

MCE HOLDINGS BERHAD (1158341-K)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT – 4TH QUARTER ENDED 31 JULY 2016

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis 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 internal reorganisation of Multi-Code Electronics Industries (M) Berhad (“Multi-Code”) Group in which MCE Holdings Berhad (“MCE”) was established as the new holding company of Multi-Code is accounted for when:

- a) MCE obtains control of Multi-Code Group via a one to one share exchange with the shareholders of Multi-Code;
- b) the assets and liabilities of Multi-Code Group are the same immediately before and after the reorganisation; and
- c) the owners of Multi-Code before the reorganisation have the same absolute and relative interests in the net assets of the Multi-Code Group and the new MCE Group immediately before and after the reorganisation.

In the separate financial statements of MCE, the cost of acquisition of Multi-Code Group is measured at the carrying amount of Multi-Code’s share of the equity items shown in the separate financial statements of Multi-Code at the date of the reorganisation.

The consolidated financial statements of the new MCE Group are presented using the values from the consolidated financial statements of Multi-Code Group. Any resulting difference between the cost of acquisition and the aggregate carrying value of assets and liabilities of Multi-Code Group is taken directly to equity.

The Condensed Report should be read in conjunction with the audited financial statements of Multi-Code 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 of Multi-Code for the year ended 31 July 2015.

The Group has not early adopted the following 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 2016:

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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
Annual Improvements to MFRSs 2012-2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138	1 January 2016
Amendments to MFRS 10 and MFRS 128	Deferred until further notice
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
Amendments to MFRS 107	1 January 2017
Amendments to MFRS 112	1 January 2017
MFRS 15	1 January 2018
MFRS 9	1 January 2018
Amendments to MFRS 15	1 January 2018
Amendments to MFRS 15	1 January 2018
Amendments to MFRS 2	1 January 2018
MFRS 16	1 January 2019

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

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A3. Disclosure of Audit Report Qualification

The auditors' report of Multi-Code 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 year ended 31 July 2016.

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 year ended 31 July 2016.

A8. Dividends Paid

No dividend has been paid during the financial year ended 31 July 2016.

A9. Segmental Reporting

No segmental information has been prepared as the Group is primarily engaged in manufacturing activities.

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

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

There were no material events subsequent to the end of the current financial year 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

On 1 July 2016, the exchange of shares between the MCE and Multi-Code pertaining to the internal reorganisation was completed and Multi-Code is now a wholly-owned subsidiary of MCE.

Subsequent to the financial year ended 31 July 2016, the Board of MCE has on 28 September 2016 resolved to submit application to the Registrar of Companies Andhra Pradesh, Hyderabad (“ROC Hyderabad”) under provision of Fast Track Exit (“FTE”) Scheme of the Companies Act for striking off the name of Multi-Code Electronics Industries (India) Private Limited (“MCEI”), a dormant indirect subsidiary of MCE.

The striking-off of the aforesaid company will not have any material effect on the net assets and earnings per share of the MCE Group for the financial year ending 31 July 2017.

Save as disclosed above, there was no changes in the composition of the Group during the period under review.

A12. Contingent Liabilities and Contingent Assets

The Group has no contingent liabilities and assets as at 31 July 2016.

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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 fourth quarter ended 31 July 2016, the Group achieved consolidated revenue of RM18.32 million which was approximately 11.88% lower than the preceding year corresponding quarter. The decrease in revenue was mainly due to low demand for Original Equipment Manufacturer (OEM) products in the current quarter. The Group recorded a loss after tax of RM0.13 million for the current quarter as compared to RM1.01 million in the preceding year corresponding quarter mainly due to lower operational cost for current quarter.

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

	Current Quarter 31 Jul 2016 RM'000	Preceding Quarter 30 Apr 2016 RM'000
Revenue	18,322	15,770
Pre-tax loss before non-controlling interests	(168)	(1,230)

For the current quarter, the Group achieved revenue of RM18.32 million, representing a increase of 16.18% as compared to the preceding quarter ended 30 April 2016. The increase was attributable to higher demand for OEM products in the current quarter. The Group recorded a pre-tax loss before non-controlling interests of RM0.17 million for the quarter under review as compared to RM1.23 million for the preceding quarter as a result of higher revenue.

B3 Prospects Commentary

The Group continues to face the slowdown in demand from its OEM customers in tandem with the slowdown in overall domestic Total Industry Volume (“TIV”). However, the recent launches of new models by the two national car makers are expected to contribute positively to the Group.

The Group will continue its efforts to mitigate increasing costs through its various cost reduction initiatives among which covering improvements of production processes and productivity. 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 year.

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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		12 months ended	
	31.07.16	31.07.15	31.07.16	31.07.15
	RM'000	RM'000	RM'000	RM'000
Income tax:				
- current year	131	148	266	300
- Under/(over) provision in prior years	-	(19)	1	(71)
	<u>131</u>	<u>129</u>	<u>267</u>	<u>229</u>
Deferred tax	(166)	514	(611)	667
Tax expense/ (income)	<u>(35)</u>	<u>643</u>	<u>(344)</u>	<u>896</u>

The tax income for the current quarter arose from the tax loss position

B6 Status of Corporate Proposals

On 29 September 2015, the Multi-Code had entered into a conditional scheme agreement with MCE 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 Multi-Code (“Multi-Code Share”) with 44,404,700 new ordinary shares of RM1.00 each in MCE (“MCE Share”) on the basis of one (1) MCE Share for every one (1) existing Multi-Code Share held as at an entitlement date to be determined and announced by the Board of Multi-Code; and
- b) proposed assumption of the listing status of the Multi-Code by MCE and the admission of MCE to and withdrawal of the Multi-Code from Official List of Bursa Malaysia Securities Berhad (“Bursa Securities”) with the listing of and quotation for new MCE Shares on the Main Market of Bursa Securities.

The transfer listing has been completed following the de-listing of Multi-Code Shares and the listing of MCE Shares on the Main Market of Bursa Securities on 1 July 2016.

Accordingly, the Internal Reorganisation has been duly completed on 1 July 2016.

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B7 Group Borrowings and Debt Securities

Group borrowings as at 31 July 2016:

	RM'000
(a) Secured borrowings	5,578
Unsecured borrowings	-
	5,578
(b) Short term	
- term loans (secured)	2,063
- hire purchase payable	200
	2,263
Long term	
- term loans (secured)	2,997
- hire purchase payable	318
	3,315
Total borrowings	5,578

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 July 2016.

B9 Dividends

No dividend is recommended for the current quarter (31 July 2015: Nil).

B10 Earnings/ (loss) per Share

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

	3 months ended		12 months ended	
	31.07.2016	31.07.2015	31.07.2016	31.07.2015
Profit/ (loss) for the period attributable to ordinary equity holders of the company (RM'000)	(229)	(1,005)	(2,288)	(1,074)
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)	(0.52)	(2.26)	(5.15)	(2.42)

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

B11 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 31.07.2016	As at 31.07.2015
	RM'000	RM'000
Total retained profits of the Company and its subsidiaries:		
- Realised	48,734	52,702
- Unrealised	(2,090)	(3,619)
	46,644	49,083
Less: Consolidation adjustments	(1,078)	(751)
Total group retained profits	45,566	48,332

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.

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 28 September 2016.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)
Pow Juliet (MAICSA 7020821)
Company Secretaries
Johor Bahru
Date: 28 September 2016
c.c. Securities Commission