

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

	Individual Quarter		Cumulative Quarter	
	2014 quarter ended 30/09/2014 RM'000	2013 quarter ended 30/09/2013 RM'000	2014 quarter ended 30/09/2014 RM'000	2013 quarter ended 30/09/2013 RM'000
Revenue	497	153	1,454	605
Cost of Sales	(453)	(150)	(1,355)	(424)
Gross Profit/(loss)	44	3	99	181
Other income	18	51	140	83
Selling and distribution expenses	-	-	(5)	(20)
Administration expenses	(265)	(296)	(832)	(793)
Loss from operations	(203)	(242)	(598)	(549)
Finance cost	-	-	-	-
Loss before taxation	(203)	(242)	(598)	(549)
Income tax (expenses)/refund	-	-	-	-
Loss after taxation	(203)	(242)	(598)	(549)
Loss attributable to :				
Owners of the parent	(203)	(242)	(598)	(549)
Non controlling Interest	(22)	-	(22)	-
	(225)	(242)	(620)	(549)
Total comprehensive expense attributable to :				
Owners of the parent	(203)	(242)	(598)	(549)
Non controlling Interest	(22)	-	(22)	-
	(225)	(242)	(620)	(549)
Basic loss per ordinary share attributable to:				
Owners of the parent	(0.13)	(0.14)	(0.36)	(0.32)

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 SEPTEMBER 2014

	As At 30/09/2014 Unaudited RM'000	As At 31/12/2013 Audited RM'000
Non-current assets		
Property, plant & equipment	1,235	865
Total non-current assets	1,235	865
Current assets		
Inventory	200	-
Receivables	1,614	1,433
Cash & bank balances	1,903	3,347
Total current assets	3,717	4,780
Total assets	4,952	5,645
Equity		
Share capital	16,988	16,988
Share premium	9,390	9,390
Accumulated losses	(21,896)	(21,298)
	4,482	5,080
Non controlling interest	(11)	-
Total equity	4,471	5,080
Non-Current Liability		
Hire purchase	73	80
Current liabilities		
Payables	387	452
Hire purchase	20	33
Taxation	1	1
Total current liabilities	408	485
Total equity and liabilities	4,952	5,645
Net asset per share attributable to ordinary equity holder (Sen)	2.63	2.99

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 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2014

	(UNAUDITED)	(UNAUDITED)
	2014 to date ended 30/09/2014 RM'000	2013 to date ended 30/09/2013 RM'000
Profit/(loss) before taxation	(598)	(549)
Depreciation & amortisation	159	97
Interest income	(89)	(83)
	<u>(528)</u>	<u>(535)</u>
(Increase) / Decrease in inventories	(200)	12
(Increase)/Decrease in receivables	(183)	923
Increase/ (Decrease) in payables	(69)	(97)
Cash used in operating activities	(980)	303
	<u>(980)</u>	<u>303</u>
Cash used in operating activities	(980)	303
Cash flow from investing activities		
Interest received	89	83
Cash used in investing activities	89	83
	<u>89</u>	<u>83</u>
Cash flows from financing activities		
Repayment of Hire Purchase Borrowing	(20)	-
Acquisition of Subsidiary	(200)	-
Purchase of Property, plant and equipment	(333)	-
Cash generated from financing activities	(553)	-
	<u>(553)</u>	<u>-</u>
Net decrease in cash & cash equivalents	(1,444)	386
Cash & cash equivalents brought forward	3,347	3,739
Cash & cash equivalents carried forward	1,903	4,125
	<u>1,903</u>	<u>4,125</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 9 MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

9 Months period ended 30 September 2014	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Minority Interest RM'000	Total RM'000
Balance as at 1 January 2014	16,988	9,390	(21,298)	-	5,080
Minority Interest			-	(11)	(11)
Loss for the period	-	-	(598)	-	(598)
Balance at 30 September 2014	16,988	9,390	(21,896)	(11)	4,471

9 Months period ended 30 September 2013	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Minority Interest RM'000	Total RM'000
Balance as at 1 January 2013	16,988	9,390	(20,644)	-	5,734
Issuance of Shares	-	-	(549)	-	(549)
Loss for the period	-	-	-	-	-
Balance at 30 September 2013	16,988	9,390	(21,193)	-	5,185

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 SEPTEMBER 2014**

**PART A: EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL
REPORTING STANDARD 134 (“MFRS 134”) 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 ("MFRSs") 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 ("AMLR") 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 interim financial information for the nine (9) months period ended 30 September 2014 has been reviewed by the Company's auditors in accordance with International Standards on Review Engagement 2410- Review of Interim Financial Information by the Independent Auditor of the Company.

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 2013 except for the adoption of the following amendments to MFRSs issued by the MASB which are applicable to its financial statements.

Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation -Offsetting Financial Assets and Financial Liabilities
Amendments to MFRS 136	Impairment of Assets
Amendments to MFRS 139	Financial Instruments: Recognition and Measurement -Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21	Levies

The adoption of the above amendments to MFRSs does not have any significant impact on the interim financial statements upon their initial application.

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

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

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

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.

A8. DIVIDEND DECLARED

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

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

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 SEPTEMBER 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 September 2014	Video conferencing system	Investment Holding	Trading	Others	Total	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	957	-	497	-	1,454	-	1,454
Result Segment result	-	(687)		-	(687)	-	(687)
Finance cost	-	-		-	-	-	-
Interest received	-	-		-	-	-	90
Profit before tax	-	-		-	-	-	(597)
Income tax	-	-		-	-	-	-
Net Loss after tax							(597)
Assets Segment Assets	3,974	86	892	-	4,952	-	4,952
Liabilities Segment Liabilities	378	92	7	4	481	-	481

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

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

Period to date 30 September 2013	Video conferencing system	Investment Holding	Trading Others		Total	Elimination	Consolidated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	605	-	-	-	605	-	605
Result							
Segment result	(632)	-	-	-	(632)	-	(632)
Finance cost	-	-	-	-	-	-	-
Interest Income	-	-	-	-	-	-	83
Profit before tax	-	-	-	-	-	-	(549)
Income tax	-	-	-	-	-	-	-
Net Loss after tax	-	-	-	-	-	-	(549)
Assets							
Segment Assets	4,558	425	-	-	4,983	-	4,983
Liabilities							
Segment Liabilities	58	326	-	14	398	-	398

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 September 2014	Preceding year corresponding quarter ended 30 September 2013	Current year to date 30 September 2014	Preceding year period ended 30 September 2013
	RM '000	RM'000	RM'000	RM'000
Revenue				
Malaysia	497	153	1,454	605
Outside Malaysia	-	-	-	-

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

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

Total	497	153	1,454	605
-------	-----	-----	-------	-----

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 September 2014.

A13. CONTINGENT LIABILITIES OR CONTINGENT ASSETS

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

As at 17 November 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 September 2014.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 SEPTEMBER 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 RM0.598 million on the back of revenue of approximately RM1.454 million. Revenue for the cumulative quarter ended 30 September 2014 represents an increase of 58.39% compared to RM0.605 million in the preceding year corresponding year. The increase in revenue was due to increase in sales of video conference devices software and electronic products. Other income had increased from RM0.083 million to RM0.140 million due to recovery of impairment debt in current period. The administrative expenses has increased from RM0.793 million to RM0.831 million by RM0.038 million due to increase in depreciation compared to the preceding year cumulative quarter.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current Quarter ended 30 September 2014 (Unaudited) RM'000	Preceding Quarter ended 30 September 2013 (Unaudited) RM'000	% change
Revenue	497	153	69.22%
Loss before tax ("LBT")	(203)	(242)	(70.10%)

The Group’s revenue for the current quarter of RM0.497 million represents an increase of approximately RM0.344 million as compared to the revenue of RM0.153 million achieved for the preceding quarter due to increase in trading of electronic products.

The Group’s LBT for current quarter of RM0.203 million represents a decrease of approximately RM0.039 million as compared to the LBT of approximately RM0.242 million incurred in the preceding quarter. The decrease in LBT mainly due to recovery of impairment debt in the current 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 continually 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.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

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

B4. VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

Not applicable as no forecast was published.

B5. TAXATION

For the financial period ending 30 September 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 had announced to Bursa Securities Malaysia Berhad, 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.

On 7 July 2014, the Company had announced that the Private Placement was approved the listing of and quotation for 16,987,900 Placement Shares on the ACE Market of Bursa Malaysia Securities Berhad.

On 20 October 2014, the Company had announced that completion of Private Placement of up to 16,987,900 new ordinary shares of RM0.10 each to independent third party investors.

b) ACQUISITION

On 2 September 2014, the Company had announced that acquisition of 51% equity interest in Pacifica Direct Sdn Bhd comprising 102,000 ordinary shares of RM1.00 each for a total consideration of RM200,000.

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS
FOR THE QUARTER ENDED 30 SEPTEMBER 2014****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 30/09/14	Intended timeframe for utilisation	Balance unutilised	
	RM'000				RM'000	RM'000
Sales & Marketing Expenditure	1,500		1,049	31/12/14	451	30.07
Purchase of raw material, components and accessories	2,500		2,500	31/12/14	-	-
Expansion of human resources	748		447	31/12/14	301	40.24
*Expenses for the proposed right issue	400		394		6	1.50
TOTAL	5,148		4,390		758	14.72

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

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

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

* The unutilized portion of the proceeds from the private placement estimated expenses in relation to proposed private placement which amounts of RM6,000 has been transferred to working capital as this amount is an excess over the actual listing expenses incurred.

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 30/09/14	Intended timeframe for utilisation	Balance unutilised	
	RM'000	RM'000	RM'000		RM'000	%
Working capital	1,454	1,520	570	Within 12 months	950	62.50
* Estimated expenses in relation to the proposed private placement	90	24	24	Within 1 month	-	-
Total	1,544	1,544	570		950	62.50

* 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 has a short term interest bearing borrowings of RM0.004 million only.

B10. DERIVATIVE FINANCIAL INSTRUMENTS

There were no off balance sheet financial instrument as at 17 November 2014 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements).

MLABS SYSTEMS BERHAD

(Company No. 653227-V)

(Incorporated in Malaysia)

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

B12. DIVIDENDS

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

B13. REALISED AND UNREALISED LOSSES

	As at 30.09.2014 RM	As at 30.09.2013 RM
Total accumulated losses		
- Realised	(42,252)	(41,538)
Less: Consolidation adjustment	20,356	20,345
Total accumulated losses as per Statement of Financial Position	<u>(21,896)</u>	<u>(21,193)</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.

B14. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	YEAR QUARTER 30/09/14 RM'000	CORRESPONDING QUARTER 30/09/13 RM'000	YEAR TO DATE 30/09/14 RM'000	CORRESPONDING PERIOD 30/09/13 RM'000
Interest income	18	51	90	83
Interest expense	-	-	-	-
Depreciation and Amorisation	(53)	(42)	(159)	(97)

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

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

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		9 months period ended	
	30/09/2014	30/09/2013	30/09/2014	30/09/2013
Net (loss) attributable to the members of the Group (RM'000)	(203)	(242)	(598)	(549)
Weighted average number of shares in issue ('000)	169,879	169,879	169,879	169,879
(Loss) per share (sen)	(0.13)	(0.14)	(0.36)	(0.32)