

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2014**

	Individual	Quarter	Cumulative	Quarter
	2014 quarter ended 30/06/2014 RM'000	2013 quarter ended 30/06/2013 RM'000	2014 quarter ended 30/06/2014 RM'000	2013 quarter ended 30/06/2013 RM'000
Revenue	516	167	956	452
Cost of Sales	(501)	(164)	(901)	(273)
Gross Profit/(loss)	15	3	55	179
Other income	27	-	122	32
Selling and distribution expenses	(5)	-	(5)	(12)
Administration expenses	(332)	(175)	(565)	(500)
Loss from operations	(295)	(172)	(393)	(301)
Finance cost	-	-	-	-
Loss before taxation	(295)	(172)	(393)	(301)
Income tax (expenses)/refund	-	-	-	-
Loss after taxation	(295)	(172)	(393)	(301)
Loss attributable to :				
Owners of the parent	(295)	(172)	(393)	(301)
Total comprehensive expense attributable to :				
Owners of the parent	(295)	(172)	(393)	(301)
Basic loss per ordinary share attributable to:				
Owners of the parent	(0.17)	(0.10)	(0.23)	(0.18)

The condensed consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2013.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	As At 30/06/2014 Unaudited RM'000	As At 31/12/2013 Audited RM'000
Non-current assets		
Property, plant & equipment	1,098	865
Total non-current assets	<u>1,098</u>	<u>865</u>
Current assets		
Receivables	1,541	1,433
Cash & bank balances	3,037	3,347
Total current assets	<u>4,578</u>	<u>4,780</u>
Total assets	<u><u>5,676</u></u>	<u><u>5,645</u></u>
Equity		
Share capital	16,988	16,988
Share premium	9,390	9,390
Retained earnings	(21,691)	(21,298)
Total equity	<u>4,687</u>	<u>5,080</u>
Non-Current Liability		
Hire purchase	64	80
Current liabilities		
Payables	909	452
Hire purchase	16	33
Taxation	-	1
Total current liabilities	<u>925</u>	<u>485</u>
Total equity and liabilities	<u><u>5,676</u></u>	<u><u>5,645</u></u>
Net asset per share attributable to ordinary equity holder (Sen)	2.76	2.99

(1)

NOTE:

The condensed consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2013.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2014

	(UNAUDITED) 2014 to date	(UNAUDITED)
	ended	2013 to date
	30/06/2014	ended
	RM'000	30/06/2013
	RM'000	RM'000
Profit/(loss) before taxation	(393)	(301)
Depreciation & amortisation	107	52
Interest income	(72)	(32)
	<u>(358)</u>	<u>(281)</u>
Decrease in inventories	-	12
(Increase)/Decrease in receivables	(108)	576
Increase/ (Decrease) in payables	101	164
Cash used in operating activities	(365)	471
	<u>(365)</u>	<u>471</u>
Cash used in operating activities	(365)	471
Cash flow from investing activities		
Interest received	72	32
Cash used in investing activities	72	32
	<u>72</u>	<u>32</u>
Cash flows from financing activities		
Repayment of Hire Purchase Borrowing	(17)	(12)
Cash generated from financing activities	(17)	(12)
	<u>(17)</u>	<u>(12)</u>
Net decrease in cash & cash equivalents	(310)	491
Cash & cash equivalents brought forward	3,347	3,739
Cash & cash equivalents carried forward	3,037	4,230
	<u>3,037</u>	<u>4,230</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 2013.

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE 6 MONTHS PERIOD ENDED 30 JUNE 2014**

6 Months period ended 30 June 2014	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2014	16,988	9,390	(21,298)	5,080
Loss for the period	-	-	(393)	(393)
Balance at 30 June 2014	<u>16,988</u>	<u>9,390</u>	<u>(21,691)</u>	<u>4,687</u>
6 Months period ended 30 June 2013	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
Balance as at 1 January 2013	16,988	9,390	(18,422)	7,956
Issuance of Shares	-	-	(301)	(301)
Loss for the period	-	-	-	-
Balance at 30 June 2013	<u>16,988</u>	<u>9,390</u>	<u>(18,723)</u>	<u>7,655</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 2013.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

**PART A: REQUIREMENTS PURSUANT 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 2013. 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 2013.

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

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

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

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 2013 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 2013.

A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the financial year ended 31 December 2013 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.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014****A8. DIVIDEND DECLARED**

No dividend was declared or paid during the current quarter ended 30 June 2014.

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 30 June 2014	Video conferencing system	Investment Holding	Others	Total	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	956	-	956	-	956
Result						
Segment result	-	(1,421)	-	(1,421)	-	(1,421)
Finance cost	-	-	-	-	-	-
Interest received	-	-	-	-	-	72
Profit before tax	-	-	-	-	-	(393)
Income tax	-	-	-	-	-	-
Net Loss after tax						(393)
Assets						
Segment Assets	4,678	998	-	5,676	-	5,676
Liabilities						
Segment Liabilities	396	593		989	-	989

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

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

Period to date 30 June 2013	Video conferencing system	Investment Holding	Others	Total	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	285	167	-	452	-	452
Result						
Segment result	(172)	(258)	(3)	(333)	-	(333)
Finance cost	-	-	-	-	-	-
Interest Income	-	-	-	-	-	32
Profit before tax	-	-	-	-	-	(301)
Income tax	-	-	-	-	-	-
Net Loss after tax	-	-	-	-	-	(301)
Assets						
Segment Assets	4,906	504	-	5,408	-	5,408
Liabilities						
Segment Liabilities	177	54	14	245	-	245

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 2014	Preceding year corresponding quarter ended 30 June 2013	Current year to date 30 June 2014	Preceding year corresponding period ended 30 June 2013
	RM '000	RM'000	RM'000	RM'000
Revenue				
Malaysia	516	167	956	452
Outside Malaysia	-	-	-	-
Total	516	167	956	452

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

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 30 June 2014.

A13. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no contingent liabilities or assets for the Group as at 30 June 2014.

As at 22 August 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 30 June 2014.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

**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 RM0.393 million on the back of revenue of approximately RM0.956 million. Revenue for the cumulative quarter ended 30 June 2014 represents an increase of 52.72% compared to RM0.452 million in the preceding year corresponding year. The increase in revenue was due to increase in sales of video conference devices. Other income had increased from RM0.032 million to RM0.122 million due to recovery of impairment debt in preceding period. The administrative expenses has increased from RM0.500 million to RM0.565 million by RM0.065 million due to increase in depreciation compared to the preceding year cumulative quarter.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter ended 30 June 2014 (Unaudited) RM'000	Preceding Quarter ended 30 June 2013 (Unaudited) RM'000	% change
Revenue	516	167	67.64%
Loss before tax ("LBT")	(295)	(172)	(41.70%)

The Group’s revenue for the current quarter of RM0.516 million represents a increase of approximately RM0.349 million as compared to the revenue of RM0.167 million achieved for the preceding quarter due to increase in sales of video conference devices.

The Group’s LBT for current quarter of RM0.295 million represents an increase of approximately RM0.123 million as compared to the LBT of approximately RM0.172 million incurred in the preceding quarter. The increase in LBT mainly due to increase in depreciation during the quarter.

B3. 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. The Group is also currently engaged in market studies to potentially reengineer and reposition its product line to be in synch with current market demands. This includes possible support for mobile conferencing technologies to work with its current suite of product offerings.

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

Not applicable as no forecast was published.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014****B5. TAXATION**

For the financial period ending 30 June 2014, 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**a) PRIVATE PLACEMENT**

On 10 April 2014, the Company announced to Bursa Malaysia Securities Berhad (“Bursa Securities”), a proposal to implement a private placement of up to 16,987,900 new ordinary shares of RM1.00 each to independent third party inventors.

Board of Directors of MLAB on 7 July 2014 announced that Bursa Securities had approved the listing of and quotation for up to 16,987,900 new Mlabs Shares to be issued pursuant to the Private Placement on the ACE Market of Bursa Malaysia Securities Berhad.

B8. STATUS OF UTILISATION OF PROCEEDS

The proceeds from the Private Placement issue of RM5.148 million are to be utilised as follows:

Purposed	Proposed utilisation		Actual utilisation as at 30/06/14	Intended timeframe for utilisation	Balance unutilised	
	RM'000				RM'000	%
Sales & Marketing Expenditure	1,500		1,049	31/12/14	452	30.13
Purchase of raw material, components and accessories	2,500		1,909	31/12/14	591	23.64

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

Expansion of human resources	748		434	31/12/14	314	41.98
Expenses for the proposed right issue	400		394		6	1.50
TOTAL	5,148		3,786		1,362	26.46

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 30/06/14	Intended timeframe for utilisation	Balance unutilised	
	RM'000	RM'000	RM'000		RM'000	%
Working capital	1,454	1,520	315	Within 12 months	1,205	79.28
* Estimated expenses in relation to the proposed private placement	90	24	24	Within 1 month	-	-
Total	1,544	1,544	339		1,205	79.28

** 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.*

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

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 has a short term interest bearing borrowings of RM0.021 million only.

B10. DERIVATIVE FINANCIAL INSTRUMENTS

There were no off balance sheet financial instrument as at 22 August 2014 (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

The Group has no outstanding material litigation as at 22 August 2014 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements).

B12. DIVIDENDS

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

B13. REALISED AND UNREALISED LOSSES

	As at 30.06.2014 RM	As at 30.06.2013 RM
Total accumulated losses		
- Realised	(42,036)	(41,294)
Less: Consolidation adjustment	20,345	20,345
Total accumulated losses as per Statement of Financial Position	<u>(21,691)</u>	<u>(20,949)</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.

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

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 JUNE 2014**

B14. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	YEAR	CORRESPONDING	YEAR	CORRESPONDING
	QUARTER	QUARTER	TO DATE	PERIOD
	30/06/14	30/06/13	30/06/14	30/06/13
	RM'000	RM'000	RM'000	RM'000
Interest income	27	32	72	32
Interest expense	-	-	-	-
Depreciation and Amorisation	(53)	(52)	(107)	(52)

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		6 months period ended	
	30/06/2014	30/06/2013	30/06/2014	30/06/2013
Net (loss) attributable to the members of the Group (RM'000)	(295)	(172)	(393)	(301)
Weighted average number of shares in issue ('000)	169,879	169,879	169,879	169,879
(Loss) per share (sen)	(0.17)	(0.10)	(0.23)	(0.18)