

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

NOTES TO THE INTERIM FINANCIAL REPORT – 1ST QUARTER ENDED 31 OCTOBER 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 2014. 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 2014.

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 2014, 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
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities	1 January 2014
Amendments to MFRS 136	Recoverable Amount Disclosures for Non- Financial Assets	1 January 2014
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IC Interpretation 21	Levies	1 January 2014
Amendments to MFRS 119	Defined Benefit Plan: Employee Contributions	1 July 2014
Annual improvements to MFRSs 2010-2012 Cycle		1 July 2014
Annual improvements to MFRSs 2011-2013 Cycle		1 July 2014

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A2. Significant Accounting Policies (Cont'd)

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 2015.

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 2014 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 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 October 2014.

A8. Dividends Paid

No dividend has been paid during the financial period ended 31 October 2014.

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 as at the date of this report.

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A11. Changes in the Composition of the Group

There were no changes in the composition of the Group in current quarter except for Vantage Realm Sdn. Bhd., a wholly-owned subsidiary of the Company, having incorporated a new wholly-owned subsidiary under the name of VANTAGE MEDICAL CENTRE SDN. BHD. (“VMC”) with an initial authorised capital of RM400,000-00 divided into 400,000 ordinary shares of RM1-00 each and an issued and paid up capital of RM2-00 comprised of 2 ordinary shares of RM1-00 each fully paid on 23 September 2014.

A12. Contingent Liabilities and Contingent Assets

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

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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 2014, the Group achieved consolidated revenue of RM20.33 million which was approximately 24.92% lower than the preceding year corresponding quarter. The decrease in revenue was mainly due to drop in demand for Original Equipment Manufacturer (OEM) products in the current quarter. The Group recorded a loss after tax of RM1.86 million for the current quarter as compared to a profit after tax of RM2.00 million in the preceding year corresponding quarter mainly due to lower revenue and higher operational costs.

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

	Current Quarter 31 Oct 2014 RM'000	Preceding Quarter 31 July 2014 RM'000
Revenue	20,326	26,259
Pre-tax (loss)/profit before non-controlling interests	(2,206)	2,256

For the current quarter, the Group achieved revenue of RM20.33 million, representing a decrease of 22.59% as compared to the preceding quarter ended 31 July 2014. The decrease was attributable to lower demand for OEM products in the current quarter. The pre-tax profit before non-controlling interests for the Group dropped significantly from RM2.26 million for the preceding quarter to pre-tax loss of RM2.21 million for the quarter under review as a result of lower revenue and higher operational costs in the current quarter.

B3 Prospects Commentary

The Group is facing a slowdown in demand from its OEM customers amid operating in an increasing costs environment.

The Group will continue its efforts to mitigate the increasing costs. The Board is cautious of the challenging operating 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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PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B5 Taxation

	3 months ended		3 months ended	
	31-Oct-14	31-Oct-13	31-Oct-14	31-Oct-13
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- current year	165	738	165	738
Deferred tax	(513)	(175)	(513)	(175)
Tax expense/ (income)	(348)	563	(348)	563

The effective tax rate for the current quarter is lower than the statutory rate mainly due to tax incentive enjoyed by the company.

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 2014:

	<u>RM'000</u>
(a) Secured borrowings	11,302
Unsecured borrowings	-
	<u>11,302</u>
(b) Short term	
- term loans (secured)	3,483
- hire purchase payable	114
	<u>3,597</u>
Long term	
- term loans (secured)	7,573
- hire purchase payable	132
	<u>7,705</u>
Total borrowings	<u>11,302</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 no outstanding derivative financial instruments as at 31 October 2014.

B9 Changes in Material Litigation

There were no pending material litigation as at 24 December 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 since agreed with the 2nd Defendant for a settlement sum of RM22.0 million duly paid as a full discharge of the Judgement against him. The Plaintiffs had also recovered a total of SGD2,076,086.04 (equivalent to RM5.36 million) through Singapore High Court proceedings against the 1st Defendant.

Only the 7th and 8th Defendants appealed to the Court of Appeal. On 12 March 2013, the Company moved the Court of Appeal with their Notice of Motions for security for costs of the appeals of the 7th and 8th Defendants. The Court allowed the same and ordered that the 7th and 8th Defendants pay the sum of RM30,000 each as security for costs of the appeal where the 7th and 8th Defendants duly paid on 15 March 2013. On 16 July 2014, the Court dismissed the 7th and 8th Defendants appeals with cost of RM30,000 payable by each Appellant to the Respondents. The security for costs paid by the Appellants was used in satisfaction of the costs to the Respondents.

The Company has initiated bankruptcy proceedings against 10th and 11th Defendants. The proceedings against the 10th Defendant is under Creditor’s Petition stage. Receiving and adjudicating orders have been entered against the 11th Defendant. He has been adjudicated as bankrupt.

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(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 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).

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.

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

Between Beaucar 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, Beaucar 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.

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B9 Changes in Material Litigation (Cont'd)

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

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 has initiated bankruptcy proceedings against 2nd and 3rd Defendants. Receiving and adjudicating orders have been entered against the 2nd and 3rd Defendants. They have been adjudicated as bankrupts.

B10 Dividends

No dividend is recommended for the current quarter (31 October 2013: Nil).

B11 Earnings/ (loss) per Share

The basic and diluted earnings/ (loss) per share are calculated as follows:

	3 months ended		3 months ended	
	31.10.2014	31.10.2013	31.10.2014	31.10.2013
(Loss)/ profit for the period attributable to ordinary equity holders of the company (RM'000)	(1,844)	2,014	(1,844)	2,014
Weighted average number of ordinary shares in issue (RM'000)	44,405	44,405	44,405	44,405
Basic and diluted earnings/ (loss) per share (sen)	(4.15)	4.54	(4.15)	4.54

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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 31.10.2014	As at 31.10.2013
	RM'000	RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	55,902	53,472
- Unrealised	(5,088)	(2,337)
	<u>50,814</u>	<u>51,135</u>
Less: Consolidation adjustments	(1,032)	(1,279)
Total group retained profits	<u>49,782</u>	<u>49,856</u>

B13 Authorised for issue

The interim financial statements were authorised by the Board of Directors in accordance with the resolution of the Directors on 30 December 2014.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)

Pow Juliet (MAICSA 7020821)

Company Secretaries

Johor Bahru

Date: 30 December 2014

c.c. Securities Commission