

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

Part A - Explanatory Notes Pursuant to MFRS 134

1. Basis of Preparation

The condensed consolidated interim financial statements have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”) 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.

The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2015. The explanatory notes attached to the condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to understanding the changes in the financial position and performance of the Group since the financial year ended 30 June 2015.

2. Significant Accounting Policies

The accounting policies applied by the Group in preparing the condensed consolidated interim financial statements are consistent with those of the audited financial statements of the Group for the financial year ended 30 June 2015. The Group will adopt the following MFRSs, amendments to MFRSs and IC Interpretation when they become effective in the following financial year:

(i) Effective for financial periods beginning on or after 1 July 2015:

- Amendments to MFRS 11 ‘Accounting for Acquisition of Interests in Joint Operations’
- Amendments to MFRS 127 ‘Equity Method in Separate Financial Statements’
- Amendments to MFRS 10 and MFRS 128 ‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture’
- Annual Improvements to MFRSs 2012-2014
- Amendments to MFRS 10, 12 and 128 ‘Investment Entities – Applying the Consolidation Exception’
- Amendments to MFRS 101 ‘Presentation of Financial Statements – Disclosure Initiative’

3. 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 Accounting Estimates and Errors

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

6. Debt and Equity Securities

The Company had on 6 November 2015 issued 11,705,700 new ordinary shares of RM0.10 each at par value and RM0.005 per share as share premium under the private placement.

Saved as disclosed above, there were no issuance, repurchases and repayments of debt and equity securities in the current quarter under review.

7. Dividend Paid

No dividend has been proposed or paid in the current quarter under review.

8. Segmental Information

Segmental information of the results of the Group for the cumulative quarter is as follows:

(i) Geographical Segment

<u>6 months ended</u> <u>31 Dec 15</u>	Malaysia RM'000	Thailand RM'000	Pakistan RM'000	Other Countries RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue	11,938	514	8,323	1,893	(834)	21,833
Segment results	(2,249)	(8)	3,351	(388)	25	731
Interest (expense)/income	(10)	(2)	-	(1)	-	(13)
Share of results in an Associate	-	-	-	-	(548)	(548)
Profit/(loss) before taxation	(2,259)	(10)	3,351	(389)	(523)	170
Segment assets	11,460	7,801	21,178	(2,859)	14,878	52,458

<u>6 months ended</u> <u>31 Dec 14</u>	Malaysia RM'000	Thailand RM'000	Pakistan RM'000	Other Countries RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue	8,820	917	4,519	1,948	(1,248)	14,956
Segment results	(2,708)	(97)	1,651	(1,073)	3	(2,224)
Interest income/(expense)	(15)	(1)	-	3	-	(13)
Share of results in a joint venture	-	-	-	-	(5)	(5)
Share of results in an Associate	-	-	-	-	(185)	(185)
Profit/(loss) before taxation	(2,723)	(98)	1,651	(1,070)	(187)	(2,427)
Segment assets	44,275	7,751	14,301	17,041	(49,393)	33,975

8. Segmental Information (cont'd)

(ii) Business Segment

<u>6 months ended</u> <u>31 Dec 15</u>	Mobile Solutions RM'000	Trading & Distribution RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue	18,936	3,732	(834)	21,833
Segment results	1,762	(1,056)	25	731
Interest income/(expense)	(9)	(4)	-	(13)
Share of results in an associate	-	-	(548)	(548)
Profit/(loss) before taxation	1,753	(1,060)	(523)	170
Segment assets	36,227	1,353	14,878	52,458

<u>6 months ended</u> <u>31 Dec 14</u>	Mobile Solutions RM'000	Trading & Distribution RM'000	Eliminations/ Adjustments RM'000	Group RM'000
Revenue	9,919	6,285	(1,248)	14,956
Segment results	(764)	(1,463)	3	(2,224)
Interest income/(expense)	(13)	-	-	(13)
Share of results in a joint venture	-	-	(5)	(5)
Share of results in an associate	-	-	(185)	(185)
Loss before taxation	(777)	(1,463)	(187)	(2,427)
Segment assets	60,559	22,809	(49,393)	33,975

9. Related party transactions

	Current quarter 3 months ended		Cumulative quarter 6 months ended	
	30-Dec-15 RM'000	30-Dec-14 RM'000	30-Dec-15 RM'000	30-Dec-14 RM'000
Sales to an associate	110	9	145	43

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

10. Subsequent Events

There was no material event that took place between 1st October 2015 to the seventh (7th) day before the date of issuing this report.

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

11. Performance Review

Business Segment	Current quarter 3 months ended			Cumulative quarter 6 months ended	
	31-Dec-15	31-Dec-14	30-Sept-15	31-Dec-15	31-Dec-14
	RM'000	RM'000	RM'000	RM'000	RM'000
Mobile Solutions					
Revenue	9,516	5,337	9,420	18,936	9,849
Profit/(loss) before taxation	784	(455)	969	1,753	(1,403)
% Profit/(loss) before taxation	8.2%	-8.5%	10.3%	9.3%	-14.2%
Trading & Distribution					
Revenue	1,450	2,977	1,447	2,897	5,107
Profit/(loss) before taxation	(918)	200	(142)	(1,060)	(836)
% Profit/(loss) before taxation	-63.3%	6.7%	-9.8%	-36.6%	-16.4%
Adjustment					
Profit/(loss) before taxation	(122)	(104)	(401)	(523)	(188)
Total					
Revenue	10,966	8,314	10,867	21,833	14,956
Profit/(loss) before taxation	(256)	(359)	426	170	(2,427)
% Profit/(loss) before taxation	-2.3%	-4.3%	3.9%	0.8%	-16.2%

Q2-2016 vs. Q2-2015

Group generated total revenue of RM 10.96 million for this quarter ended 31 December 2015 (“Q2-2016”), representing an increase of RM 2.65 million as compared to RM 8.31 million generated in the previous year corresponding quarter ended 31 December 2014 (“Q2-2015”).

The loss before taxation has been reduced by RM 0.10 million (from RM 0.36 million in “Q2-2015 to loss before taxation of RM 0.26 million in “Q2-2016”).

Q2-2016 vs. Q1-2016

Comparing to the previous quarter ended 30 September 2015 (“Q1-2016”), the Group’s revenue was marginally higher from RM 10.87 million to RM 10.96 million in “Q2-2016”.

Losses has been incurred in this quarter as compared to RM 0.4 million profit before taxation generated in the previous quarter ended 30 September 2015. The losses incurred during this quarter was mainly due to foreign currency fluctuation and lower profit margin earnings from the Trading & Distribution segment in order to maintain and remains competitive.

12. Commentary on Prospects

We have been aggressively selling our new products namely i3Displays, Getsnapps both overseas and locally of which, we received very encouraging feedback and generated positive results in this quarter. We believe, and we will continue in maintaining this momentum to make it higher percentage of growth in the coming quarters.

Other new exciting software products is in the pipeline and will be rolling out to our other subsidiaries by the coming quarter.

Continuingly restructuring and rationalization of some subsidiaries, e.g. Indonesia, Thailand and China is still in progress to ensure efficient use of resources with a view of long term success.

13. Profit Forecast and Profit Guarantee

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

14. Taxation

	Current Quarter		Cumulative Quarter	
	3 months ended		6 months ended	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
	RM'000	RM'000	RM'000	RM'000
In respect of current period:-				
- Malaysian tax	-	23	-	43
- Foreign tax	463	96	725	230
	<u>463</u>	<u>119</u>	<u>725</u>	<u>273</u>

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.

15. Corporate Proposals

Multiple Proposals

The company had on 16 April 2015 proposed the following corporate exercise:

(a) Proposed Right Issue with warrants;

Proposed renounceable rights issue of up to 395,152,428 new ordinary shares of RM0.10 each in M3Tech together with up to 296,364,321 free detachable warrants at an issue price of RM0.10 per Rights Share on the basis of four (4) Rights Shares together with three (3) Warrants for every two (2) existing M3Tech Shares held on an entitlement date to be determined and announced later based on a minimum subscription level of 80,000,000 Rights Shares together with 60,000,000 Warrants.

(b) Proposed Employees Share Option Scheme (“ESOS”)

Proposed establishment of ESOS of up to 30% of the prevailing issued and paid-up share capital of the Company (excluding treasury shares) for the eligible employees (including Directors) of M3Tech and its subsidiaries who meet the criteria of eligibility for participation in the Scheme as set out in the by-laws containing the rules, terms and conditions of the Scheme.

(c) Proposed increase in authorised share capital; and

Proposed increase in the authorised share capital of M3Tech from RM25,000,000 comprising 250,000,000 M3Tech Shares to RM200,000,000 comprising 2,000,000,000 M3Tech Shares.

(d) Proposed M&A amendments

Proposed amendments to the Memorandum and Articles of Association of M3Tech to facilitate the Proposed Increase in Authorised Share Capital and the Proposed ESOS.

On 16 June 2015, we had procured the written Irrevocable Undertakings from certain shareholders of M3Tech to subscribe for up to 80,000,000 Rights Shares together with up to 60,000,000 Warrants pursuant to the Proposed Rights Issue with Warrants.

On 3 July 2015, we had submitted the application to Bursa Malaysia Securities Berhad for :

(i) admission of the Warrants to the Official List of the ACE Market of Bursa Securities; and

(ii) listing of and quotation for the Rights Shares, the Warrants and the new M3Tech Shares to be issued arising from the exercise of the Warrants and Options on the ACE Market of Bursa Securities.

Save and except for Ordinary Resolution 5 which has been withdrawn and not tabled for shareholders’ approval at the Extraordinary General Meeting (“EGM”) on 25 November 2015, the above Proposals were duly passed at the EGM.

The Company had on 18 January 2016 submitted the application for an extension of time to Bursa Securities and on 20 January 2016 obtained the approval of extension of time to complete the implementation of the above Multiple Proposals by 16 September 2016.

16. Group Borrowings and Debt Securities

The Group borrowings as at 31 December 2015 and 30 June 2015 are as follows:

	31-Dec-15 RM'000	30-Jun-15 RM'000
Current		
<u>Secured</u>		
- Term loan	60	58
- Obligations under finance leases	107	102
	<hr/> 167	<hr/> 160
Non-current		
<u>Secured</u>		
- Term loan	441	472
- Obligations under finance leases	64	116
	<hr/> 505	<hr/> 588
Total Group borrowings	<hr/> <hr/> 672	<hr/> <hr/> 748

The Group did not have any debt securities as at 31 Dec 2015.

17. Realised and Unrealised Earnings or Losses Disclosure

The retained earnings as at 31 December 2015 and 30 June 2015 are analysed as follows:

	31-Dec-15 RM'000	30-Jun-15 RM'000
Total retained profits of the Company and its subsidiaries		
- Realised	(12,124)	(12,002)
- Unrealised	63	(28)
Total share of retained profits from a joint venture		
- Realised	(218)	(218)
Total share of retained profits from an associate		
- Realised	(806)	(258)
Consolidation adjustments	14,042	15,094
Total Group retained earnings as per unaudited consolidated financial statement	<hr/> <hr/> 957	<hr/> <hr/> 2,588

18. Changes in Material Litigation

As at the seventh (7th) day before the date of issuing 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.

19. 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 6 months ended	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Profit/(Loss) after tax and non-controlling interests (RM'000)	(1,243)	(798)	(1,667)	(3,110)
Weighted average number of ordinary shares in issue	187,349,330	177,057,240	185,203,285	177,057,240
<u>Loss Per Share</u> Basic/Diluted (Sen)	(0.66)	(0.45)	(0.90)	(1.76)

20. Derivatives

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

21. 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.

22. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 30 June 2015 was not qualified.

By order of the Board of Directors

Lim Seng Boon
Director
29 February 2016