

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

**NOTES TO THE INTERIM FINANCIAL REPORT – 1ST QUARTER ENDED 31 OCTOBER 2015**

**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 2015. 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 2015.

**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 2015, 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>
Annual Improvements to MFRSs 2012-2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138	1 January 2016
Amendments to MFRS 116 and MFRS 141	1 January 2016
Amendments to MFRS 10 and MFRS 128	1 January 2016
Amendments to MFRS 11	1 January 2016
Amendments to MFRS 127	1 January 2016
Amendments to MFRS 101	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128	1 January 2016

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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>
MFRS 14	Regulatory Deferral Accounts	1 January 2016
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 9	Financial Instruments	1 January 2018

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 2016.

**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 2015 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 2015.

**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 2015.

**A8. Dividends Paid**

No dividend has been paid during the financial period ended 31 October 2015.

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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**

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.

**A11. Changes in the Composition of the Group**

There were no changes in the composition of the Group in current quarter.

**A12. Contingent Liabilities and Contingent Assets**

The Group has no contingent liabilities and assets as at 31 October 2015.

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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 2015, the Group achieved consolidated revenue of RM22.41 million which was approximately 10.23% higher than the preceding year corresponding quarter. The increase in revenue was mainly due to high demand for Original Equipment Manufacturer (OEM) products in the current quarter. The Group recorded a profit after tax of RM0.14 million for the current quarter as compared to a loss after tax of RM1.86 million in the preceding year corresponding quarter mainly due to higher revenue for current quarter.

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

	Current Quarter 31 Oct 2015 RM'000	Preceding Quarter 31 July 2015 RM'000
Revenue	22,406	20,791
Pre-tax (loss)/profit before non-controlling interests	322	(371)

For the current quarter, the Group achieved revenue of RM22.41 million, representing a increase of 7.77% as compared to the preceding quarter ended 31 July 2015. The increase was attributable to higher demand for OEM products in the current quarter. The Group recorded a pre-tax profit before non-controlling interests of RM0.32 million for the quarter under review as compared to a pre-tax loss of RM0.37 million for the preceding quarter as a result of higher revenue 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 compounded by the weakening Ringgit Malaysia and the implementation of Goods and Services Tax (GST).

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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**B5 Taxation**

	3 months ended		3 months ended	
	31-Oct-15	31-Oct-14	31-Oct-15	31-Oct-14
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- current year	229	165	229	165
Deferred tax	(50)	(513)	(50)	(513)
Tax expense/ (income)	179	(348)	179	(348)

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

**B6 Status of Corporate Proposals**

On 29 September 2015, the Company had entered into a conditional scheme agreement with MCE Holdings Berhad (“Newco”) to implement a proposed internal reorganisation under Section 176 of the requirements of the Companies Act, 1965 comprising the following proposals:

- a) proposed exchange of the entire 44,404,700 issued and fully paid-up ordinary shares of RM1.00 each in the Company (“MCE Share”) with 44,404,700 new ordinary shares of RM1.00 each in Newco (“Newco Share”) on the basis of one (1) Newco Share for every one (1) existing MCE Share held as at an entitlement date to be determined and announced by the Board of the Company; and
- b) proposed assumption of the listing status of the Company by Newco and the admission of Newco to and withdrawal of the Company from Official List of Bursa Malaysia Securities Berhad (“Bursa Securities”) with the listing of and quotation for new Newco Shares on the Main Market of Bursa Securities.

On 19 November 2015, the Company had filed the relevant Court process to obtain the requisite order from the High Court of Malaya for leave to be granted to the Company to convene the meeting with its members in relation to the proposed internal reorganisation at the Johor Bahru High Court and the initial listing application in relation to the proposed internal reorganisation was submitted to Bursa Securities.

On 18 December 2015, the court fixed the hearing on 26 January 2016. Furthermore on 22 December 2015, the Company received the approval from Bursa Securities in relation to the proposed internal reorganisation.

As at the date of the report, the proposals are yet to be completed as the Company will need to seek the approval orders from the followings:-

- a) Shareholders of the Company;
- b) High Court of Malaya sanctioning the scheme; and
- c) Any other relevant authorities/parties, if required.

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**B7 Group Borrowings and Debt Securities**

Group borrowings as at 31 October 2015:

	RM'000
(a) Secured borrowings	8,234
Unsecured borrowings	-
	8,234
(b) Short term	
- term loans (secured)	3,016
- hire purchase payable	193
	3,209
Long term	
- term loans (secured)	4,556
- hire purchase payable	469
	5,025
Total borrowings	8,234

All the above borrowings are denominated in Ringgit Malaysia.

**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 2015.

**B9 Dividends**

No dividend is recommended for the current quarter (31 October 2014: Nil).

**B10 Earnings/ (loss) per Share**

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

	3 months ended		3 months ended	
	31.10.2015	31.10.2014	31.10.2015	31.10.2014
Profit/ (loss) for the period attributable to ordinary equity holders of the company (RM'000)	143	(1,844)	143	(1,844)
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)	0.32	(4.15)	0.32	(4.15)

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**B11 Disclosure of Realised and Unrealised Profits**

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

	<b>As at 31.10.2015</b>	<b>As at 31.10.2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Total retained profits of the Company and its subsidiaries:		
- Realised	52,456	55,902
- Unrealised	(3,231)	(5,088)
	49,225	50,814
Less: Consolidation adjustments	(750)	(1,032)
<b>Total group retained profits</b>	<b>48,475</b>	<b>49,782</b>

**B12 Memorandum of Understanding (“MOU”)**

The Company had entered into a Memorandum of Understanding (“MOU”) with PT GARUDA MULTI INVESTAMA (“GMI”) on 22 September 2015 for the purpose of setting forth a framework for the consultation and exchange of information and technology. The cooperation in the current stage shall focus on the development, production, marketing and supply of the Company’s existing products for automobile manufacturers located in Indonesia and if so desired and mutually agreed by both parties be extended to other electronic and mechatronic parts and systems.

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

**B13 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 2015.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)

Pow Juliet (MAICSA 7020821)

Company Secretaries

Johor Bahru

Date: 23 December 2015

c.c. Securities Commission