

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

**NOTES TO THE INTERIM FINANCIAL REPORT – 1ST QUARTER ENDED 31 OCTOBER 2013**

**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134**

**A1. Basic of Preparation**

This condensed consolidated interim financial statement (Condensed Report) has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Condensed Report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 July 2013. These explanatory notes attached to the Condensed Report 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 2013.

**A2. Significant Accounting Policies**

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 31 July 2013, except for the adoption of the following MFRSs, amendments to MFRSs and IC Interpretations (“IC Int”) during the current financial period:

<b>MFRS, Amendments to MFRS and IC Interpretation</b>	<b>Effective for annual periods beginning on or after</b>
MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)	1 January 2013
MFRS 10 Consolidated Financial Statements	1 January 2013
MFRS 11 Joint Arrangements	1 January 2013
MFRS 12 Disclosure of Interests in Other Entities	1 January 2013
MFRS 13 Fair Value Measurement	1 January 2013
MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)	1 January 2013
MFRS 127 Separate Financial Statements (IAS 127 as amended by IASB in May 2011)	1 January 2013
MFRS 128 Investments in Associates and Joint Ventures (IAS 128 as amended by IASB in May 2011)	1 January 2013
IC Int 20 Stripping Costs in Production of a Surface Mine	1 January 2013

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**PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134**

**A2. Significant Accounting Policies (Cont'd)**

<b>MFRS, Amendments to MFRS and IC Interpretation</b>		<b>Effective for annual periods beginning on or after</b>
Amendments to MFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 10, MFRS 11 and MFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 1, MFRS 101	Annual Improvements 2009 – 2011 Cycle	1 January 2013

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

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 ending 31 July 2014.

**A3. Disclosure of Audit Report Qualification**

The auditors' report of the Group's most recent audited financial statements for the financial year ended 31 July 2013 did not contain any qualification.

**A4. Seasonal or Cyclical Factors Affecting Operations**

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

**A5. 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 October 2013.

**A6. Material Changes in Estimates**

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

**A7. 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 October 2013.

**A8. Dividends Paid**

No dividend has been paid during the financial period ended 31 October 2013.

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**A9. 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.

**A10. Material Events Subsequent to the end of the Reporting Period**

- (a) On 7 November 2013, the Company incorporated a new foreign subsidiary in the Republic of India, Multi-Code Electronics Industries (India) Private Limited (“MCE-INDIA”), with 60% of its issued share capital held by the Company and the balance held by a foreign partner. MCE-INDIA was incorporated for the purpose of carrying on the business of designing, developing, manufacturing and supplying of automotive parts. As at the date of this report, MCE-INDIA has yet to commence operations.
- (b) On 18 November 2013, Vantage Realm Sdn Bhd, a wholly-owned subsidiary of the Company, had entered into a conditional sales and purchase agreement to acquire one (1) parcel of freehold commercial land measuring approximately 3.277 acres, situated on part of HS(D)264382, PT 26533, Mukim Raja, Daerah Petaling, Negeri Selangor from Bandar Setia Alam Sdn Bhd, a wholly-owned subsidiary of SP Setia Berhad, for a cash consideration of RM28,556,000. As at the date of report, the condition precedent in the above sale and purchase agreement has yet to be fulfilled which include seeking the approval of shareholders in general meeting.

**A11. Contingent Liabilities and Contingent Assets**

The Group has no contingent liabilities and assets as at 31 October 2013.

**A12. Capital Commitment**

Capital commitment for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 October 2013 was as follow:

	<u>Approved and Contracted for</u>
	RM'000
Property, plant and equipment	26,081
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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 first quarter ended 31 October 2013, the Group achieved consolidated revenue of RM27.07 million which was approximately 9.59% lower than the preceding year corresponding quarter. The decrease in revenue was mainly due to drop in sales and price reduction for Original Equipment Manufacturer (OEM) products in the current quarter. The Group recorded a profit after tax of RM2.0 million for the current quarter as compared to RM3.09 million in the preceding year corresponding quarter. Profit after tax reduced by RM1.09 million as a result of lower revenue and margin for the current quarter.

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

	<b>Current Quarter 31 Oct 2013 RM'000</b>	<b>Preceding Quarter 31 July 2013 RM'000</b>
Revenue	27,073	28,170
Pre-tax profit before non-controlling interests	2,563	2,596

For the current quarter, the Group achieved revenue of RM27.07 million, representing a decrease of 3.89% as compared to the preceding quarter ended 31 July 2013. The decrease was attributable to lower demand in the current quarter. The pre-tax profit before non-controlling interests for the Group dropped slightly from RM2.60 million for the preceding quarter to RM2.56 million for the quarter under review.

**B3 Prospects Commentary**

The Group will continue to build its revenue base through product design and development initiatives and seeking opportunities to secure new businesses both locally and regionally.

The business operating conditions remain challenging with increasing costs and competitive environment. To mitigate increasing costs and sustain competitiveness, on-going efforts and improvements for better operational effectiveness are emphasised and Value Analysis and Value Engineering (VAVE) initiatives with customers are pursued. The Board of Directors is cautious of the challenging market conditions of the automotive sector.

**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.

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**B5 Taxation**

	3 months ended		3 months ended	
	31-Oct-13	31-Oct-12	31-Oct-13	31-Oct-12
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- current year	738	885	738	885
Deferred tax	(175)	(12)	(175)	(12)
<b>Tax expense</b>	<b>563</b>	<b>873</b>	<b>563</b>	<b>873</b>

The effective tax rate for the current quarter is lower than the statutory rate mainly due to certain income is not subject to income tax in the current quarter.

**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 October 2013:

	<u>RM'000</u>
(a) Secured borrowings	14,538
Unsecured borrowings	-
	<u>14,538</u>
(b) Short term	
- term loan (secured)	3,325
- hire purchase payable	110
	<u>3,435</u>
Long term	
- term loan (secured)	10,856
- hire purchase payable	247
	<u>11,103</u>
Total borrowings	<u>14,538</u>

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 October 2013, 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	474	474	-

**B9 Changes in Material Litigation**

There were no pending material litigation as at 17 December 2013 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 (“1<sup>st</sup> Plaintiff”), Plasmet Industries (M) Sdn Bhd (“2<sup>nd</sup> Plaintiff”), Gordon Toh Chun Toh (“1<sup>st</sup> Defendant”), Dato’ Abul Hasan Bin Mohamed Rashid (“2<sup>nd</sup> Defendant”), Kalwant Singh (“3<sup>rd</sup> Defendant”), Elliott Gordon Singapore Private Limited (“4<sup>th</sup> Defendant”), Elliott Gordon & Company International Limited (“5<sup>th</sup> Defendant”), Ace Prelude Holdings Sdn Bhd, formerly known as Ace Prelude Sdn Bhd (“6<sup>th</sup> Defendant”), Lily Chong Kui Foh (“7<sup>th</sup> Defendant”), Teng Sin Pyng (“8<sup>th</sup> Defendant”), Westcape Investments Limited (“9<sup>th</sup> Defendant”), Wong Jit Kiang (“10<sup>th</sup> Defendant”), Liew Then Boh (“11<sup>th</sup> Defendant”) and Paul Ong & Associates (Sued as a Firm) (“12<sup>th</sup> 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 against the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> Defendants for breach of fiduciary and fidelity duties owed to the Company and to recover the sum of RM44,188,262.82 paid out of the Company’s funds.

The Plaintiffs had on 31 July 2012 obtained Judgement against all the above Defendants for various judgement sums totalling RM44,188,262.82, with pre-judgement and post-judgement interest plus costs, except for the 3<sup>rd</sup> Defendant against whom the suit had been dismissed without costs and the 12<sup>th</sup> Defendant against which the suit had been withdrawn.

The Plaintiffs had since agreed with the 2<sup>nd</sup> Defendant for a settlement sum of RM22.0 million duly paid as a full discharge of the Judgement against him. Only the appeals filed by the 7<sup>th</sup> and 8<sup>th</sup> Defendants are pending and are now fixed for hearing on 3 April 2014. The Company is in the midst of commencing execution proceedings to execute and enforce the Judgement against the other Defendants.

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

**B9 Changes in Material Litigation (Cont'd)**

**(ii) Singapore Court Originating Summons No. 698 of 2013**

**Between Multi-Code Electronics Industries (M) Berhad (“1<sup>st</sup> Plaintiff”), Plasmnet Industries (M) Sdn Bhd (“2<sup>nd</sup> Plaintiff”), and Gordon Toh Chun Toh (“1<sup>st</sup> Defendant”)**

On 1 August 2013, the Plaintiffs registered the Judgement dated 31 July 2012 obtained before the Kuala Lumpur High Court Commercial Division in Suit No. D8-22-453-2008 against the personal representatives of the 1<sup>st</sup> Defendant, in the Singapore High Court.

The Plaintiffs have since obtained an order on 11 November 2013 for, inter alia, Toh Shuet Wern, Genevieve, the 1<sup>st</sup> Defendant's eldest daughter, to be appointed as the personal representative for the estate of the 1<sup>st</sup> Defendant, for the purpose of the proceedings herein, and that the proceedings herein be carried on against her. Both orders for the registration of the Judgement and the appointment of Toh Shuet Wern, Genevieve had been served on her on 14 November 2013. She did not apply to set aside the registration of the Judgement and her appointment.

The Plaintiffs have also made an application to, *inter alia*, lift the Singapore Mareva Injunction in Suit No. 258 of 2008/N and enforce the Judgement against the 1<sup>st</sup> Defendant's assets in Singapore. The application has been served on Toh Shuet Wern, Genevieve, and a hearing date has been fixed on 7 January 2014.

**(iii) Singapore Court Suit No. 258 of 2008/N**

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

A legal action was commenced in Singapore on 10 April 2008 by Multi-Code Electronics Industries (M) Berhad (“MCE”) and its subsidiary, Plasmnet Industries (M) Sdn Bhd (“Plasmnet”) (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 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> 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 1<sup>st</sup>, 3<sup>rd</sup> and 4<sup>th</sup> Defendants on 4 August 2008. Whilst the Singapore Mareva Injunction is discharged as against the 3<sup>rd</sup> Defendant, it remains in place as against the 1<sup>st</sup> and 4<sup>th</sup> Defendants.

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

The Singapore proceedings were discontinued against the 2<sup>nd</sup> Defendant by mutual agreement with no order as to costs as the 2<sup>nd</sup> Defendant had a settlement agreement and fully discharged as mentioned in Note B9(i).

Interlocutory Judgement in default of appearance was filed against the 5<sup>th</sup> Defendant on 20 February 2009 for, inter alia, the sum of RM44,188,262.82.

Other than the above, 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 (Cont'd)**

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

**Between Beucar Accessories (M) Sdn Bhd (“Plaintiff”), Gordon Toh Chun Toh (“1<sup>st</sup> Defendant”), Khoo Ah Kiow @ Koo Teck Hing (“2<sup>nd</sup> Defendant”), Mohd Noor Bin Ibrahim (“3<sup>rd</sup> Defendant”), Elliott Gordon Singapore Private Limited (“4<sup>th</sup> Defendant”), Ace Prelude Freight Logistics Sdn Bhd (“5<sup>th</sup> Defendant”), Foo Chee Pang (sued as a Partner of WGSB Management Services) (“6<sup>th</sup> Defendant”) and Mohammad Zulkifli Bin Abdullah (sued as a Partner of WGSB Management Services) (“7<sup>th</sup> 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 against the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> Defendants for breach of fiduciary and fidelity duties owed to the Subsidiary 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.

Certificates of Non-Appearance were recorded against the 4<sup>th</sup> and 5<sup>th</sup> Defendants. Thereafter, judgements in default were entered against them. The Subsidiary had obtained Judgement on 20 March 2012 against the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 6<sup>th</sup> and 7<sup>th</sup> Defendants for various judgement sums totalling RM500,000 and RM1,114,750 with respect to the questionable car purchase, with pre-judgement and post-judgement interest plus costs.

The 6<sup>th</sup> and 7<sup>th</sup> Defendants had paid the judgement sum against them with interest and costs accordingly.

There are no appeals pending and the Plaintiff is in the midst of commencing execution proceedings to execute and enforce the Judgement against the other Defendants.

**(v) Singapore Court Originating Summons No. 798 of 2013**

**Between Beucar Accessories (M) Sdn Bhd (“Plaintiff”), and Gordon Toh Chun Toh (“1<sup>st</sup> Defendant”)**

On 9 September 2013, the Plaintiff registered the Judgement dated 20 March 2012 obtained before the Kuala Lumpur High Court Commercial Division in Suit No. D-22-1537-2009 against the personal representatives of the 1<sup>st</sup> Defendant, in the Singapore High Court.

The Plaintiff has since obtained an order for, inter alia, Toh Shuet Wern, Genevieve, the 1<sup>st</sup> Defendant's eldest daughter, to be appointed as the personal representative for the estate of the 1<sup>st</sup> Defendant, for the purpose of the proceedings herein, and that the proceedings herein be carried on against her. Both orders for the registration of the Judgement and the appointment of Toh Shuet Wern, Genevieve have been served on her on 4 November 2013. She did not apply to set aside the registration of the Judgement and her appointment.



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**B10 Dividends**

No dividend is recommended for the current quarter (31 October 2012: Nil).

**B11 Earnings per Share**

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

	3 months ended		3 months ended	
	31.10.2013	31.10.2012	31.10.2013	31.10.2012
Profit for the period attributable to ordinary equity holders of the company (RM'000)	2,014	3,132	2,014	3,132
Weighted average number of ordinary shares in issue (RM'000)	44,405	44,405	44,405	44,405
Basic and diluted earnings per share (sen)	4.54	7.05	4.54	7.05

**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 31.10.2013 RM'000	As at 31.10.2012 RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	53,472	27,409
- Unrealised	(2,337)	(1,824)
	51,135	25,585
Less: Consolidation adjustments	(1,279)	(827)
Total group retained profits	49,856	24,758

**B13 Memorandum of Understanding (“MOU”)**

The Company had 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. The MOU has since lapsed on 15 November 2013.

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**B14 Authorised for issue**

The interim financial statements were authorised by the Board of Directors in accordance with the resolution of the Directors on 23 December 2013.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)  
Pow Juliet (MAICSA 7020821)  
Company Secretaries  
Johor Bahru  
Date: 23 December 2013  
c.c. Securities Commission