

**MLABS SYSTEMS BERHAD**

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

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**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 audited 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 (“ACE Listing Requirements”) and should be read in conjunction with the audited financial year ended 31 March 2018. 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 March 2018.

**A2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation adopted by the Group in the preparation of the Condensed Report are consistent with those followed in the preparation of the Group's audited financial statements for the financial year ended 31 March 2018, except for the adoption of Amendments to Standards effective for the annual periods beginning on or after 1 January 2017 :-

Adoption of Amendments to Standards

The Group has adopted the following Amendments to Standards, with a date of initial application of 1 January 2017.

MFRSs / Amendments to MFRSs	Effective for annual periods beginning on or after
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
Amendments to MFRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 12 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2017

The adoption of the above pronouncements did not have any impact on the financial statements of the Group and of the Company.

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018****A2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Standards issued but not yet effective

At the date of authorisation of the Condensed Report, the following Standards were issued but not yet effective and have not been adopted by the Group:

MFRSs / Amendments to MFRSs	Effective for annual periods beginning on or after
Amendments to MFRS 1 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarification to MFRS 15	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS as issued by IASB in July 2014)</i>	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to MFRS 128 <i>Annual Improvements to MFRS Standards 2014 - 2016 Cycle</i>	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48
MFRS 16 <i>Leases</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to MFRS 128 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to MFRS 9 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to MFRS 3 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 11 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 112 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 123 <i>Annual Improvements to MFRS Standards 2015 - 2017 Cycle</i>	1 January 2019
Amendments to MFRS 119 <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

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FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

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**A2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

The Group is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for the future financial years.

**A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the financial statements for the financial year ended 31 March 2018 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 2018.

**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 and related products as well as assembling and trading of multimedia video conferencing systems and electrical 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.

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

<b>Period to date 30 September 2018</b>	<b>Video conferencing system</b>	<b>Investment holding</b>	<b>Trading</b>	<b>Others</b>	<b>Total</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	3,790	-	65	-	3,855	-	3,855
<b>Result</b>							
Segment result	(4,662)	(2,529)	(200)	(12)	(7,403)	-	(7,403)
Share of loss joint venture	-	-	-	-	-	-	-
Other income	-	867	-	-	-	-	867
Profit before tax							(2,681)
Minority interest							66
Income tax							-
Net loss after tax							(2,651)
<b>Assets</b>							
Segment assets	6,665	62,309	1,844	1,372	72,190	(8,829)	63,361
<b>Liabilities</b>							
Segment liabilities	7,395	35	2,589	1,427	11,446	(11,372)	74
<b>Period to date 30 September 2017</b>							
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Revenue	645	-	668	-	1,313	-	1,313
<b>Result</b>							
Segment result	(1,314)	(938)	(129)	(7)	(2,388)	-	(2,388)
Finance cost	-	-	-	-	-	-	-

**MLABS SYSTEMS BERHAD**

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

<b>Period to date 30 September 2017</b>	<b>Video conferencing system</b>	<b>Investment holding</b>	<b>Trading</b>	<b>Others</b>	<b>Total</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Other income	-	-	-	-	-	-	-
Profit before tax							(1,595)
Minority interest							19
Income tax							-
Net loss after tax							(1,576)
<b>Assets</b>							
Segment assets	4,202	55,706	1,129	-	61,037	-	61,037
<b>Liabilities</b>							
Segment liabilities	522	101	9	11	643	-	643

**Geographical segments**

The business segment is managed in few principal locations namely Malaysia, Thailand, China. 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:-

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>Current year quarter ended 30 September 2018</b>	<b>Preceding year corresponding quarter ended 30 September 2017</b>	<b>Current year to date ended 30 September 2018</b>	<b>Preceding year corresponding period ended 30 September 2017</b>
	<b>RM '000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Revenue</b>				
Malaysia	26	203	65	1,268
Outside Malaysia	3,450	45	3,790	45
Total	3,476	248	3,855	1,313

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(Company No. 653227-V)

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

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**A10. VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

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

**A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE QUARTER**

- i) On 18<sup>th</sup> August 2017, The Board of Directors of MLABS announced that Multimedia Research Lab Sdn Bhd (“MRL), the wholly owned subsidiary of the Company had on 17<sup>th</sup> August entered into a Memorandum of Understanding on Technology Collaboration with XOX Media Sdn Bhd. There was no major development on the said MOI.
- ii) The Board of Directors of MLABS announce that on 24 September 2018, Next Gen Biosciences Sdn. Bhd. (“Purchaser”), a wholly-owned subsidiary of the Company, had entered into a Sale and Purchase Agreement (“Agreement or SPA”) with a developer, Venus Assets Sdn. Bhd. (“Vendor”), for the acquisition of a condominium apartment distinguished as Parcel No. 43-2, measuring 228 square metres in area within Storey No. 43 of the buildings held under Geran 70444 for Lot 230, Section 58, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Negeri Wilayah Persekutuan Kuala Lumpur (“Property”) for a total purchase consideration of RM7,000,000.00 (“Purchase Price”) and upon the terms and conditions as stipulated in the Agreement (“Acquisition”).

**A12. CHANGES IN THE COMPOSITION OF THE GROUP**

There were no changes in composition of the Group during the financial quarter ended 30 September 2018.

**A13. CONTINGENT LIABILITIES OR CONTINGENT ASSETS**

There were no contingent liabilities or assets for the Group as at 30 September 2018.

As at 23 November 2018, (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 commitment 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 2018.

**MLABS SYSTEMS BERHAD**

(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018****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****CURRENT QUARTER COMPARED TO THE CORRESPONDING QUARTER OF  
LAST YEAR ( Q2 18 VS Q2 17)**

	Individual Quarter Unaudited		Changes		Cumulative Quarter Unaudited		Changes	
	Current Quarter 30.09.2018	Preceding Quarter 30.09.2017			Current year to date 30.09.2018	Preceding year to date 30.09.2017		
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	3,476	248	3,228	>100	3,855	1,313	2,542	>100
Operating loss	(2,270)	(1,918)	(352)	18.35	(2,681)	(1,576)	(1105)	70.11
Loss before interest & tax	(2,270)	(1,918)	(352)	18.35	(2,681)	(1,576)	(1105)	70.11
Loss before tax	(2,270)	(1,918)	(352)	18.35	(2,681)	(1,576)	(1105)	70.11
Loss after tax	(2,270)	(1,918)	(352)	18.35	(2,681)	(1,576)	(1105)	70.11
Loss attributable to ordinary equity holders of the parent	(2,239)	(1,884)	(354)	18.79	(2,615)	(1,595)	(1020)	63.95

During the cumulative quarter under review, the Group recorded a loss after taxation (“LAT”) of RM2.681 million on the back of revenue of approximately RM3.855 million. Revenue for the cumulative quarter ended 30 September 2018 represents an increase of >100% compared to RM1.313 million in the preceding year corresponding year. The increase in revenue was due to sales of facial intelligence software.

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(Company No. 653227-V)

(Incorporated in Malaysia)

**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018****B2. VARIATION OF CURRENT QUARTER RESULTS AGAINST PRECEDING QUARTER (Q2 18 VS Q4 17)**

	<b>Current Quarter</b>	<b>Immediate Preceding Quarter</b>	<b>Changes</b>	
	<b>30.09.2018</b>	<b>31.03.2018</b>	<b>RM'000</b>	<b>%</b>
Revenue	3,476	205	3,271	>100
Operating loss	(2,270)	(2,151)	(119)	5.53
Loss before interest & tax	(2,270)	(2,151)	(119)	5.53
Loss before tax	(2,270)	(2,151)	(119)	5.53
Loss after tax	(2,270)	(2,151)	(119)	5.53
Loss attributable to owners of the parent	(2,239)	(1,999)	(240)	12.00

The Group's LBT for current quarter of RM2.270 million represents a increase of approximately RM0.119 million as compared to the LBT of approximately RM2.151 million incurred in the preceding quarter. Increase in LBT is mainly due to increase of operating expenses during the current quarter.

**B3. COMMENTARY ON BUSINESS PROSPECTS**

The Group existing business remains highly competitive in a market where it is necessary to continually invest in new technologies to remain relevant and competitive. The Group is continually looking at new business opportunities locally and regionally to diversify its markets. These initiatives include a number of business collaborations which have been announced recently.. The Group is also currently developing its next generation mobile application which will be launched locally and regionally when it is ready. The launch of this product will help to contribute revenue for the Group..

**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  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018****B5. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>30.09.2018</b>	<b>30.09.2017</b>
	<b>RM</b>	<b>RM</b>
<b>Loss for the period is arrived at after charging</b>		
Amortisation and depreciation	439,138	212,248

**B6. TAXATION**

For the financial period ending 30 September 2018, there is no tax liability.

**B7. PURCHASE OR DISPOSAL OF QUOTED SECURITIES**

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

**B8. STATUS OF CORPORATE PROPOSALS**

There was no corporate proposal under review.

**B9. STATUS OF UTILISATION OF PROCEEDS**

On 11<sup>th</sup> August 2017, the company had completed the Renounceable Rights Issues by issuance of 528,169,300 new ordinary shares in Mlabs at an issue price of RM0.15 per rights share, together with up to 264,084,650 free detachable warrants in Mlabs on the basis of two (2) rights shares together with one (1) free warrant B for every one (1) existing Mlabs share held by the entitled shareholders of Mlabs.

Proposed Utilisation	Based case scenario	Actual utilisation as at 30/09/18	Balance of proceeds unutilised	Timeframe for utilisation
	RM'000	RM'000	RM'000	
Development and marketing for mobile application	10,000	7,168	2,832	Within 18 months
Working capital	5,000	4,637	363	Within 24 months
Acquisition and/or investment in other complementary businesses and/or assets	40,326	5,937	34,389	Within 24 months
* Estimated expenses in relation to the Proposals	730	730	-	Immediate
Total	56,056	18,472	37,584	

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018**

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**B10. 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.

**B11. TRADE RECEIVABLES**

The Group's normal trade credit terms range from 30 days to 180 days (2017: 30 to 180 days). Other credit terms are assessed and approved on case by case basis. They are recognised at the original invoice amounts, which represent their fair values on initial recognition. There are no trade receivables from related parties.

	<b>As per quarter ended 30.09.2018 RM'000</b>
Neither past due nor impaired	7
Past due but not impaired	
- 31 days to 60 days	3,451
- More than 60 days	1,068
	<hr/>
	4,526

**B12. DERIVATIVE FINANCIAL INSTRUMENTS**

There were no off balance sheet financial instrument as at 23 November 2017 (being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly financial statements).

**B13. MATERIAL LITIGATION**

The Group does not engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiary companies and the Board is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or its subsidiary companies.

**B14. DIVIDENDS**

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

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**EXPLANATORY NOTES TO QUARTERLY FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER 2018****B15. NOTES TO CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Year To date 30.09.18 RM'000</b>	<b>Corresponding quarter 30.09.18 RM'000</b>	<b>Year To date 30.09.17 RM'000</b>	<b>Corresponding quarter 30.09.17 RM'000</b>
Interest income	867	473	-	-
Interest expense	-	-	-	-
Depreciation and amortisation	(439)	(159)	(212)	(108)

**B16. 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:

	<b>12 months period ended</b>	
	<b>30.09.2018</b>	<b>30.09.2017</b>
Net loss attributable to the members of the Group (RM'000)	(2,615)	(1,595)
Weighted average number of shares in issue ('000)	412,203	570,482
Loss per share (sen)	(0.63)	(0.28)