	420	19
Tax expense	728	2,016

The effective tax rate for the current quarter and period are higher than the statutory rate mainly due to certain expenses not deductible for income tax purposes.

B6 Status of Corporate Proposals

There were no corporate proposals announced by the Company as at the date of issue of this quarterly report.

B7 Group Borrowings and Debt Securities

Group borrowings as at 31 January 2012:

		<u>RM'000</u>
(a)	Secured borrowings	7,197
	Unsecured borrowings	-
		7,197
(b)	Short term	
	- term loan (secured)	1,381
	- hire purchase payable	102
		1,483
	Long term	
	- term loan (secured)	5,277
	- hire purchase payable	437
		5,714
	Total borrowings	7,197

All the above borrowings are denominated in Ringgit Malaysia.

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B8 Financial Instruments

The Group has entered into some forward foreign exchange currencies contracts to hedge its exposure to fluctuations in foreign currency arising from purchases.

As at 31 January 2012, the Group has the following outstanding derivative financial instruments:

Type of derivatives	Contract amount RM'000	Fair value RM'000	Fair Value net gain/(loss) RM'000
Currency forward contracts - less than 1 year	1,805	1,809	4

B9 Changes in Material Litigation

There were no pending material litigation as at 23 March 2012 being a date not earlier than 7 days from the date of this quarterly report except for the following :-

(i) Kuala Lumpur High Court Commercial Division - Suit No. D8-22-453-2008

Between Multi-Code Electronics Industries (M) Berhad (“1st Plaintiff”), Plasmet Industries (M) Sdn Bhd (“2nd Plaintiff”), Gordon Toh Chun Toh (“1st Defendant”), Dato’ Abul Hasan Bin Mohamed Rashid (“2nd Defendant”), Kalwant Singh (“3rd Defendant”), Elliott Gordon Singapore Private Limited (“4th Defendant”), Elliott Gordon & Company International Limited (“5th Defendant”), Ace Prelude Holdings Sdn Bhd, formerly known as Ace Prelude Sdn Bhd (“6th Defendant”), Lily Chong Kui Foh (“7th Defendant”), Teng Sin Pyng (“8th Defendant”), Westcape Investments Limited (“9th Defendant”), Wong Jit Kiang (“10th Defendant”), Liew Then Boh (“11th Defendant”) and Paul Ong & Associates (Sued as a Firm) (“12th Defendant”)

A legal action was commenced on 7 April 2008 in the Kuala Lumpur High Court (Commercial Division) by Multi-Code Electronics Industries (M) Berhad (“MCE”) and its subsidiary, Plasmet Industries (M) Sdn Bhd (“Plasmet”) (collectively referred to as “the Company”) against the abovementioned Defendants for inter alia, fraud, conspiracy to defraud, knowing assistance and knowing receipt and for breach of fiduciary and fidelity duties owed to the Company by the 1st, 2nd and 3rd Defendants and to recover the sum of RM44,188,262.82 paid out of the Company’s funds.

The Plaintiffs has since filed and obtained an ex-parte Mareva Injunction and an ex-parte Anton Piller Order on 8 April 2008 against various Defendants. These orders were subsequently affirmed by the High Court on 20 May 2009.

Hong Leong Bank Berhad’s application to intervene and to vary the Inter Partes Mareva Injunction to exclude a particular property of the 6th Defendant under hire purchase agreement was dismissed. Hong Leong Bank has since filed an appeal to the Court of Appeal against the above decision. No date has been fixed for the appeal.

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B9 Changes in Material Litigation (Continued)

(i) Kuala Lumpur High Court Commercial Division - Suit No. D8-22-453-2008 (Continued)

In the High Court proceedings, the 1st, 2nd, 3rd, 7th and 8th Defendants have filed their Defences contesting the Plaintiffs' claims. Subsequently, the 2nd Defendant moved the High Court with his application for leave to issue a Third Party Notice, claiming for indemnity or contributions against individuals who were or are directors of the Plaintiffs. This application was dismissed and the 2nd Defendant filed an appeal against the said decision to the Court of Appeal with no date fixed.

The 2nd Defendant also moved both the High Court and the Court of Appeal for an order to stay the High Court proceedings pending the disposal of his appeal which were accordingly dismissed. On 7 March 2012, the Court of Appeal dismissed 2nd Defendant's appeal and affirmed the decision of the High Court in dismissing his application for leave to issue a Third Party Notice.

On 26 August 2011, the 2nd Defendant filed and served a Writ of Subpeona Ad Testificandum Duces Tecum against the Investigating Officer of the Securities Commissions ("Writ Subpeona"). The Investigating Officer of the Securities Commissions had since applied to the High Court to set aside the said Writ Subpeona and on 12 December 2012, the learned Judge of the High Court allowed the same.

Certificate of Non Appearance was obtained against the 5th, 9th, 10th and 11th Defendants.

The 4th and 6th Defendants entered their appearances but have failed to file their Defences.

The trial of the High Court proceedings commenced on 31 October 2011. The trial is scheduled to continue on 30 March 2012 and from 2 April 2012 to 6 April 2012.

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B9 Changes in Material Litigation (Continued)

(ii) Singapore Court Suit No. 258 OF 2008/N

Between Multi-Code Electronics Industries (M) Berhad (“1st Plaintiff”), Plasmet Industries (M) Sdn Bhd (“2nd Plaintiff”), Gordon Toh Chun Toh (“1st Defendant”), Dato’ Abul Hasan Bin Mohamed Rashid (“2nd Defendant”), Kalwant Singh (“3rd Defendant”), Elliott Gordon Singapore Private Limited (“4th Defendant”), and Westcape Investments Limited (“5th Defendant”)

A legal action was commenced in Singapore on 10 April 2008 by Multi-Code Electronics Industries (M) Berhad (“MCE”) and its subsidiary, Plasmet Industries (M) Sdn Bhd (“Plasmet”) (collectively referred to as “the Company”) against the abovementioned Defendants for inter alia, fraud, conspiracy to defraud, knowing assistance and knowing receipt and for breach of fiduciary and fidelity duties owed to the Company by the 1st, 2nd and 3rd Defendants and to recover the sum of RM44,188,262.82 paid out of the Company’s funds.

A stay of the Singapore proceedings was ordered as against the 1st, 3rd and 4th Defendants on 4 August 2008. Whilst the Singapore Mareva Injunction is discharged as against the 3rd Defendant, it remains in place as against the 1st and 4th Defendants.

The Plaintiffs have filed a proof of debt on or about 22 December 2008 against the 4th Defendants who have been subjected to a compulsory winding up on or about September 2008.

The 2nd Defendant and the Plaintiffs have agreed to a stay of proceedings in Singapore against the 2nd Defendant on condition that the Singapore Mareva Injunction remain in place. An Order of Court pursuant to the agreement was filed on 20 January 2009.

Interlocutory Judgment in default of appearance was filed against the 5th Defendant on 20 February 2009 for, inter alia, the sum of RM44,188,262.82. The Plaintiffs’ solicitors have served the said Interlocutory Judgment on the 5th Defendant together with their cover letter asking that the 5th Defendant make payment by 31 March 2009. There has been no response from the 5th Defendant to-date, although it is to be noted that the cover letter was returned as undelivered. The Plaintiffs’ solicitors have advised, *inter alia*, that if no action is taken to assess damages for fraud and conspiracy (which is a relief separate from the sum of RM44,188,262.82) by 19 February 2010, the matter will be deemed discontinued. However, such discontinuance did not mean that the Interlocutory Judgment was cancelled. Enforcement proceedings may still be carried out against the sum of RM44,188,262.82 within 12 years of the Interlocutory Judgment. The Plaintiffs have decided to put on hold the assessment for damages and enforcement proceedings.

No further steps shall be taken in the Suit until and unless the Plaintiffs so decide to apply to lift the stay of proceedings in Singapore.

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B9 Changes in Material Litigation (Continued)

(iii) Kuala Lumpur High Court Commercial Division Suit No. D-22-1537-2009

Between Beucar Accessories (M) Sdn Bhd (“Plaintiff”), Gordon Toh Chun Toh (“1st Defendant”), Khoo Ah Kiow @ Koo Teck Hing (“2nd Defendant”), Mohd Noor Bin Ibrahim (“3rd Defendant”), Elliott Gordon Singapore Private Limited (“4th Defendant”), Ace Prelude Freight Logistics Sdn Bhd (“5th Defendant”), Foo Chee Pang (sued as a Partner of WGSB Management Services) (“6th Defendant”) and Mohammad Zulkifli Bin Abdullah (sued as a Partner of WGSB Management Services) (“7th Defendant)

A legal action was commenced on 6 August 2009 in the Kuala Lumpur High Court (Commercial Division) by a subsidiary, Beucar Accessories (M) Sdn Bhd (“the Subsidiary”) against the abovementioned Defendants for inter alia, fraud, conspiracy to defraud, knowing assistance and knowing receipt and for breach of fiduciary and fidelity duties owed to the Subsidiary by the 1st, 2nd and 3rd Defendants as Directors of the Subsidiary and to recover, inter alia, the sum of RM500,000 paid out of the Subsidiary’s funds and a sum of RM1,114,750 for the questionable purchase of a car.

The 1st, 2nd and 3rd Defendant had filed their Defences against the Plaintiff’s claim.

Certificates of Non-Appearance were obtained against the 4th and 5th Defendants. Thereafter, judgments in default were entered against them.

The 6th and 7th Defendants had filed an application to strike out the Plaintiff’s claim against them which was dismissed with costs subsequently. Both Defendants’ application for leave to file their Defence out of time was dismissed with costs. However, upon appeal to the High Court Judge, the appeal for leave to file their Defence was allowed.

The trial of the High Court proceedings commenced on 8 November 2011 and ended on 13 January 2012. On 20 March 2012, the High Court in allowing the Plaintiff’s claim, pronounced, in open Court that (i) the 1st, 2nd and 3rd Defendants breached their fiduciary duties as directors to act in good faith and in the best interest of the Plaintiff, (ii) that the 1st, 2nd and 3rd Defendants had conspired to defraud the Plaintiff (iii) that the 1st, 2nd and 3rd Defendants committed fraud on the Plaintiff. The High Court further made the following orders:-

1. A declaration that the 1st, 2nd and 3rd Defendants had acted in breach of their directors’ duties and their fiduciary duties as directors to act in good faith and in the best interest of the Plaintiff;
2. That the 1st, 2nd and 3rd Defendants pay the sum of RM1,114,750 payable to Hong Leong Bank Berhad under the Hire-Purchase Agreement dated 14.11.2007 to the Plaintiff, and within 1 month upon receipt of RM1,114,750.00, Plaintiff shall transfer, surrender ownership and the possession of the Mercedes-Benz, model S350L bearing the registration number “JLE 2323” to the 1st, 2nd and 3rd Defendants;
3. That the 1st, 2nd and 3rd Defendants pay the sum of RM470,000 to the Plaintiff;
4. That the 6th and 7th Defendants had knowingly received payments of RM30,000 out of the funds and property of the Plaintiff procured by the 1st, 2nd and 3rd Defendants in breach of their duties as directors to the Plaintiff;
5. That the 6th and 7th Defendants are liable to account to the Plaintiff as constructive trustees;
6. That the 6th and 7th Defendants pay the sum of RM30,000 to the Plaintiff;

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B9 Changes in Material Litigation (Continued)

(iii) Kuala Lumpur High Court Commercial Division Suit No. D-22-1537-2009 (Continued)

7. That damages be assessed by the Deputy Registrar for breach of directors' duties and fiduciary duties by the 1st, 2nd and 3rd Defendants;
8. An account and inquiry as to all the funds of the Plaintiff received by and paid on account of the 1st, 2nd and 3rd Defendants pursuant to the breach of the their directors' duties and fiduciary duties, and for such tracing orders as may be necessary in aid thereof;
9. That the 1st, 2nd and 3rd Defendants pay to the Plaintiff those sums found to be due on the taking of the account pursuant to prayer (8) above.
10. An account and inquiry as to all funds of the Plaintiff received by or paid on account of the 6th and 7th Defendants and each of them, and for such tracing orders as may be necessary in aid thereof;
11. That the 6th and 7th Defendants pay to the Plaintiff those sums found to be due on the taking of the account pursuant to prayer (10) above;
12. That damages be assessed by the Deputy Registrar for fraud and conspiracy to defraud the Plaintiff by the 1st, 2nd and 3rd Defendants;
13. Pre-judgment interest on all amounts adjudged to be due to the Plaintiff at the rate of 4% per annum pursuant to section 11 of the Civil Law Act 1956 from the date of the Amended Writ of Summons (26 August 2009) until the date of judgment;
14. Post-judgment interest on all amounts adjudged to be due to the Plaintiff at the rate of 4% per annum pursuant to Order 42 rule 12 of the Rules of the High Court 1980 from the date of judgment (20 March 2012) until full and final settlement thereof; and
15. Costs in the sum of RM100,000 to be paid by the Defendants to the Plaintiff, forthwith and in accordance with the following apportionments:-
 - 15.1 that the 1st, 2nd and 3rd Defendants jointly and severally pay the sum of RM90,000 to the Plaintiff as costs of this action; and
 - 15.2 that the 6th and 7th Defendants jointly and severally pay the sum of RM10,000 as costs of this action.

The Judgment and Order are yet to be sealed and extracted from the High Court.

B10 Dividends

- (a) Details of the interim dividend approved and declared by the Board of Directors is as follows:

	31.01.2012	31.01.2011
Interim dividend for financial year	31 July 2012	31 July 2011
Amount per share (single-tier)	3.0 sen	-
Amount per share (tax-exempt)	-	2.5 sen
Approved and declared on	27 March 2012	29 March 2011
Entitlement to dividends based on		
Record of Depositors as at	16 April 2012	15 April 2011
Date payable	8 May 2012	6 May 2011

- (b) Total dividend for the current financial period: 3.0 sen per share under single-tier system.

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B11 Earnings per Share

The basic and diluted earnings per share are calculated as follows:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTERS	
	Current quarter ended	Comparative quarter ended	6-month cumulative to date	6-month cumulative to date
	31 January 2012	31 January 2011	31 January 2012	31 January 2011
Profit for the period attributable to ordinary equity holders of the company (RM'000)	2,185	1,795	5,374	3,564
Weighted average number of ordinary shares in issue ('000)	44,405	44,405	44,405	44,405
Basic and diluted earnings per share (sen)	4.92	4.04	12.10	8.03

B12 Disclosure of Realised and Unrealised Profits

The breakdown of the retained profits of the Group into realised and unrealised profits is as follows:

	As at end of Current Quarter 31-Jan-12 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	18,957
- Unrealised	(1,624)
	17,333
Less: Consolidation adjustments	(1,261)
Total group retained profits	16,072

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B13 Memorandum of Understanding (“MOU”)

- (i) The Company had entered into a MOU with Hella Shanghai Electronics Co. Ltd (“Hella Shanghai”) on 1 March 2010 which sets forth a framework for the consultation and exchange of information and technology. Subject always to the execution of a definitive agreement, Hella Shanghai and the Company agreed that their co-operation and collaboration for the consultation and exchange of information and technology shall be carried out in the manner as set forth in detail in the MOU.

- (ii) The Company had also entered into a MOU with SEJIN Electron Inc. (“SEJIN”) on 15 November 2011 which sets forth a framework for the consultation and exchange of information and technology. Subject always to the execution of a definitive agreement, SEJIN and the Company agreed that their co-operation and collaboration for the consultation and exchange of information and technology shall be carried out in the manner as set forth in detail in the MOU.

Save for the above, there were no further developments to date.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)
Pow Juliet (MAICSA 7020821)
Company Secretaries
Johor Bahru
Date: 27 March 2012

c.c. Securities Commission