

MLABS SYSTEMS BERHAD
(Incorporated in Malaysia - Company No. 653227-V)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 12 MONTHS PERIOD ENDED 31 DECEMBER 2013

	Individual	Quarter	Cumulative	Quarter
	2013 quarter ended 31/12/2013	2012 quarter ended 31/12/2012	2013 year to date 31/12/2013	2012 year to date 31/12/2012
	Unaudited RM'000	Audited RM'000	Unaudited RM'000	Audited RM'000
Revenue	534	203	1,139	1,179
Cost of Sales	(500)	(930)	(923)	(1,123)
Gross Profit/(loss)	34	(727)	216	56
Other income	93	23	175	663
Selling and distribution expenses	(7)	-	(27)	(206)
Administration expenses	(306)	(1,686)	(999)	(2,879)
Loss from operations	(186)	(2,390)	(635)	(2,366)
Finance cost	-	-	-	(7)
Loss before taxation	(186)	(2,390)	(635)	(2,373)
Taxation	-	-	-	-
Loss after taxation	(186)	(2,390)	(635)	(2,373)
Loss attributable to :				
Owners of the parent	(186)	(2,390)	(635)	(2,373)
Total comprehensive expense attributable to :				
Owners of the parent	(186)	(2,390)	(635)	(2,373)
Basic loss per ordinary share attributable to:				
Owners of the parent	(0.11)	(1.41)	(0.37)	(1.40)

The condensed consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2012.

MLABS SYSTEMS BERHAD

(Incorporated in Malaysia - Company No. 653227-V)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	As at 31/12/2013 Unaudited RM'000	As at 31/12/2012 Audited RM'000	As at 01/01/2012 Audited RM'000
Non-current assets			
Property, plant & equipment	856	429	247
Intangible assets	-	-	745
Total non-current assets	856	429	992
Current assets			
Inventory	-	12	211
Receivables	1,093	1,995	3,792
Cash & bank balances	3,347	3,739	1,957
Total current assets	4,440	5,746	5,960
Total assets	5,296	6,175	6,952
Equity			
Share capital	16,987	16,987	15,444
Share premium	9,390	9,390	9,390
Retained earnings	(21,283)	(20,647)	(18,274)
Total equity	5,094	5,730	6,560
Non-Current Liability			
Hire purchase	112	112	141
Current liabilities			
Payables	90	302	222
Hire purchase		31	29
Taxation	-	1	-
Total current liabilities	90	333	251
Total equity and liabilities	5,296	6,175	6,952
Net asset per share attributable to ordinary equity holder (Sen)	3.00	3.24	4.25

NOTE:

The condensed consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2012.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE 12 MONTHS PERIOD ENDED 31 DECEMBER 2013

	2013 to date ended 31/12/2013	2012 to date ended 31/12/2012
	(UNAUDITED) RM'000	(AUDITED) RM'000
Profit/(loss) before taxation	(635)	(2,373)
Adjustments for :		
Amortisation of Intangible assets	-	506
Depreciation of PPE	144	129
Impairment loss on :		
- Intangible Assets	-	240
- Other receivables	-	1,500
Interest Expenses	-	7
Bad debts written off	40	
Interest Income	(104)	(56)
Reversal of impairment loss on :		
- Trade receivables	-	(282)
- Other receivables	-	(325)
	<u>(555)</u>	<u>(654)</u>
Decrease/(increase) in receivables	55	903
(Decrease)/ Increase in payables	(212)	79
Decrease/ (Increase) in Inventories	12	199
Cash used in operating activities	<u>(700)</u>	<u>527</u>
Interest Paid	-	(7)
Interest received	104	56
Cash used in operating activities	<u>(596)</u>	<u>576</u>
Cash flow from investing activities		
Additions of property, plant & equipment	204	311
Addition in development cost	-	-
Proceeds from disposal of property, plant & equipment	-	-
Cash used in investing activities	<u>204</u>	<u>311</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	1,544
Repayment of Hire Purchase Borrowing	-	(27)
Cash generated from financing activities	<u>-</u>	<u>1,517</u>
Net decrease in cash & cash equivalents	(392)	1,782
Cash & cash equivalents brought forward	3,739	1,957
Cash & cash equivalents carried forward	<u><u>3,347</u></u>	<u><u>3,739</u></u>

Cash and cash equivalents at end of the financial year comprises:

NOTE:

The condensed consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 31 December 2012.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 12 MONTHS PERIOD ENDED 31 DECEMBER 2013**

12 Months period ended 31 DEC 2013	Share capital RM'000	Share premium RM'000	Option Reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2013	16,987	9,390	-	(20,648)	5,729
Issuance of Shares	-	-	-	-	-
Loss for the period	-	-	-	(635)	(635)
Balance at 31 December 2013	<u>16,987</u>	<u>9,390</u>	<u>-</u>	<u>(21,283)</u>	<u>5,094</u>

12 Months period ended 31 December 2012	Share capital RM'000	Share premium RM'000	Option Reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2012	15,444	9,390	-	(18,274)	6,560
Issuance of shares	1,543	-	-	-	1,543
Loss for the period	-	-	-	(2,373)	(2,373)
Balance at 31 December 2012	<u>16,987</u>	<u>9,390</u>	<u>-</u>	<u>(20,647)</u>	<u>5,730</u>

NOTE:

The condensed consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2012.

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EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 31 DECEMBER 2013

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

A1. BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements outlined in the Malaysian Financial Reporting Standards ("MFRS") No. 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 of the Bursa Malaysia Securities Berhad ("Bursa Securities") ACE Market Listing Requirements ("ACE Listing Requirements") and should be read in conjunction with the audited financial statements of the Company and its subsidiaries ("Group") for the financial year ended 31 December 2012. 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 2012.

The accounting policies and methods of computation adopted by the Group in this interim financial statements are consistent with those adopted in the financial statements for the financial year ended 31 December 2012 except for the newly-issued accounting framework - MFRS and IC Interpretations ("IC Int.") to be applied by all Entities Other Than Private Entities for the:

Financial periods beginning on or after 1 July 2012

Amendments to MFRS 101, Presentation of Items of Other Comprehensive Income

Financial periods beginning on or after 1 January 2013

Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)

MFRS 2, Share-based Payment

MFRS 3, Business Combinations

MFRS 5, Non-current Assets Held for Sale and Discontinued Operations

MFRS 7, Financial Instruments: Disclosures

MFRS 8, Operating Segments

MFRS 101, Presentation of Financial Statements MFRS 107, Statement of Cash Flows

MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors

MFRS 110, Events after the Reporting Period

MFRS 112, Income Taxes

MFRS 116, Property, Plant and Equipment MFRS 118, Revenue

MFRS 119, Employee Benefits

MFRS 121, The Effects of Changes in Foreign Exchange Rates

MFRS 124, Related Party Disclosures

MFRS 127, Consolidated and Separate Financial Statements MFRS 128, Investment in Associates

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MFRS 132, Financial Instruments: Presentation MFRS 133, Earnings Per Share
MFRS 134, Interim Financial Reporting MFRS 136, Impairment of Assets
MFRS 137, Provisions, Contingent Liabilities and Contingent Assets MFRS 138,
Intangible Assets
MFRS 139, Financial Instruments: Recognition and Measurement Improvements to
MFRSs.

The adoption of the above did not have any significant effects on the interim financial statements upon their initial application.

A2. SIGNIFICANT ACCOUNTING POLICIES

The audited financial statements for the financial period ended 31 December 2012 were prepared in accordance with FRS. As the requirement under FRS and MFRS are similar, the significant accounting policies adopted in preparing this interim financial report are consistent with those of the audited financial statements for the financial period ended 31 December 2012.

A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the financial year ended 31 December 2012 was not subject to any qualification.

A4. SEASONAL OR CYCLICAL FACTORS OF INTERIM OPERATION

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

A5. 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.

A6. 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.

A7. 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.

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EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 31 DECEMBER 2013

A8. DIVIDEND DECLARED

No dividend was declared or paid during the current quarter ended 31 December 2013.

A9. SEGMENT 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.

Period to date 31 December 2013	Video conferencing system/Trading	Investment Holding	Others	Total	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	1,139	-	-	1,139	-	1,139
Result						
Segment result	(1,878)	-	-	(1,878)	-	(1,878)
Finance cost	-	-	-	-	-	-
Interest received	-	-	-	-	-	104
Profit before tax	-	-	-	-	-	(635)
Income tax	-	-	-	-	-	-
Net Loss after tax						(635)
Assets						
Segment Assets	4,598	698	-	5,296	-	5,296
Liabilities						
Segment Liabilities	173	26	3	202	-	202

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
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Period to date 31 December 2012	Video conferencing system/ Trading	Components	Maintenance	Investment Holding	Others	Total	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	1,179	-	-	-	-	1,179	-	1,179
Result								
Segment result	(4,208)	-	-	-	-	(4,208)	-	(4,208)
Finance cost	-	-	-	-	-	-	-	(7)
Interest Income	-	-	-	-	663	663	-	663
Profit before tax	-	-	-	-	-	-	-	(2,373)
Income tax	-	-	-	-	-	-	-	-
Net Loss after tax	-	-	-	-	-	-	-	(2,373)
Assets								
Segment Assets	6,175	-	-	-	-	6,175	-	6,175
Liabilities								
Segment Liabilities	445	-	-	-	-	445	-	445

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:-

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 31 DECEMBER 2013**

	Individual Quarter		Cumulative Quarter	
	Current year quarter ended 31 December 2013	Preceding year corresponding quarter ended 31 December 2012	Current year to date ended 31 December 2013	Preceding year corresponding period ended 31 December 2012
	RM '000	RM'000	RM'000	RM'000
<u>Revenue</u>				
Malaysia	534	203	1,139	1,179
Outside Malaysia	-	-	-	-
Total	534	203	1,139	1,179

A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

A11. 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.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial quarter ended 31 December 2013.

A13. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no contingent liabilities or assets for the Group as at 31 December 2013.

As at 21 February 2014, (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.

A14. CAPITAL COMMITMENTS

There was no capital commitments during the current quarter.

A15. 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 2013.

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
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PART B: REQUIREMENTS PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE ACEMARKET

B1. REVIEW OF THE PERFORMANCE OF THE GROUP

During the cumulative quarter under review, the Group recorded a loss after taxation (“LAT”) of RM0.635 million on the back of revenue of approximately RM1.139 million. Revenue for the cumulative quarter ended 31 December 2013 represents an decrease of 3.39% compared to RM1.179 million in the preceding year corresponding year. The decrease in revenue was due to decrease in sales of video conference devices. Other income had decreased from RM0.663 million to RM 0.175 million. The administrative expenses has decreased from RM2.879 million to RM0.999 million by RM1.88 million due to decrease in impairment loss in other receivables and depreciation compared to the preceding year cumulative quarter. The selling and distribution expenses have been decreased from RM 0.206 million to RM0.027 million are mainly due to the decrease in sales staffs.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter ended 31 December 2013 (Unaudited) RM'000	Preceding Quarter ended 31 December 2012 (Audited) RM'000	% change
Revenue	534	203	61.9%
Loss before tax ("LBT")	(186)	(2,390)	< 100%

The Group’s revenue for the current quarter of RM0.534 million represents a increase of approximately RM0.331 million as compared to the revenue of RM0.203 million achieved for the preceding quarter due to increase in sales of video conference devices.

The Group’s LBT for current quarter of RM0.186 million represents a decrease of approximately RM2.204 million as compared to the LBT of approximately RM2.390 million incurred in the preceding quarter. The decrease in LBT is mainly due to decrease in amortization of intangible assets and impairment loss for other receivables

B3. BUSINESS PROSPECTS

The Group is progressively enlarging its existing video conferencing business to include marketing of complementary IT products, software and maintenance services. The expansion of the Group existing business is intended to widen its revenue base in a highly competitive environment.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

Not applicable as no forecast was published.

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EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
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B5. TAXATION

For the financial period ending 31 December 2013, there is none tax liability.

B6. PURCHASE OR DISPOSAL OF QUOTED SECURITIES

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

B7. STATUS OF CORPORATE PROPOSALS

There was no corporate proposal under review.

B8. STATUS OF UTILISATION OF PROCEEDS

The proceeds from the Right Issue of RM5.148 million are to be utilised as follows:

Purposed	Proposed utilisation		Actual utilisation as at 31/12/13	Intended timeframe for utilisation	Balance unutilised	
	RM'000				RM'000	
Sales & Marketing Expenditure	1,500		1,049	31/12/13	451	30.07
Purchase of raw material, components and accessories	2,500		1,673	31/12/13	177	7.08
Expansion of human resources	748		515	31/12/13	233	31.15
Expenses for the proposed right issue	400		394		6	1.50
TOTAL	5,148		3,631		1,517	29.47%

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
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On 25 February 2013, the Board had approved for the extension of time for working capital for up to 30 June 2013.

On 25 November 2013, the Board had approved for the extension of time for working capital for up to 31 December 2013

On 24 February 2014, the Board had approved for the extension of time for working capital for up to 31 December 2014

The proceeds from the Private placement of RM1.544 million are to be utilised as follows:

Purposed	Proposed utilisation	Revised utilisation	Actual utilisation as at 31/12/13	Intended timeframe for utilisation	Balance unutilised	
	RM'000	RM'000	RM'000		RM'000	%
Working capital	1,454	1,520	315	31/12/13	1,205	79.28
* Estimated expenses in relation to the proposed private placement	90	24	24	Within 1 month	-	-
Total	1,544	1,544	1,544		1,205	78.04

* The unutilised portion of the proceeds from the right issue public issue estimated expenses in relation to proposed right issue which amounts to RM66,000, has been transferred to working capital as this amount is an excess over the actual listing expenses incurred.

On 25 November 2013, the Board had approved for the extension of time for working capital for up to 31 December 2013

On 24 February 2014, the Board had approved for the extension of time for working capital for up to 31 December 2014

B9. GROUP BORROWINGS AND DEBTS SECURITIES

As at the end of the current quarter under review, the Group does not have short term interest bearing borrowings.

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
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B10. DERIVATIVE FINANCIAL INSTRUMENTS

There were no off balance sheet financial instrument as at 21 February 2013 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements).

B11. 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:

Mlabs Systems Berhad has commenced legal proceedings against the vendors of Grand Inizio Sdn Bhd for the recovery of RM2.5 million pertaining to the proposed acquisition of Grand Inizio Sdn Bhd which was aborted on 21st November 2011.

B12. DIVIDENDS

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

B13. REALISED AND UNREALISED LOSSES

	As at 31.12.2013 RM	As at 31.12.2012 RM
Total accumulated losses		
- Realised	(41,628)	(40,828)
Less: Consolidation adjustment	20,345	20,181
Total accumulated losses as per Statement of Financial Position	<u>(21,283)</u>	<u>(20,647)</u>

Note: As per Bursa Malaysia's directive dated 20 December 2011, prior year comparatives are not required in the first year of complying with the Realised and Unrealised Profits/Loss Disclosure.

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 31 DECEMBER 2013****B14. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	YEAR	CORRESPONDING	YEAR	CORRESPONDING
	QUARTER	QUARTER	TO DATE	PERIOD
	31/12/13	31/12/12	31/12/13	31/12/12
	RM'000	RM'000	RM'000	RM'000
Interest income	93	23	104	56
Interest expense	-	-	-	(7)
Depreciation and Amorisation	(47)	(295)	(144)	(634)

B15. 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	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Net (loss) attributable to the members of the Group (RM'000)	(186)	(2,390)	(635)	(2,373)
Weighted average number of shares in issue ('000)	169,879	169,879	169,879	169,879
(Loss) per share (sen)	(0.11)	(1.41)	(0.37)	(1.40)