

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

NOTES TO THE INTERIM FINANCIAL REPORT – 2ND QUARTER ENDED 31 JANUARY 2014

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:

MFRS, Amendments to MFRS and IC Interpretation		Effective for annual periods beginning on or after
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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A2. Significant Accounting Policies (Cont'd)

MFRS, Amendments to MFRS and IC Interpretation		Effective for annual periods beginning on or after
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 January 2014.

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 January 2014.

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A8. Dividends Paid

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

Second interim dividend of 3.0 sen and special dividend of 6.0 sen for financial year	31 July 2013
Amount per share (single-tier)	9.0 sen
Approved and declared on	27 September 2013
Entitlement to dividends based on	
Record of Depositors as at	16 October 2013
Date paid	8 November 2013

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

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 below as at the date of this report:

- (a) The Group had recovered SGD2,076,086-04 (equivalent to approximately RM5.36 million) on 5 February 2014 upon enforcement of the Malaysian Judgement against the late Gordon Toh Chun Toh (1st Defendant) pertaining to the Kuala Lumpur High Court (Commercial Division) Suit No. D8-22-453-2008 (refer to litigation updates in Note B9(ii)).
- (b) On 13 March 2014, the Company has entered into a Sale and Purchase Agreement to dispose off its entire 65% equity interest in Plasmnet Industries (M) Sdn. Bhd. comprised of 1,599,000 ordinary shares of RM1.00 each for a total consideration of RM1,933,000-00 subject to adjustment upon finalisation of the unaudited accounts as at 28 February 2014.

A11. Changes in the Composition of the Group

There were no changes in the composition of the Group in the current quarter except for the incorporation of a new foreign subsidiary, Multi-Code Electronics Industries (India) Private Limited ("MCE-India"), in Republic of India on 7 November 2013 with an authorised capital of Rupees One Lac (Rupees 1 Lac) divided into 10,000 equity shares of Rupees 10/- each and the issued and paid-up capital of Rupees One Lac (Rupees 1 Lac) divided into 10,000 equity shares of Rupees 10/- each. The Company holds 60% of equity interest in MCE-India and the balance held by a foreign partner.

A12. Contingent Liabilities and Contingent Assets

The Group has no contingent liabilities and assets as at 31 January 2014.

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A13. Capital Commitment

Capital commitment for the purchase of property, plant and equipment not provided for in the interim financial statements as at 31 January 2014 was as follow:

	<u>Approved and Contracted for</u>
	RM'000
Property, plant and equipment	26,001 =====

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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 2014, the Group achieved consolidated revenue of RM28.65 million which was approximately 5.53% higher than the preceding year corresponding quarter. The increase in revenue was mainly due to increase in demand for Original Equipment Manufacturer (OEM) products in the current quarter. The Group recorded a profit after tax of RM0.61 million for the current quarter as compared to RM3.39 million in the preceding year corresponding quarter. Profit after tax reduced by RM2.78 million mainly due to recovery of doubtful debt net of related expense of RM1.94 million from a former director in the preceding year corresponding quarter and increase in costs of materials partly due to weakening Ringgit Malaysia and operational costs in the current quarter.

Comparison to preceding year corresponding period

For the 6-month cumulative period ended 31 January 2014, the Group achieved consolidated revenue of RM55.72 million which was approximately 2.40% lower than the preceding year corresponding period. The decrease in revenue was mainly attributable to drop in demand for the automotive lightings and price reduction for OEM products in the current period. The Group recorded a profit after tax of RM2.61 million for the current period as compared to RM6.47 million for the same period in preceding year. The decrease in profit after tax was mainly contributed by the recovery of doubtful debt net of related expense of RM1.94 million from a former director in the preceding period, lower revenue and increase in costs of materials partly due to weakening Ringgit Malaysia and operational costs in the current period.

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

	Current Quarter 31 Jan 2014 RM'000	Preceding Quarter 31 Oct 2013 RM'000
Revenue	28,647	27,073
Pre-tax profit before non-controlling interests	1,014	2,563

For the current quarter, the Group achieved revenue of RM28.65 million, representing an increase of 5.81% as compared to the preceding quarter ended 31 October 2013. The increase was attributable to higher demand in the current quarter. The pre-tax profit before non-controlling interests for the Group dropped from RM2.56 million for the preceding quarter to RM1.01 million for the quarter under review mainly due to increase in costs of materials partly due to weakening Ringgit Malaysia and operational costs in the current quarter.

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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 in a competitive environment. To mitigate increasing costs and sustain competitiveness, on-going efforts and improvements for better operational effectiveness are emphasised. 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.

B5 Taxation

	3 months ended		6 months ended	
	31-Jan-14	31-Jan-13	31-Jan-14	31-Jan-13
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- current year	(12)	595	726	1,480
Deferred tax	420	(124)	245	(136)
Tax expense	408	471	971	1,344

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

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 2014:

	<u>RM'000</u>
(a) Secured borrowings	13,889
Unsecured borrowings	-
	<u>13,889</u>
(b) Short term	
- term loan (secured)	3,370
- hire purchase payable	112
	<u>3,482</u>
Long term	
- term loan (secured)	10,189
- hire purchase payable	218
	<u>10,407</u>
Total borrowings	<u>13,889</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.

The Group has not outstanding derivative financial instruments as at 31 January 2014.

B9 Changes in Material Litigation

There were no pending material litigation as at 20 March 2014 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 against the 1st, 2nd and 3rd 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 awarded costs, except for the 3rd Defendant against whom the suit had been dismissed without costs. The suit against the 12th Defendant was withdrawn.

The Plaintiffs had recovered from the 2nd Defendant a settlement sum of RM22.0 million duly as a full discharge of the Judgement against him. Only the appeals filed by the 7th and 8th 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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B9 Changes in Material Litigation (Cont'd)

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

Between Multi-Code Electronics Industries (M) Berhad (“1st Plaintiff”), Plasmnet Industries (M) Sdn Bhd (“2nd Plaintiff”), and Gordon Toh Chun Toh (“1st 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 1st Defendant, in the Singapore High Court.

The Plaintiffs obtained an order on 11 November 2013 for, inter alia, Toh Shuet Wern, Genevieve, the 1st Defendant's eldest daughter, to be appointed as the personal representative for the estate of the 1st 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 Plaintiff successfully obtained an order on 7 January 2014 to partially lift the Singapore Mareva Injunction in Singapore High Court proceedings under Suit No. 258 of 2008/N (which was stayed) to allow the Plaintiffs to enforce the above Judgement against the 1st Defendant's assets in Singapore, and to have monies held by the stakeholders for the 1st Defendant released to the Plaintiffs. The Plaintiffs duly received a total of SGD2,076,086.04 (equivalent to RM5.36 million) on 5 February 2014.

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

Between Multi-Code Electronics Industries (M) Berhad (“1st Plaintiff”), Plasmnet 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, 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 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 Singapore proceedings were discontinued against the 2nd Defendant by mutual agreement with no order as to costs as the 2nd Defendant had a settlement agreement and fully discharged as mentioned in Note B9(i).

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B9 Changes in Material Litigation (Cont'd)

(iii) Singapore Court Suit No. 258 of 2008/N (Cont'd)

Interlocutory Judgement in default of appearance was filed against the 5th 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.

(iv) 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 against the 1st, 2nd and 3rd 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 4th and 5th Defendants. Thereafter, judgements in default were entered against them. The Subsidiary had obtained Judgement on 20 March 2012 against the 1st, 2nd, 3rd, 6th and 7th 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 6th and 7th 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.

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B9 Changes in Material Litigation (Cont'd)

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

Between Beucar Accessories (M) Sdn Bhd (“Plaintiff”), and Gordon Toh Chun Toh (“1st 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 1st Defendant, in the Singapore High Court.

The Plaintiff has since obtained an order for, inter alia, Toh Shuet Wern, Genevieve, the 1st Defendant's eldest daughter, to be appointed as the personal representative for the estate of the 1st 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.

B10 Dividends

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

	31.01.2014	31.01.2013
Interim dividend for financial year	31 July 2014	31 July 2013
Amount per share (single-tier)	3.0 sen	3.0 sen
Approved and declared on	26 March 2014	29 March 2013
Entitlement to dividends based on Record of Depositors as at	14 April 2014	16 April 2013
Date payable	5 May 2014	8 May 2013

- (b) Total dividend for the current financial period: 3.0 sen per share under single-tier system (2013: 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:

	3 months ended		6 months ended	
	31.01.2014	31.01.2013	31.01.2014	31.01.2013
Profit for the period attributable to ordinary equity holders of the company (RM'000)	639	3,396	2,653	6,528
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)	1.44	7.65	5.97	14.70

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	As at
	31.01.2014	31.01.2013
	RM'000	RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	51,429	29,343
- Unrealised	(3,680)	(1,654)
	47,749	27,689
Less: Consolidation adjustments	(1,251)	(867)
Total group retained profits	46,498	26,822

B13 Authorised for issue

The interim financial statements were authorised by the Board of Directors in accordance with the resolution of the Directors on 26 March 2014.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)
 Pow Juliet (MAICSA 7020821)
 Company Secretaries
 Johor Bahru
 Date: 26 March 2014
 c.c. Securities Commission