

MTOUCHE TECHNOLOGY BERHAD
Company no. 656395-X
(Incorporated in Malaysia)

**INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER
AND HALF YEAR ENDED 30 JUNE 2006**

NOTES TO THE INTERIM FINANCIAL REPORT

**A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD
("FRS") 134 INTERIM FINANCIAL REPORTING**

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134 "Interim Financial Reporting" and rule 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") for the MESDAQ Market.

The interim financial report should be read in conjunction with the latest audited financial statements of the mTouche Technology Berhad ("MTB or Company") and its subsidiaries ("Group") for the financial year ended 31 December 2005.

A2. Changes in Accounting Policies

The accounting policies adopted by the Group in this interim financial statements are consistent with those of the audited financial statements for the year ended 31 December 2005 except for the adoption of the following new/revised FRS effective for financial period beginning 1 January 2006:

FRS 3	Business Combination
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

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A2. Changes in Accounting Policies (con't)

The adoption of FRS 108, 110, 116, 121, 127, 131, 132, 133, 136 and 138 does not have significant financial impact on the Group. The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are disclosed below:

a. FRS 3: Business Combinations

FRS 3 requires that, after assessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in income statements. FRS 3 prohibits the recognition of negative goodwill in the balance sheet. Previously, the Group has reflected the negative goodwill as reserves on consolidation under equity. In accordance with the transition provision of FRS 3, the Group has applied the new accounting policy prospectively from 1 January 2006. Therefore, the change has had no impact on amounts reported for 2005 or prior periods.

The carrying amount of reserve on consolidation as at 1 January 2006 has been derecognised with an adjustment of RM722,000 to the opening retained earnings at 1 January 2006.

b. FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of minority interest. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statements, minority interests are presented as an allocation of the total profit and loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirements of FRS 101, with the comparatives restated to conform with the current period's presentation.

A3. Qualification of Financial Statements

The auditor's report on the preceding financial statements of MTB for the financial year ended 31 December 2005 was not subject to any audit qualification.

A4. Seasonal or Cyclical Factors

The results of the Group were not materially affected by any significant seasonal or cyclical factors during the current quarter under review.

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A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group during the current quarter under review.

A6. Material Changes in Estimates

There were no changes in estimates that have a material effect in the current quarter results.

A7. Debts and Equity Securities

There were no issuance, repurchase, cancellation, resale, and repayment of debt and equity securities for the current quarter under review.

A8. Dividend

There were no dividends paid for the quarter under review.

A9. Segmental Information

The segmental analysis of revenue and profit before taxation are tabulated below:

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30.6.2006 RM'000	Preceding year corresponding quarter 30.6.2005 RM'000	Current year to-date 30.6.2006 RM'000	Preceding year corresponding period 30.6.2005 RM'000
Segment revenue				
Malaysia	6,303	7,129	13,130	12,883
Other countries	7,445	3,330	14,333	6,314
Total revenue including inter-segment sales	13,748	10,459	27,463	19,197
Elimination of inter-segment sales	(1,579)	(2,477)	(3,332)	(4,338)
Total	12,169	7,982	24,131	14,858

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A9. Segmental Information (con't)

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30.6.2006 RM'000	Preceding year corresponding quarter 30.6.2005 RM'000	Current year quarter 30.6.2006 RM'000	Preceding year corresponding quarter 30.6.2005 RM'000
Segment results				
Malaysia	2,153	2,224	5,219	4,153
Other countries	2,344	130	3,521	(961)
Share of results of jointly controlled entity	634	-	1,156	-
Share of results of associate	123	-	123	-
	<u>5,254</u>	<u>2,354</u>	<u>10,019</u>	<u>3,192</u>
Elimination	(90)	*	4	*
Total	<u>5,164</u>	<u>2,354</u>	<u>10,023</u>	<u>3,192</u>

*Denotes RM205

A10. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the current quarter under review.

A11. Material Events Subsequent To the End of the Quarter

Proposed joint venture between MTB and Cellcast (UK) Limited

On 28 July 2006, MTB announced that it had entered into a Joint Venture Agreement with Cellcast (UK) Limited, a wholly owned subsidiary of Cellcast Plc to form a new company, Cellcast SEA Ltd to operate the Interactive Television business in the South East Asia region.

Proposed subscription of 3,040,000 new ordinary shares in GMO Global Limited

On 2 August 2006, MTB announced that the Company had further subscribed for 3,040,000 new ordinary shares of USD1.00 each in GMO Global Limited ("GMO") for a total consideration of USD3,040,000.

On 22 December 2005, MTB announced that it had entered into a conditional Joint Venture Agreement with Green Packet Berhad ("GPB") and OSK Ventures International Berhad ('OSKVI') to form a new company, GMO to undertake investments in relation to the cellular communication and wireless value-added services ("WVAS") business in the Asia Pacific region.

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A12. Changes in Composition of the Group

- a) On 22 December 2005, MTB announced that it had entered into a conditional Joint Venture Agreement with GPB and OSKVI to form a new company, GMO to undertake investments in relation to the cellular communication and WVAS business in the Asia Pacific region.

On 16 June 2006, MTB announced that its shareholders have at the Extraordinary General Meeting (“EGM”) held on the same date, approved the ordinary resolution set out in the Notice of the EGM dated 30 May 2006 relating to the Proposed Shareholders’ Ratification of the Conditional Joint Venture Agreement between MTB, GPB and OSKVI to form a joint venture company, namely GMO in the British Virgin Islands.

- b) On 20 February 2006, MTB announced that it had entered into a Conditional Share Sale Agreement with a shareholder of IdotTV Sdn Bhd (“IdotTV”) to acquire 50,000 ordinary shares of RM1.00 each of IdotTV, representing 20% of the issued and paid-up share capital of IdotTV for a cash consideration of RM4.5 million.

The acquisition was completed on 17 May 2006 and IdotTV has since become an associate company of MTB.

- c) On 10 May 2006, MTB announced the incorporation of mTouche (Australia) Pty Ltd with a paid up capital of AUD10,000 divided into 10,000 ordinary shares of AUD1.00 each.

The intended business activities of mTouche (Australia) Pty Ltd are provision of mobile messaging technologies.

- d) On 26 June 2006, MTB announced that its wholly-owned subsidiary, mTouche (HK) Limited (“MTHK”) had incorporated a wholly-owned subsidiary, Hong Yang (Guangzhou) Information Technology Limited Co. (“Hong Yang”) in the Guangdong province of the People’s Republic of China with a registered capital of USD300,000.

The intended business activities of Hong Yang are provision of technical service support together with operational and marketing support to MTHK.

A13. Contingent Assets or Liabilities

There were no contingent assets or contingent liabilities for the current quarter under review.

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS

B1. Review of Performance

For the six (6) months financial period ended 30 June 2006, the Group recorded revenue and profit before taxation ("PBT") of approximately RM24.1 million and RM10.0 million respectively. This represents a strong performance growth of approximately 62.4% and 214.0% respectively as compared to the preceding year corresponding period. Higher revenue achieved was mainly attributed to the overall improved performance from all subsidiaries including its newly acquired subsidiary, Inova Ventures Pte Ltd ("Inova"). In addition, GMO and IdotTV also contributed approximately RM1.2 million and 0.1 million in PBT respectively during the period under review.

B2. Material Change in PBT In Comparison to the Previous Quarter

For the financial quarter ended 30 June 2006, the Group recorded PBT of approximately RM5.2 million (Q1'06: RM4.9 million).

The increased in the PBT is in line with the increase in revenue and is mainly attributable to the subsidiaries' performance and contributions from the share of results of the jointly controlled entity and associate company.

B3. Current Year's Prospect

The Group will continue to focus on its core activities and barring any unforeseen circumstances, the Directors anticipate that the performance of the Group will be satisfactory in the financial year ending 31 December 2006.

B4. Variance on Profit Forecast/Profit Guarantee

The Group has not issued any profit forecast/profit guarantee for the current period and financial year to-date.

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B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year Quarter 30.6.2006 RM'000	Preceding year corresponding quarter 30.6.2005 RM'000	Current year to date 30.6.2006 RM'000	Preceding year corresponding period 30.6.2005 RM'000
Current tax:				
Malaysian income tax				
- Group	-	98	10	161
Foreign tax	375	-	824	-
	375	98	834	161
Deferred tax	-	-	-	-
	375	98	834	161

Malaysian income tax is calculated at the Malaysian statutory tax rate of 28% of the estimated assessable profit for the period. Taxation for other jurisdiction is calculated at the rate prevailing in the respective jurisdiction.

For the six months financial period ended 30 June 2006, the Malaysian income tax provision is in respect of the interest income earned from fixed deposits of MTB. The foreign tax arises from the newly acquired subsidiary in Singapore. There is no provision for taxation for Malaysia, Indonesia and Hong Kong subsidiaries in the current period due to the utilisation of prior year business tax loss brought forward. No provision for taxation for existing Singapore and Thailand subsidiaries as they are in a net loss position.

No provision for taxation has been made on the chargeable income of MTB as there was no income tax liability imposed on the approved qualifying activities based on the Pioneer Status incentive awarded to MTB as a Multimedia Super Corridor Status company under Section 4A of the Promotion of Investment Act, 1986 except for the interest income earned from fixed deposit which are taxable.

B6. Profit on Sales of Unquoted Investment and/or Properties

There were no disposals of unquoted investments and/or properties by the Group for the current quarter under review and financial year to-date.

B7. Quoted Securities

There was no purchase or disposal of quoted securities by the Group for the current quarter under review and financial year to-date.

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B8. Status of Corporate Proposal

a) Proposed private placement of up to ten percent (10%) of the issued and paid-up share capital of MTB

On 26 April 2006, MTB announced that the Company is proposing to undertake a proposed private placement of up to ten percent (10%) of the issued and paid-up capital share capital of MTB which was approved by the Securities Commission (“SC”) on 17 May 2006.

Subsequently on 27 July 2006, MTB announced that the price of the placement shares has been fixed at RM2.75 per placement share.

b) Utilisation of proceeds from Private Placement

As at 30 June 2006, the Company has utilised approximately 94.4% of the proceeds raised from the Private Placement exercise on 19 December 2005.

	Proposed Amount	Actual Utilisation	Unused Amount
	RM’000	RM’000	RM’000
Nature of Expenses			
Future viable investment	12,450	11,559	891 ¹
Placement expenses	300	480	(180) ²
Total	12,750	12,039	711

Note:

1. Approximately RM11.6 million has been utilised for the investment and other incidental costs of Inova, IdotTV and GMO. The remaining unused amount of RM0.7 million is expected to be used for further investments in GMO.
2. The Private Placement was completed on 19 December 2005 and the Company had incurred an additional RM180,000 to defray expenses in relation to the Private Placement, mainly due to consultancy fees incurred for the procurement of suitable places. In this regard, the Company will adjust the difference against the proceeds identified for viable future investments.

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B9. Borrowings and Debt Securities

Save as disclosed below, there were no other borrowings or debt securities in the Group as at 30 June 2006.

Hire purchase payables	As at 30.6.2006 RM'000	As at 30.6.2005 RM'000
Payable within 12 months		
- Malaysia	40	-
- Singapore (RM equivalent)	59	116
	99	116
Payable after 12 months		
- Malaysia	298	-
- Singapore (RM equivalent)	30	87
	328	87

The foreign exchange rate as at 30 June 2006 was SGD1.00 : RM2.3126 (30 June 2005: SGD1.00 : RM2.2576).

B10. Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instruments.

B11. Material Litigation

There is no pending material litigation for the current quarter under review and financial year to-date.

B12. Dividend

No interim dividend was declared during the quarter under review.

B13. Earnings Per Share

The basic earnings per share has been calculated based on the profit for the period attributable to ordinary equity holder of the parent divided by the weighted number of ordinary shares of RM0.10 each in issue during the period.

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B13. Earnings Per Share (con't)

	2nd quarter ended		6 months ended	
	30.6.2006	30.6.2005	30.6.2006	30.6.2005
Profit for the period attributable to the ordinary equity holder of the parent (RM'000)	4,053	2,256	7,573	3,031
Weighted average number of ordinary shares in issue ('000)	82,500	60,000	82,500	60,000
Basic earnings per share attributable to equity holders of the parent (sen)	4.9	4.0	9.2	5.0
