M3 TECHNOLOGIES (ASIA) BERHAD (482772-D)
(Incorporated in Malaysia)

Part A - Explanatory Notes Pursuant to MFRS 134

1. First-time adoption of Malaysian Financial Reporting Standards ("MFRS")

These condensed consolidated interim financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. For the periods up to and including the year ended 30 June 2012, the Group prepared its financial statements in accordance with Financial Reporting Standards ("FRS").

These condensed consolidated interim financial statements are the Group's first MFRS condensed consolidated interim financial statements for part of the period covered by the Group's first MFRS annual financial statements for the year ending 30 June 2013. MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards* has been applied.

In preparing its opening MFRS Statement of Financial Position as at 1 July 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation on how the transition from FRS to MFRS has affected the Group's financial position and financial performance is set out in Note 2 below. These notes include reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the statements of cash flows.

2. Significant accounting policies and application of MFRS 1

The audited financial statements of the Group for the year ended 30 June 2012 were prepared in accordance with FRS. Except for certain differences, the requirements under FRS and MFRS are similar. The significant accounting policies adopted in preparing these condensed consolidated interim financial statements are consistent with those of the audited financial statements for the year ended 30 June 2012 except as discussed below:

(a) Business combination

MFRS 1 provides the option to apply MFRS 3 *Business Combinations*, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

<u>Acquisition before date of transition</u>
The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisitions prior to the date of transition:

(i) The classification of former business combinations under FRS is maintained;
(ii) There is no re-measurement of original fair values determined at the time of business combination (date of acquisition); and
(iii) The carrying amount of goodwill recognized under FRS is not adjusted.

(b) Foreign currency translation reserve

Under FRS, the Group recognized translation differences on the foreign operations in a separate component of equity. MFRS 1 provides the optional exemption that cumulative foreign translation differences for all foreign operations are deemed to be zero as at the date of transition to MFRS. Accordingly, at date of transition to MFRS, the cumulative foreign currency translation differences of RM1,137,154 (31 December 2011 : RM1,137,154; 30 June 2012 : RM1,137,154) were adjusted to retained earnings.

(c) Estimates

The estimates at 1 July 2011 and at 30 June 2012 were consistent with those made for the same dates in accordance with FRS. The estimates used by the Group to present these amounts in accordance with MFRS reflect conditions at 1 July 2011, the date of transition to MFRS and as of 30 June 2012.

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS are provided below:

(i) Reconciliation of equity as at 1 July 2011

	FRS as at 1-Jul-11 RM'000	**Effects of adopting MFRS RM'000**	**MFRS as at 1-Jul-11 RM'000**
Retained earnings	29,512	(1,137)	28,375
Foreign currency translation reserve	(1,137)	1,137	-

(ii) Reconciliation of equity as at 31 December 2011

	FRS as at 31-Dec-11 RM'000	**Effects of adopting MFRS RM'000**	**MFRS as at 31-Dec-11 RM'000**
Retained earnings	30,246	(1,137)	29,109
Foreign currency translation reserve	(857)	1,137	280

(iii) Reconciliation of equity as at 30 June 2012

	FRS as at 30-Jun-12 RM'000	**Effects of adopting MFRS RM'000**	**MFRS as at 30-Jun-12 RM'000**
Retained earnings	31,916	(1,137)	30,779
Foreign currency translation reserve	(1,030)	1,137	107

3. Comments on Seasonal or Cyclical Factors

The business of the Group is not affected by any significant seasonal or cyclical factors.

4. Unusual Items due to their Nature, Size or Incidence

There were no items affecting the assets, liabilities, equity, net income or cash flow of the Group that are unusual because of their nature, size or incidence for the current quarter under review.

5. Changes in Estimate

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

6. Debt and Equity Securities

There were no issuance or repayment of debt and equity securities, share buy-back, shares cancellations, shares held as treasury shares and resale of treasury shares in the current quarter under review, except for the private placement of 16,096,000 new ordinary shares of RM0.10 each at an issue price of RM0.2268 each.

7. Dividend Paid

No dividend has been proposed for the financial period ended 31 December 2012.

In respect of the financial year ended 30 June 2012, the Company has had on 22 November 2011 declared the first interim tax exempt dividend of 0.5 sen on 161,894,240 ordinary shares amounting to RM809,471 which was paid on 6 January 2012.

8. Property, Plant and Equipment Valuation

There has been no valuation undertaken for the Group’s property, plant and equipment.

9. Changes in the Composition of the Group

On 20 August 2012, the Company’s wholly owned subsidiary, Messaging Technologies (H.K.) Limited subscribed an additional 2,828,587 new ordinary shares in Hong Kong Dollar of 1.00 each at par in AKN Messaging Technologies (Xiamen) Co., Ltd. (“MTech Xiamen”). As a result, the Company’s effective interest in MTech Xiamen has increased from 93.02% to 95.00%.

On 21 December 2012, the Company’s wholly owned subsidiary, AKN Messaging Technologies (Xiamen) Co. Ltd. (AKN Xiamen) has incorporated a new wholly-owned subsidiary under the name of M3 Interactive (ShenZhen) Pte. Ltd. (“M3I SZ”) and its intended principal activities are designing computer hardware and software, computer network technology development, sales of software, other domestic trade, computer graphic design, packaging design, goods and technology exportation.

Presently, the authorised share capital of M3I SZ is RMB 2 million and the issued and paid-up share capital is RMB 2 million directly held by AKN Xiamen.

The incorporation of M3I SZ does not have any effect on the share capital and substantial shareholders' shareholding in the Company and is not expected to have any material impact on the earnings and net assets of the Company and the Group for the financial year ending 30 June 2013.

10. Contingent Liabilities and Contingent Assets

As at 20 February 2013 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report), there were no changes in contingent liabilities and contingent assets since 31 December 2012.

11. Capital commitments

On 8 October 2012, the Company entered into a sale and purchase agreement ("SPA") to purchase a property at a total purchase price of RM660,000. As at the date of this report, the Company has paid a deposit sum of RM66,000, representing 10% of the purchase consideration of the said property. Settlement of the balance sum is currently pending fulfillment of certain conditions by the vendor.

There were no other material capital commitments as at the end of the current quarter under review.

12. Segmental Information

Segmental information of the results of the Group for the six (6) months ended 31 December 2012 is as follows:

(i) <u>Geographical segmentation</u>

	Malaysia RM'000	Thailand RM'000	Pakistan RM'000	Other Countries RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue						
External revenue	16,777	4,521	4,029	3,717	(2,478)	26,566
Result						
Segment results	(77)	1,534	1,422	(1,367)	(384)	1,128
Interest income/ (expense)						66
Share of results of jointly controlled entity						(16)
Profit before taxation						**1,178**
Taxation						(864)
Profit after taxation						**314**
Minority interests						(263)
Net profit for the period						**51**
Assets						
Segment assets	27,254	8,646	7,020	7,786	14,704	**65,410**

(ii) By business segment

	Mobile Solutions RM'000	Trading & Distribution RM'000	Group RM'000
Revenue			
External revenue	14,265	12,301	26,566
Result			
Segment results	1,515	(387)	1,128
Interest income/(expense)			66
Share of results of jointly controlled entity			(16)
Profit before taxation			**1,178**
Taxation			(864)
Profit after taxation			**314**
Minority interests			(263)
Net profit for the period			**51**
Assets			
Segment assets	51,120	14,290	**65,410**

13. Related party transactions

	Current Quarter 3 months ended 31-Dec-12 RM'000	Cumulative Quarter 6 months ended 31-Dec-12 RM'000
Administration and service fee	15	33
	15	33

The transactions were carried out in the ordinary course of business and are on normal commercial terms.

14. Subsequent Events

There was no material event that took place between 1 January 2013 and 20 February 2013 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report).

Part B - Explanatory Notes Pursuant to Appendix 9B of the Listing Requirements of Bursa Securities for the ACE Market

15. Performance Review

Segment	Current quarter 3 months ended			Cumulative quarter 6 months ended	
	31-Dec-12	31-Dec-11	30-Sep-12	**31-Dec-12**	31-Dec-11
	RM'000	RM'000	RM'000	**RM'000**	RM'000
Mobile Solutions					
Revenue	**7,018**	7,782	7,247	**14,265**	15,380
Profit before taxation	**667**	1,382	898	**1,565**	3,038
% Profit before taxation	**9.5%**	17.8%	12.4%	**11.0%**	19.8%
Trading & Distribution					
Revenue	**5,952**	6,404	6,349	**12,301**	12,302
Profit before taxation	**(513)**	780	126	**(387)**	1,178
% Profit before taxation	**-8.6%**	12.2%	2.0%	**-3.1%**	9.6%
Total					
Revenue	**12,970**	14,186	13,596	**26,566**	27,682
Profit before taxation	**154**	2,162	1,024	**1,178**	4,216
% Profit before taxation	**1.2%**	15.2%	7.5%	**4.4%**	15.2%

<u>Q2’2013 vs Q2’2012</u>

The Group generated revenue of RM12.97 million for this reporting quarter ended 31 December 2012 (“Q2’2013”), representing a decrease of RM1.22 million as compared to RM14.19 million generated in the previous year corresponding quarter ended 31 December 2011 (“Q2’2012”).

Profit before tax for Q2’2013 decreased by RM2.00 million to RM0.16 million as compared to a profit before tax of RM2.16 million generated in Q2’2012.

<u>Q2’2013 vs Q1’2013</u>
When compared to the previous quarter ended 30 September 2012 (“Q1’2013”), revenue of the group decreased by RM0.63 million and profit before tax decreased by RM0.86 million in Q2’2013.

<u>Q1-Q2’2013 vs Q1-Q2’2012</u>
The Group generated revenue of RM26.57 million for the 6 months ended 31 December 2012 (“Q1-Q2’2013"), representing a decrease of RM1.11 million as compared to RM27.68 million generated for the 6 months ended 31 December 2011 (“Q1-Q2’2012").

Profit before tax for Q1-Q2’2013 decreased by RM3.04 million to RM1.18 million as compared to a profit before tax of RM4.22 million for Q1-Q2’2012.

In summary, the drop in sales revenue experienced was predominantly due to the challenging times still experienced in Indonesia, due to the stringent government control towards the mobile solutions business. Further contribution to this drop was the slowdown in sales for the distribution business in Singapore due to challenging retail market conditions experienced locally.

Further to the above, the lower profit margins seen in Q2’2013 was mainly due to the higher advertising and promotion spending to boost the product and brand awareness of the group’s new catalog across the region.

16. Commentary on Prospects

Although there was a significant drop in returns and profits in Q2’2013, the mobile solutions business across the region namely in Thailand and Pakistan remains on a steady growth. The introduction of business into the Middle East via our Pakistan initiative is expected to contribute positively in the next financial year. Corporate mobile solutions, including application development are the current driving force for this channel.

Under distribution, the focus is on pushing the new products/brands (non-GPS/PND models) acquired for local and regional distribution. We are looking to the grand launch of GEO, our personal security device in Q3’2013 - which we are optimistic will garner significant interest moving forward.

In the second half of the financial year ending 30 June 13, the Group remains focused to further improve on its eCommerce initiatives, mainly executing the strategy to boost the online store, M3Shoppe’s performance across 4 main regions - Malaysia, Singapore, Thailand and Indonesia. We are gearing to position M3Shoppe as the to-go online site for gadgets and accessories.

SpeakEz, the eLearning initiative will also be launched in Q3’2013, and the team is confident that the response will be positive. Certain strategic partnerships are already being discussed to further exploit the product through various learning platforms, i.e. institutions and universities.

Barring unforeseen circumstances, the Board of Directors is of the opinion that the Group will be profitable for the next quarter.

17. Profit Forecast and Profit Guarantee

The Group did not issue any profit forecast or profit guarantee.

18. Taxation

	Current Quarter 3 months ended		**Cumulative Quarter 6 months ended**	
	31-Dec-12	31-Dec-11	**31-Dec-12**	31-Dec-11
	RM'000	RM'000	**RM'000**	RM'000
In respect of current period:-				
- Malaysian tax	**126**	167	**293**	394
- Foreign tax	**306**	497	**571**	900
	432	664	**864**	1,294
Under/(over) provision in prior year:-				
- Malaysian tax	**-**	-	**-**	-
- Foreign tax	**-**	-	**-**	44
	-	-	**-**	-
	432	664	**864**	1,338

The effective tax rate for the current quarter was higher than the statutory tax rate mainly due to the losses of certain subsidiaries which cannot be set off against taxable profits made by other subsidiaries.

19. Status of Corporate Proposals as at 20 February 2013 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report)

On 18 July 2012, the Board of Directors of the Company approved the proposal to undertake a private placement of up to 10% of the issued and paid-up share capital in the Company comprising of 16,096,000 new ordinary shares to investors. The Private Placement of 16,096,000 new ordinary shares was fully subscribed and completed on 12 November 2012.

The status of utilisation of the proceeds from the Private Placement as at 31 December 2012 is as follows:

Purpose	Proposed Utilisation (RM'000)	Actual Utilisation (RM'000)	Intended Timeframe for Utilisation
Working Capital	3,651	3,651	6 months from date of receipt

20. Group Borrowings and Debt Securities

The Group borrowings as at 31 December 2012 and 30 June 2012 are as follows:

	31-Dec-12 RM'000	**30-Jun-12 RM'000**
Current		
<u>Secured</u>		
- Hire purchases	59	48
- Trade term loan (Denominated in US Dollar)	395	745
	454	793
Non-current		
<u>Secured</u>		
- Hire purchases	411	152
Total Group borrowings	865	945

The Group did not have any debt securities as at 31 December 2012.

21. Realised and Unrealised Earnings or Losses Disclosure

The retained earnings as at 31 December 2012 and 30 June 2012 are analysed as follows:

	31-Dec-12 **RM'000**	**30-Jun-12** **RM'000** (Restated)
Total retained earnings of the Company and its subsidiaries:		
- Realised	32,096	31,335
- Unrealised	(1,402)	(1,101)
Consolidation adjustments	161	545
Total group retained earnings as per unaudited consolidated financial statement	30,855	30,779

22. Changes in Material Litigation

As at 20 February 2013 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report), the Company was not engaged in any material litigation either as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group.

23. Earnings Per Share

The earnings per share was calculated by dividing the Company's profit after taxation and minority interest by the weighted average number of ordinary shares in the respective period as follows:

	Current Quarter 3 months ended		**Cumulative Quarter 3 months ended**	
	31-Dec-12	31-Dec-11	**31-Dec-12**	31-Dec-11
Profit/(Loss) after tax and minority interest (RM'000)	**(364)**	1,205	**51**	2,353
Weighted average number of ordinary shares in issue	**171,691,907**	161,668,240	**166,326,573**	161,668,240
<u>Earnings Per Share</u> Basic/Diluted (Sen)	**(0.21)**	0.75	**0.03**	1.46

24. Derivatives

The Group did not enter into any derivatives during the current quarter under review.

25. Disclosure of gains/losses arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit and loss for the current quarter under review.

26. Auditors’ Report on Preceding Annual Financial Statements

The auditors’ report on the financial statements for the year ended 30 June 2012 was not qualified.

By order of the Board of Directors

Lim Seng Boon
Director
25 February 2013