

MLABS SYSTEMS BERHAD
(Company No. 653227-V)

EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2007

**PART A: REQUIREMENTS PERSUANT TO FINANCIAL REPORTING STANDARD 134
("FRS134") – INTERIM FINANCIAL REPORTING**

1. Basis of preparation

The interim financial statements of the Group are unaudited and have been prepared in compliance with the requirements of FRS134 – Interim Financial Reporting and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market. Other than as explained in the foregoing paragraph and disclosures, the same accounting policies and methods of computation are followed in the interim financial statements as compared with the annual financial statements for the year ended 31 December 2006.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2006. These explanatory notes attached to the interim financial statements 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 December 2006.

The adoption of the new FRSs has not resulted in any impact to the profit after taxation for the current period under review other than as disclosed below.

With the adoption of the new FRSs, the Group has effected the necessary changes to the accounting policies and disclosures as follows:-

- (i) Previously there was no MASB standards that requires the recognition of employee benefits in the Income Statement when the Group grants ESOS to its employees. FRS 2 Share Payment requires share options granted be recognized in the income statement.

2. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the financial year ended 31 December 2006 was not subject to any qualification.

3. Seasonal or cyclical factors of interim operation

The Group's operations were not materially affected by any seasonal and cyclical factors.

4. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because their nature, size or incidence.

5. Material changes in estimates

There were no material changes in estimates of amounts reported in the prior financial period which may have a material effect on the current quarter under review.

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6. Issuance and repayment of debt and equity securities

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the quarter under review.

7. Dividends

No dividend was declared or paid during the current quarter ended 30 June 2007.

8. Segmental Information

Segmental information is presented in respect of the Group's business and geographical segments. The primary format of business segments, are based on the Group's management and internal reporting structure.

Business segments

The Group is principally engaged in the business of research and development in multimedia video conferencing systems as well as assembling and trading of multimedia video conferencing systems and equipment. Business segment information has therefore not been prepared as the Group's revenue, operating profit, assets employed, capital expenditure, depreciation and amortisation and non cash expenses are mainly confined to one business segment.

Geographical segments

The business segment is managed in one principal location namely Malaysia. In presenting information on the basis of geographical segments, segmental information on assets is not presented as all assets are located in Malaysia. Segmental revenue is presented based on the geographical location of customers.

The geographical segmental information on the Group is as follows:-

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended 30 June 2007 RM '000	Preceding year corresponding quarter ended 30 June 2006 RM'000	Current year to date ended 30 June 2007 RM'000	Preceding year corresponding period ended 30 June 2006 RM'000
<u>Revenue</u>				
Malaysia	221	217	678	527
Outside Malaysia	1,631	966	2,376	1,832
Total	1,852	1,183	3,054	2,359

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9. Valuation of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

10. Material events subsequent to the end of the quarter

Save for the following, there were no other material events subsequent to the current financial quarter ended 30 June 2007

- (i) The Company had, on 31 July 2007 acquired 170,000 ordinary shares of RM 1.00 each in JMCS Sdn Bhd (“JMCS”) representing 17 % of the issued and paid up share capital of JMCS for a total cash consideration of RM700,000.00. JMCS is principally involved in research and development and the provider of JAVA Streaming Technology. This technology enables the delivery of video content to mobile phone users using 3G and WIFI.

11. Changes in the composition of the Group

There were no changes in the composition of the Group during the financial quarter ended 30 June 2007.

12. Contingent liabilities or contingent assets

There were no contingent liabilities or assets for the Group as at 30 June 2007.

As at 17 August 2007, (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements), no material contingent assets or liabilities have arisen since the end of the financial period.

13. Capital Commitments

There were no capital commitments for the Group as at 30 June 2007.

14. Significant related party transactions

The Directors of MLABS are of the opinion that there is no related party transactions to-date which would have material impact on the financial position and the business of the Group during the current financial quarter and period ended 30 June 2007.

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PART B: REQUIREMENTS PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE MESDAQ MARKET

1. Review of the performance of the group

During the quarter under review, the Group recorded a profit after taxation (“PAT”) of RM0.12 million at the back of revenue of RM1.85 million. This represents an increase of 56.77 % in term of revenue as compared to that achieved in the preceding year corresponding quarter. The PAT of RM0.12 million achieved in current quarter represents a 130.76% improvement comparing to the LAT of RM0.39 million achieved in preceding year corresponding quarter. The improvement in PAT for current quarter was mainly attributed by higher sales volume as compared to sales achieved in preceding year corresponding quarter.

2. Variation of results against preceding quarter

	Current Quarter ended 30 June 2007 (unaudited)	Previous Quarter ended 31 March 2007 (unaudited)	% change
	RM'000	RM'000	
Revenue	1,852	1,202	54.08
Profit before Tax (“PBT”)/ (Loss before tax) (“LBT”)	122	(500)	124.40

The Group’s revenue for the current quarter of approximately RM1.85 million represents an increase of approximately RM0.65 million or 54.08 % as compared to the revenue of approximately RM1.20 million achieved for the preceding quarter. The increase in revenue for current quarter was mainly due to improved orders from overseas resellers.

The Group’s PBT for current quarter of approximately RM0.12 million represents an improvement of 124.40% as compared to the loss of RM0.50 million incurred in the preceding quarter. This is mainly due to better sale orders during the quarter.

3. Business prospects

The management is optimistic over the prospect of video conferencing market both locally and abroad. The Group will continue to explore and pursue video conferencing business opportunity in Malaysia, South Asia, Middle East and North Africa. Contribution in the form of sales from existing resellers has been quite encouraging. The Group will also intensify its effort to identify promising business partners and alliances in Europe and China to enlarge its marketing networks in these countries.

Barring any unforeseen circumstances, the Board of MLABS expects the business performance of the Group to continue to be promising.

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4. Variance of actual profit from forecast profit

Not applicable as no forecast was published.

5. Taxation

No provision for taxation has been made on chargeable income of the Group for the quarter under review as the wholly-owned subsidiary, Multimedia Research Lab Sdn Bhd is a Multimedia Super Corridor status company where its operating profit derived from eligible products is exempted from income taxation up to 24 January 2010.

6. Purchase or disposal of unquoted investments and/or properties

There were no disposals of unquoted investments and properties during the current quarter under review.

7. Purchase or disposal of quoted securities

The Group did not purchase or dispose any quoted securities during the financial period under review.

8. Status of corporate proposals and utilization of proceeds

(i) Status of Corporate Proposal

There are no corporate proposals announced but not completed as at the date of this report.

(ii) Status of Utilisation of proceeds

The status of utilisation of proceeds raised from the Group's Initial Public Offering ("IPO") up to 30 June 2007 are as follows:-

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	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance Amount RM'000	Balance %	Timeframe for utilisation Months	
Capital expenditure	3,200	2,673	527	16.47	36	*1
Business expansion	1,500	585	915	61.00	24	*2
Marketing & promotional expenses	800	271	529	66.13	36	*3
Working capital	2,273	2,273	-	-	-	-
Repayment to creditors	2,400	2,400	-	-	-	-
Research & Development expenses	2,410	1,884	526	21.83	36	*4
Estimated listing expenses	1,800	1,633	167	-		
Total	14,383	11,719	2,664	18.52		

*1.The proceeds are expected to be utilized within 36 months from the date of MLAB's listing on the Mesdaq market on 19 August 2005.

*2.The proceeds are expected to be utilized within 24 months from the date of MLAB's listing on the Mesdaq market on 19 August 2005.

*3.The proceeds are expected to be utilized within 36 months from the date of MLAB's listing on the Mesdaq market on 19 August 2005

*4.The proceeds are expected to be utilized within 36 months from the date of MLAB's listing on the Mesdaq market on 19 August 2005.

9. Group borrowings and debts securities

As at the end of the current quarter under review, the Group did not have any borrowings and debts securities.

10. Off balance sheet financial instruments.

There were no off balance sheet financial instrument as at 17 August 2007 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements).

11. Changes in material litigation

Save as disclosed below, as at 17 August 2007 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements), the Group did not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which may have a material effect on the Group's financial position or business upon becoming enforceable, and the Directors does not aware of any proceedings pending or threatened against the Group or any facts likely to give rise to any proceedings which may materially and adversely effect the Group's financial position or business:

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- (a) Multimedia Research Lab Sdn Bhd (“MSB”), a wholly owned subsidiary company of MLABS filed a summons and statement of claim on 6 February 2004 against Paneagle Holdings Bhd claiming for the sum of RM210,000 being the balance payment for the supply and installation of software, RM39,498.90 being interest chargeable until 31 January 2004, interest at two (2) % per month on RM210,000 from 1 February 2004 until the date of judgement, interest at eight (8) % per annum on the judgement sum from the date of judgement until full settlement and costs. On 7 May 2004, MSB filed an application for summary of judgement. On 28 October 2005, the court held that there were triable issues and the application for summary of judgement was dismissed with court charges.

The solicitors representing MSB in the above case is of the opinion that MSB stands a good chance in succeeding in the claim. The case had proceeded to pre-trial case management and was fixed for mention on 27 January 2006 and had been postponed to 7 April 2006. The case was adjourned to 9 June 2006 then adjourned to 22 September 2006. The first hearing date was fixed on 6 February 2007 and had been postponed to 12 June 2007. On 12 June 2007 the case was fixed for mention on 15 August 2007 and was further postponed to 12 November 2007.

- (b) MSB filed a summons and statement of claim on 14 July 2006 against The Star Publication (M) Sdn Bhd (“The Star”) over an article dated 23 August 2005 which appeared in the Publication on 23 August 2005 criticising the technology behind the Company. The solicitor in charge is of the opinion that MSB has an arguable chance of succeeding in this case. However, it would be difficult to state the probable award as it would depend on how the court assesses the damage done. Mlabs have filed the Reply to the Statement of Defence and are now still awaiting instruction from the court with regard to Case Management.
- (c) MSB filed a summons and statement of claim on 14 September 2006 against MIMOS Berhad for breach of contract arising from the suspension of the Company’s domain name resulting in interruption to domain access. The claim involves a new but growing area of law in this country. Mlabs’ solicitor is of the opinion that the Company has a good chance of succeeding but the question of damages would depend on the court by referring to the actual losses incurred as a result of wrongful suspension of the domain name. After going through the Statement of Defence, MLABS is currently applying to amend the Writ of Summons and Statement of Claim to alter the name of the Plaintiff and are awaiting the application to be heard by the court.

12. Dividends

No dividend has been declared or paid during the current quarter under review.

13. Earnings per share

The basic earnings per share is computed by dividing the Group’s net profit attributable to members of the Group with the weighted average number of ordinary shares in issue as follows:

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	3 months period ended		6 months period ended	
	30/06/2007	30/06/2006	30/06/2007	30/06/2006
Net profit/(loss) attributable to the members of the Group (RM'000)	122	(393)	(378)	(1,072)
Weighted average number of shares in issue ('000)	102,957	102,157	102,957	102,157
Profit/(loss) per share (sen)	0.12	(0.38)	(0.37)	(1.05)

By order of the Board

Ooi Teik Huat (MIA 21851)
Company Secretary

Dated :
Penang