**PART A: REQUIREMENTS PERSUANT TO FINANCIAL REPORTING STANDARD 134**

**(“FRS134”) – INTERIM FINANCIAL REPORTING**

**1. Basis of preparation**

The interim financial report has been prepared in accordance with requirements of Financial Reporting Standards (“FRS”) 134: “Interim Financial Reporting” and paragraph 9.22 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”), and should be read in conjunction with the Annual Audited Report for the financial year ended 31 December 2010.

 The same accounting policies and methods of computation are followed in the interim financial report as compared with the annual audited financial statements for the financial year ended 31 December 2010.

 The accounting policies and methods of computation adopted by the Group in the quarterly financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 December 2010.

 The Group has adopted the following new and revised FRSs, Issues Committee ("IC") Interpretations and amendments to FRSs and IC Interpretations which are relevant to the Group’s operations with effect from 1 January 2011 :-

|  |
| --- |
|  |
| Amendments to FRS 132 | Financial Instruments: Presentation |
| Amendments to FRS 1 | First-time Adoption of Financial Reporting Standards |
| Amendments to FRS 3 | Business Combinations |
| Amendments to FRS 127 | Consolidated & Separate Financial Statements |
| Amendments to FRS 2 | Share-based Payment |
| Amendments to FRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| Amendments to FRS 138 | Intangible Assets |
| IC Interpretation 12 | Service Concession Arrangements |
| IC Interpretation 16 | Hedges of a Net Investment in a Foreign Operation |
| IC Interpretation 17 | Distributions of Non-cash Assets to Owners |
| Amendments to IC Interpretation 9  | Reassessment of Embedded Derivatives |

|  |  |
| --- | --- |
| Amendment to FRS 1 | Limited Exemption from  Comparative FRS 7 Disclosure for First-time Adopters |
| Amendment to FRS 7 | Improving Disclosures about  Financial Instruments |
| IC Interpretation 4 | Determining whether an Arrangement contains a Lease |
| IC Interpretation 18 | Transfers of Assets from Customers |
| Amendments to FRSs contained in the documents entitled  “Improvements to FRSs (2010)” |

The initial applications of the above applicable new FRSs, revised FRSs, IC Interpretations, amendments to FRSs and IC Interpretations is not expected to have any material impact on the financial statements of the Group and of the Company, except as discussed below:

(i) FRS 7 Financial Instruments: Disclosures

This new standard requires disclosures in financial statements that enable users to evaluate the significance of financial instruments for the entity’s financial position and performance, and the nature and extent of risks arising from financial instruments to which an entity is exposed and how these risks are managed. This standard requires both qualitative disclosures describing management’s objectives, policies and processes for managing those risks, and quantitative disclosures providing information about the extent to which an entity is exposed to risk, based on information provided internally to the entity’s key management personnel.

(ii) FRS 123 Borrowing Costs

This new standard removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. However, capitalisation of borrowing costs is not required for assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

(iii) FRS 139 Financial Instruments: Recognition and Measurement

This new standard establishes the principles for the recognition, derecognition and measurement of an entity’s financial instruments and for hedge accounting. The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not required to be disclosed by virtue of exemptions provided under paragraph 103AB of FRS 139.

The Group and the Company has applied the transitional provisions in FRS 7 and FRS 139 which exempt entities from disclosing the possible impact arising from initial application of the respective standards on the financial statements of the Group and the Company.

**2. Auditors’ report on preceding annual financial statements**

 The auditors’ report on the financial statements for the financial year ended 31 December 2010 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 materials changes in estimates of amounts reported in the prior financial period which may have a material effect on the current quarter under review.

**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 September 2011.

**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.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year to date 31 December 2011** |  |  | **Video conferencing system** | **Components** | **Servers**  | **Investment Holding** | **Total**  | **Elimination**  | **Consolidated**  |
|  |  |  | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Revenue |  |  | - | 1,189 | -  | 0 | 1,189  | -  | 1,189  |
|  |  |  |  |  |  |  |  |  |  |
| **Result** |  |  |  |  |  |  |  |  |  |
| Segment result |  |  | (1451) | (2,259) | (5) | (294) | (4,009) | -  | (4,009) |
| Finance cost |  |  |  |  |  |  |  |  | -  |
| Interest income |  |  |  |  |  |  |  |  | 73 |
| Profit before tax |  |  |  |  |  |  |  |  | (3,936) |
| Income tax |  |  |  |  |  |  |  |  | -  |
| Net Profit after tax |  |  |  |  |  |  |  |  | (3,936) |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Year to date 31 December 2010** |  |  | **Animation Designing** | **Components** | **Others**  | **Investment Holding** | **Total**  | **Elimination**  | **Consolidated**  |
|  |  |  | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Revenue |  |  | 951 | 63 | -  | 0 | 1,014  | -  | 1,014  |
|  |  |  |  |  |  |  |  |  |  |
| **Result** |  |  |  |  |  |  |  |  |  |
| Segment result |  |  | (1,787) | (199) | (1) | (3,677) | (5,664) | 3,500  | (2,164) |
| Finance cost |  |  |  |  |  |  |  |  | (8) |
| Interest income |  |  |  |  |  |  |  |  | 79 |
| Profit before tax |  |  |  |  |  |  |  |  | (2,093) |
| Income tax |  |  |  |  |  |  |  |  | (3) |
| Net Profit after tax |  |  |  |  |  |  |  |  | (2,096) |

**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 31 December 2011****RM ‘000** | **Preceding year corresponding quarter ended 31 December 2010****RM’000** | **Current year to date ended 31 December 2011** **RM’000** | **Preceding year corresponding period ended 31 December 2010****RM’000** |
|   |   |   |   |   |
| **Revenue** |   |  |   |   |
| Malaysia | 176 | 79 | 1,189 | 1,014 |
| Outside Malaysia  | 0 | 0 | 0 |  0 |
| Total |  176 |  79 |  1,189 |  1,014 |

**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 as disclosed in Section B8, there were no other material events that have not been reflected in the financial statements for the current period.

**11. Changes in the composition of the Group**

 There were no changes in the composition of the Group during the financial quarter ended 31 December 2011.

**12. Contingent liabilities or contingent assets**

 There were no contingent liabilities or assets for the Group as at 31 December 2011.

 As at 20 February 2012, (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 was no capital commitments during the curren quarter.

**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 31 December 2011.

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

**1. Review of the performance of the group**

During the quarter under review, the Group recorded a loss after taxation (“LAT”) of RM3.936 million on the back of revenue of approximately RM1.189 million. Revenue for the cumulative quarter ended 31 December 2011 represents an increase of 17.37% compared to RM1.013 million in the preceding year corresponding year. The adminstrative expenses had been increase from RM1.149 million to RM3.388 million due to increase in impairment of trade receivables and marketing and promotion expenses compared to the preceding year cumulative quarter.

**2. Variation of results against preceding quarter**

|  |  |  |  |
| --- | --- | --- | --- |
|   | **Current Quarter ended****31 December 2011** **(unaudited)** | **Preceding Quarter ended****30 September 2011** **(unaudited)** | **%****change** |
|  | **RM'000** | **RM'000** |  |
| Revenue | 176 | 349 | (49.57%) |
| Loss before tax (“LBT”) | (2.148) | (382) | (462.30%) |

The Group’s revenue for the current quarter of RM0.176 million represents a decrease of approximately RM0.173 million as compared to the revenue of RM0.349 million achieved for the preceding quarter.

The Group’s LBT for current quarter of RM2.148 million represents a increase of approximately RM1.766 million as compared to the LBT of approximately RM0.382 million incurred in the preceding quarter. The increase is mainly due to increase in impairment of trade receivables higher marketing and promotion expenses in the current quarter.

**3. Business prospects**

The Group recognizes that the video conferencing business is highly competitive; however, the management is continuously intensifying its effort to work with its business partners to penetrate into government agencies and business conglomerates locally and internationally and to work with Universiti Sains Malaysia to upgrade its range of products to remain competitive. Currently, most of the resellers in Middle East, Africa, India and South East Asia have developed successful business network in their respective countries. The new product range is expected to be released by 1 January 2011 and has numerous innovative features including cutting edge technology.

As the Proposed Acquisition (which details are set out in Section 8 below) has fallen through on 21 November 2011, the Board of MLABS anticipates a challenging year ahead.

**4. Variance of actual profit from forecast profit**

 Not applicable as no forecast was published.

**5. Taxation**

 For the financial period ending 31 December 2011, there is no tax liability to be expected.

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

There was no purchase or disposal of unquoted investment 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**

 **(i) Proposed Acquisition**

(i) Proposed Acquisition by MLABS of the entire equity interest of Grand Inizio Sdn Bhd (“GI”) for a total consideration of RM79,600,000 (“Proposed Acquisition”) to be satisfied via cash of RM2,500,000 and the issuance of 771,000,000 New Ordinary Shares of RM0.10 each in Mlabs at par (“Mlabs Shares”);

(ii) Proposed Increase in Authorised Share Capital (“IASC”) of Mlabs;

(iii) Proposed Private Placement of up to 10% of the Enlarged Issued and Paid-up Share Capital of Mlabs upon completion of the proposed acquisition; and

(iv) Proposed exemption under Practice Note 2.9.1 of the Malaysian Code on take-overs and Mergers, 1998 (“code”) for certain of the vendors of GI from the Obligation to undertake a mandatory take-over offer for the remaining Mlabs Shares not already held by them upon completion of the proposed acquisition

Kenanga Investment Bank Berhad (“KIBB”) had on 3 October 2011 announced that the audited accounts of GI for the financial year ended 31 December 2010 (“FYE 2010 Audited Account”) has not been finalised as of the date of this announcement and hence, MLABS was unable to issue the Circular by 30 September 2011. Consequently, the Extension of Time Approval for the issuance of the Circular had lased on the same date. Notwithstanding the above, the Board would like to consider a re-submission of an application in relation to the Proposals to Bursa Securities.

KIBB had on 21 November 2011 announced on behalf of the Board of MLABS that the respective parties to the SPA have yet to fulfil the conditions precedent under the SPA as at the date of the announcement. Consequently, the Conditional Period pursuant to the SPA in relation to the Proposed Acquisition had lapsed on the same date.

**(ii) Proposed disposal of all that parcel of office by Multimedia Research Lab Sdn Bhd, a wholly-owned subsidiary of the Company to Spade Advertising Sdn Bhd**

Following the completion of the Proposed Disposal, the Company has moved to new rented office premises.

**9. Group borrowings and debts securities**

 As at the end of the current quarter under review, the Group has a short term interest bearing borrowings of RM0.18 million only.

**10. Off balance sheet financial instruments**

 There were no off balance sheet financial instrument as at 20 February 2012 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements).

**11. Material litigation**

Save as disclosed below, as at 23 November 2011 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements), the Group is not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and the Board is not aware of any proceedings pending or threatened against the Mlabs Group or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business operations of the Group:

 (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 judgement. On 28 October 2005, the court held that there were triable issues and the application for summary of judgement was dismissed with costs.

The solicitors representing MSB in the above case is of the opinion that MSB stands a good chance 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 later adjourned to 9 June 2006 and further adjourned to 28 July 2006, then further adjourned to 22 September 2006. The first hearing date was fixed on 6 February 2007 which was postponed to 16 February 2007. On 16 February 2007, it was postponed to 12 June 2007 and then postponed to 14 August 2007. On 14 August 2007, it was postponed to 12 November 2007. On 12 November 2007, the matter was postponed to 5 March 2008, and then postponed to 12 June 2008. On 12 June 2008, the first continuous hearing was fixed on 14 August 2008. Then another continuous hearing date was fixed on 13 November 2008 and further postponed to 19 February 2009. On 19 February 2009, a continued hearing was fixed at 26 February 2009. The matter was fixed for submission on 9 April 2009. On 9 April 2009, the matter was fixed for decision on 28 April 2009. However, the matter was adjourned to 12 May 2009. On 12 May 2009, the court had allowed the claim by MSB and dismissed defendant’s counter claim with cost. The defendant had filed their appeal on 19 May 2009 against the decision. The case came up for case management on 5 August 2009 and was fixed for 10 December 2009 for further case management. On 10 December 2009 the matter was fixed for further case management on 1 April 2010 pending the filing of submissions. On 21 May 2010, the High Court Judge allowed the Defendant’s appeal and as a result the Sessions court judges’ decision was reversed. Thus the Plaintiff’s claim was dismissed with cost and the Defendant’s counter claim of RM15, 000.00 was allowed with costs. The solicitors have filed the Notice of Motion seeking for leave to appeal against the High Court’s decision. On 30 September 2010, the court of Appeal has granted the leave to appeal the High court’s decision. Currently the solicitors is in the midst preparing the necessary appear documents and security money to the court.

**12. Dividends**

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

**13. Realised and Unrealised Losses**

|  |  |  |  |
| --- | --- | --- | --- |
|  | As at 31.12.2011 |  | As at 31.12.2010 |
|  | RM |  | RM |
|  Total accumulated losses |  |  |  |
|  - Realised | (31,577) |  | (27,641) |
|  Less: Consolidation adjustment | 13,345 |  |  13,345 |
|  Total accumulated losses as per  Statement of Financial Position  | (18,232) |  | (14,296) |
|  |  |  |  |

Note: As per Bursa Malaysia’s directive dated 20 December 2010, prior year comparatives are not required in the first year of complying with the Realised and Unrealised Profits/Loss Disclosure.

15. Notes to Consolidated Statement of Comprehensive Income

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  **YEAR**  |  **CORRESPONDING**  |  **YEAR**  |  **CORRESPONDING**  |
|  |  |  **QUARTER**  |  **QUARTER**  |  **TO DATE**  |  **PERIOD**  |
|  |  |  **31/12/11**  |  **31/12/10**  |  **31/12/11**  |  **31/12/10**  |
|  |  |  **RM'000**  |  **RM'000**  |  **RM'000**  |  **RM'000**  |
|  |  |  |  |  |  |
|  Interest income |  |  -  |  26  |  73  |  79  |
|  Interest expense |  |  -  |  (2) |  -  |  (8) |
|  Depreciation and  amorisation |  |  (241) |  (324) |  (1,143) |  (1,355) |
|  Bad debts written off |  |  -  |  (26) |  -  |  (26) |
|  Impairment of trade  receivables |  (1,200) |  (304) |  -  |  (304) |

**16. Earnings per share**

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

|  |  |  |
| --- | --- | --- |
|  | **3 months period ended** | **12 months period ended** |
|  | **31/12/2011** | **31/12/2010** | **31/12/2011** | **31/12/2010** |
|  |  |  |  |  |
| Net (loss) attributable to the members of the Group (RM'000) | (2,148) | (869) | (3,936) | (2,096) |
|  |  |  |  |  |
| Weighted average number of shares in issue ('000) | 154,435 | 154,435 | 154,435 | 154,435 |
|  |  |  |  |  |
| (Loss) per share (sen) | (1.39) | (0.57) | (2.55) | (0.13) |