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 RM1,135,238 (30 June 2012 : RM1,135,238) 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 (*Restated)	**Effects of adopting MFRS RM'000**	**MFRS as at 1-Jul-11 RM'000**
Retained earnings	29,423	(1,135)	28,288
Foreign currency translation reserve	(1,135)	1,135	-

(ii) Reconciliation of equity as at 30 June 2012

	FRS as at 30-Jun-12 RM'000 (*Restated)	**Effects of adopting MFRS RM'000**	**MFRS as at 30-Jun-12 RM'000**
Retained earnings	31,669	(1,135)	30,534
Foreign currency translation reserve	(1,026)	1,135	109

* *After retrospective restatement and before adopting MFRS. (Refer to note 5)*

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 was an impairment of goodwill to the Statement of Comprehensive Income of RM7.26 million during this quarter, however, this impairment has no impact to the Group's cash flow.

Save for disclosed as above, 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 Accounting Estimates and Errors

There were two errors in prior years were discovered in the current quarter under review and a change in accounting estimate.

The details of the two material errors in prior years are as follows:

(i) M3 Technologies Pakistan (Private) Limited ("M3Tech Pakistan")

In previous years, M3Tech Pakistan made purchases from international content vendors and accounted for royalty expense and related payable net of income tax instead of at the gross amounts in a view that withholding tax was to be booked while making remittances. While making payments during the current year, the management identified that royalty expense was understated in previous years by an amount of Rupees 5,837,330 owing to aforesaid reason. As a result, M3Tech Pakistan recorded this remaining amount of royalty expense and related payable on account creditors / income tax deducted at source in the enclosed financial statements retrospectively as prior period error.

The effect of retrospective restatement on condensed consolidated statements of financial position as at 30 June 2012 and 30 June 2011 are as below:

	30-Jun-12 RM'000	**30-Jun-11 RM'000**
Decrease in retained earnings	125	89
Increase in foreign currency translation reserve	6	2
Decrease in non-controlling interests	79	59
Increase in trade payables	198	146

The effect of retrospective restatement on condensed consolidated statements of comprehensive income for the current quarter 3 months ended / cumulative quarter 12 months ended 30 June 2012 is as below:

	30-Jun-12 RM'000
Increase in operating expenses	59
Increase in foreign currency translation differences	7

(ii) M3 Interactive (S) Pte. Ltd

The correction made in the jointly controlled entity due to the previous years' financial statements was unaudited.
The effect of retrospective restatement on condensed consolidated statements of financial position as at 30 June 2012 and 30 June 2011 are as below:

	30-Jun-12 RM'000	30-Jun-11 RM'000
Decrease in interest in jointly controlled entity	124	-
Decrease in retained earnings	122	-
Decrease in foreign currency translation reserve	2	-

The effect of retrospective restatement on condensed consolidated statements of comprehensive income for the current quarter 3 months ended / cumulative quarter 12 months ended 30 June 2012 is as below:

	30-Jun-12 RM'000
Increase in share of loss of jointly controlled entity	122
Decrease in foreign currency translation differences	2

The reconciliations of condensed consolidated statements of financial position on the total effects are as below:

(i) Reconciliation as at 30 June 2011

	As at 30-Jun-11 RM'000	Effects of retrospective restatement RM'000	As at 30-Jun-11 RM'000 (*Restated)
Retained earnings	29,512	(89)	29,423
Foreign currency translation reserve	(1,137)	2	(1,135)
Non-controlling interests	3,091	(59)	3,032
Trade payables	9,350	146	9,496

(ii) Reconciliation as at 30 June 2012

	As at 30-Jun-12 RM'000	Effects of retrospective restatement RM'000	As at 30-Jun-12 RM'000 (*Restated)
Interest in jointly controlled entity	1,016	(124)	892
Retained earnings	31,916	(247)	31,669
Foreign currency translation reserve	(1,030)	4	(1,026)
Non-controlling interests	4,038	(79)	3,959
Trade payables	9,385	198	9,583

** After retrospective restatement and before adopting MFRS. (Refer to note 2c)*

The reconciliations of condensed consolidated statements of comprehensive income on the total effects are as below:

(i) Reconciliation for the current quarter 3 months ended 30 June 2012

	As at 30-Jun-11 RM'000	Effects of retrospective restatement RM'000	As at 30-Jun-11 RM'000 (Restated)
Net profit/(loss) for the period	979	(181)	798
Other comprehensive income/(loss), net of tax	307	5	312

(ii) Reconciliation for the cumulative quarter 12 months ended 30 June 2012

	As at 30-Jun-11 RM'000	Effects of retrospective restatement RM'000	As at 30-Jun-11 RM'000 (Restated)
Net profit/(loss) for the period	5,279	(181)	5,098
Other comprehensive income/(loss), net of tax	(10)	5	(5)

Change in accounting estimate

There was a change in accounting estimate of the recoverable amount of the Group's cash generating units (CGU).

The Group adopted a 5 years cash flow projection to estimate the recoverable amount of the CGU as compared to prior years' 5 years cash flow projection with additional cash flow beyond the 5 years period are extrapolated using growth rate which are consistent with the long term average growth rate for the industry.

As a result of the above changes, there was a significant amount of goodwill impairment of RM 7.26 million written off to the Statement of Comprehensive Income during this quarter.

6. Debt and Equity Securities

On 12 November 2012, the Company has issued 16,096,000 new ordinary shares of RM0.10 each at an issue price of RM0.2268 each pursuant to the private placement.

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.

7. Dividend Paid

No dividend has been proposed for the financial period ended 30 June 2013.

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

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

10. Contingent Liabilities and Contingent Assets

As at 22 August 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 30 June 2013.

11. Capital commitments

There were no 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 twelve (12) months ended 30 June 2013 is as follows:

(i) Geographical segmentation

	Malaysia RM'000	Thailand RM'000	Pakistan RM'000	Other Countries RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue						
External revenue	30,928	7,657	8,468	6,974	(3,786)	50,241
Result						
Segment results	(10,143)	1,701	3,038	(2,511)	8,865	950
Interest income/(expense)						98
Share of results of jointly controlled entity						(35)
Impairment of goodwill						(7,259)
Profit/(loss) before taxation						**(6,246)**
Taxation						(1,206)
Net profit/(loss) for the period						**(7,452)**
Attributable to :						
Equity holders of the Company						(8,058)
Non-controlling interests						606
Assets						
Segment assets	28,168	8,938	8,949	8,253	6,345	**60,653**

(ii) By business segment

	Mobile Solutions RM'000	Trading & Distribution RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue				
External revenue	28,161	25,866	(3,786)	50,241
Result				
Segment results	(6,544)	(1,371)	8,865	950
Interest income/(expense)				98
Share of results of jointly controlled entity				(35)
Impairment of goodwill				(7,259)
Profit/(loss) before taxation				**(6,246)**
Taxation				(1,206)
Net profit/(loss) for the period				**(7,452)**
Attributable to :				
Equity holders of the Company				(8,058)
Non-controlling interests				606
Assets				
Segment assets	37,287	17,021	6,345	**60,653**

13. Related party transactions

	Current Quarter 3 months ended 30-Jun-13 RM'000	Cumulative Quarter 12 months ended 30-Jun-13 RM'000
Administration and service fee	-	39
	-	39

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 July 2013 and 22 August 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 12 months ended	
	30-Jun-13	30-Jun-12	31-Mar-13	**30-Jun-13**	30-Jun-12
	RM'000	RM'000	RM'000	**RM'000**	RM'000
Mobile Solutions					
Revenue	**6,207**	8,366	6,667	**27,136**	31,329
Profit/(loss) before taxation	**(6,876)**	1,622	429	**(4,870)**	6,421
% Profit/(loss) before taxation	**-110.8%**	19.4%	6.4%	**-17.9%**	20.5%
Trading & Distribution					
Revenue	**4,717**	5,594	6,084	**23,105**	24,979
Profit/(loss) before taxation	**(956)**	(335)	(21)	**(1,376)**	957
% Profit/(loss) before taxation	**-20.3%**	-6.0%	-0.3%	**-6.0%**	3.8%
Total					
Revenue	**10,924**	13,960	12,751	**50,241**	56,308
Profit/(loss) before taxation	**(7,832)**	1,287	408	**(6,246)**	7,378
% Profit/(loss) before taxation	**-71.7%**	9.2%	3.2%	**-12.4%**	13.1%

<u>Q4’2013 vs Q4’2012</u>

The Group generated revenue of RM10.92 million for this reporting quarter ended 30 June 2013 (“Q4’2013”), representing a decrease of RM3.04 million as compared to RM13.96 million generated in the previous year corresponding quarter ended 30 June 2012 (“Q4’2012”).

Loss before tax for Q4’2013 was RM 7.83 million mainly due to impairment of goodwill as compared to profit before tax of RM1.29 million generated in Q4’2012.

However, the goodwill impairment of RM 7.26 million has no impact in the cash flow of the Group in the current period as this amount already paid at the date of acquisition in the prior year.

<u>Q4’2013 vs Q3’2013</u>

When compared to the previous quarter ended 31 March 2013 (“Q3’2013”), revenue of the group decreased by RM1.83 million from RM12.75 million to RM10.92 million in Q4’2013. The loss before tax for Q4’2013 was RM 7.83 million as compared to profit before tax of RM0.41 million generated in Q3’2013.

<u>Q1-Q4’2013 vs Q1-Q4’2012</u>

The Group generated revenue of RM50.24 million for the 12 months ended 30 June 2013 (“Q1-Q4’2013”), representing a decrease of RM6.07 million as compared to RM56.31 million generated for the 12 months ended 30 June 2012 (“Q1-Q4’2012”).

Loss before tax for Q1-Q4’2013 was RM6.25 million as compared to profit before tax of RM7.38 million for Q1-Q4’2012.

The significant loss during this period was contributed by the following main factors:

(i) A significant amount of RM 7.26 million impairment of goodwill arising from an acquisition of a subsidiary in earlier year has been written off to the Statement of Comprehensive Income as a result of change in accounting estimate and the reduction in net assets of a subsidiary.

(ii) The drop in revenue from the mobile solutions business in both Thailand and Malaysia. The stringent guidelines in Thailand on subscription services (which was the main source of revenue) has had a direct effect on the company's sales. In Malaysia, mobile solutions business returns from content services through mobile network partnerships have also dropped significantly. These networks have ceased to market/advertise such services through the conventional mass market channels, i.e. above the line options, hence reducing the number of new subscribers to these services. Free options for such content through various other sources have also resulted in subscribers opting for such options instead of these premium services. The mobile application development arena has also encountered great competition from numerous free lancers etc who are offering such applications at a much lower cost have affected our sales significantly.

(iii)The slowdown in distribution sales from Singapore and Malaysia was due to the greater challenges in the retail sector, i.e. competition from sub-standard brands at lower prices and saturation of certain product ranges, such as GPS devices.

16. Commentary on Prospects

Under the mobile solutions business in Thailand, to counter the effects of the subscription guidelines, focus has been put on more corporate based services, i.e. credit sales for online games via mobile and other introducing application development for companies locally.

The group's respective mobile solutions business teams will also be focusing on a new product/service, project name 'i3Display' operating Android based applications on a range of touch-screen interactive display terminals (floor standing units, wall mounted units as well as kiosk designs) for various industries, i.e. retail, corporate, events etc. The i3Display will be the main focus of our regional mobile solutions business teams for FY14, and is projected to boost the returns under this channel.

To counter the slow down in the group's distribution sector, which was predominantly a result of the saturation in GPS device sales regionally, we have introduced a wider range of products including Driving Video Recorders (DVRs) which are projected to gain significant momentum as the next in-demand product in the region.

In FY14 we will also see the full exploitation of our regional online store, M3Shoppe through 4 main countries, Malaysia, Indonesia, Singapore and Thailand. We are confident that we recent revamps of this ecommerce platform, these online stores will start to significantly contribute to the Group's returns in this financial year.

Barring unforseen circumstances, the Board of Directors are of the opinion that the Group will return to profitability in 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 12 months ended	
	30-Jun-13	30-Jun-12	**30-Jun-13**	30-Jun-12
	RM'000	RM'000	**RM'000**	RM'000
In respect of current period:-				
- Malaysian tax	**(24)**	97	**367**	585
- Foreign tax	**(21)**	464	**810**	1,728
	(45)	561	**1,177**	2,313
Under/(over) provision in prior year:-				
- Malaysian tax	**-**	(16)	**29**	(21)
- Foreign tax	**-**	(37)	**-**	7
	-	(53)	**29**	(14)
Deferred tax	**-**	(19)	**-**	(19)
	(45)	489	**1,206**	2,280

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 22 August 2013 (being the latest practicable date not earlier than seven (7) days from the date of issue of this report)

The Company had on 4 March 2013 offered to acquire 383,900 ordinary shares of RM1.00 each in Fotokem Sdn. Bhd. (“Sale Shares”), representing 23.993% equity interest in Fotokem Sdn. Bhd. (“Fotokem”) from Ngui Woon Kong and Wong Lim Patt @ Wong Lim Fatt (collectively referred to as the “Vendors”)for a total cash consideration of RM5,998,438, subject to the following:

(i) Satisfactory outcome of the financial, tax and legal due diligence of the Fotokem and its subsidiary companies (“Fotokem Group”); and

(ii) Terms and conditions in the shares sale agreement (“SSA”), shareholders agreement and profit guarantee agreement (collectively referred to as the “Agreements”) to be negotiated between the Company and the Vendors.

The Vendors have acknowledged and accepted the abovementioned offer by the Company on 4 March 2013.

As at the date of this report, the due diligence works has been completed.

The management is preparing the draft Agreements as stipulated in the signed letter of offer and terms sheet for further review and signing with the Vendors.

20. Group Borrowings and Debt Securities

The Group borrowings as at 30 June 2013 and 30 June 2012 are as follows:

	30-Jun-13 RM'000	30-Jun-12 RM'000
Current		
Secured		
- Hire purchases	120	48
- Term loan	54	-
- Trade time loan (Denominated in US Dollar)	2,639	745
	2,813	793
Non-current		
Secured		
- Hire purchases	409	152
- Term loan	588	-
	997	152
Total Group borrowings	3,810	945

The Group did not have any debt securities as at 30 June 2013.

21. Realised and Unrealised Earnings or Losses Disclosure

The retained earnings as at 30 June 2013 and 30 June 2012 are analysed as follows:

	30-Jun-13 RM'000	30-Jun-12 RM'000 (Restated)
Total retained earnings of the Company and its subsidiaries:		
- Realised	21,594	31,088
- Unrealised	(1,210)	(1,099)
Consolidation adjustments	2,117	545
Total group retained earnings as per unaudited consolidated financial statement	22,501	30,534

22. Changes in Material Litigation

As at 22 August 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 non-controlling interests by the weighted average number of ordinary shares in the respective period as follows:

	Current Quarter 3 months ended		**Cumulative Quarter 12 months ended**	
	30-Jun-13	30-Jun-12	**30-Jun-13**	30-Jun-12
Profit/(Loss) after tax and non-controlling interests (RM'000)	**(8,044)**	525	**(8,058)**	3,865
Weighted average number of ordinary shares in issue	**177,057,240**	160,961,240	**171,691,907**	161,431,907
Earnings Per Share Basic/Diluted (Sen)	**(4.54)**	0.33	**(4.69)**	2.39

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
29 August 2013