

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

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**INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER  
AND NINE MONTHS ENDED 30 SEPTEMBER 2006**

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**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**

On 16 August 2006 the Company has issued 8,250,000 new ordinary shares of RM0.10 each at an issue price of RM2.75 per share for placement to selected investors.

Save for the above, 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:

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>Current year quarter 30.9.2006 RM'000</b>	<b>Preceding year corresponding quarter 30.9.2005 RM'000</b>	<b>Current year to-date 30.9.2006 RM'000</b>	<b>Preceding year corresponding period 30.9.2005 RM'000</b>
<b>Segment revenue</b>				
Malaysia	4,809	8,805	17,940	21,688
Other countries	10,710	3,056	25,043	9,369
Total revenue including inter-segment sales	15,519	11,861	42,983	31,057
Elimination of inter-segment sales	(1,960)	(4,828)	(5,293)	(9,166)
<b>Total</b>	<b>13,559</b>	<b>7,033</b>	<b>37,690</b>	<b>21,891</b>

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**A9. Segmental Information (con't)**

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>Current year quarter 30.9.2006 RM'000</b>	<b>Preceding year corresponding quarter 30.9.2005 RM'000</b>	<b>Current year quarter 30.9.2006 RM'000</b>	<b>Preceding year corresponding quarter 30.9.2005 RM'000</b>
<b>Segment profit before taxation</b>				
Malaysia	934	5,622	6,153	9,775
Other countries	2,343	(2,500)	5,864	(3,461)
Gain on dilution in share of net assets of associate	5,244	-	5,244	-
Share of results of jointly controlled entities	344	-	1,500	-
Share of results of associates	391	-	515	-
	<u>9,256</u>	<u>3,122</u>	<u>19,276</u>	<u>6,314</u>
Elimination	69	(127)	73	(126)
Total	<u>9,325</u>	<u>2,995</u>	<u>19,349</u>	<u>6,188</u>

**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**

**Incorporation of a new subsidiary in India**

On 11 October 2006, MTB announced the incorporation of mTouche Technology India Private Limited with an issued and paid-up capital of INR100,000 divided into 10,000 ordinary shares of INR10.00 each.

The intended business activities of mTouche Technology India Private Limited are provision of mobile messaging technologies.

**Acquisition of a new company by a subsidiary**

On 11 October 2006, MTB announced that the Company's 51% owned subsidiary in Singapore namely, Inova Venture Pte Ltd had acquired two (2) ordinary shares of RM1.00 each representing the entire issued and paid up share capital of Brillante Novastella Sdn Bhd ("BNSB") for a cash consideration of RM2.00 only from the subscriber shareholders.

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**A11. Material Events Subsequent To the End of the Quarter (con't)**

**Acquisition of a new company by a subsidiary (con't)**

BNSB was incorporated on 2 October 2006 in Malaysia with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each. BNSB is currently dormant and the principal activities of BNSB in the future will be the provision of information technology consultancy and supporting services to the telecommunication industry.

**Acquisition of 4,500,000 ordinary shares in Cellcast Plc ("Cellcast")**

On 8 November 2006, MTB announced the acquisition of 4,500,000 ordinary shares of £0.03 par value each in Cellcast ("Cellcast Shares"), representing approximately ten percent (10%) of the equity interest in Cellcast at the price of £0.10 (equivalent to approximately RM0.694) per share based on the exchange rate of £1.00 : RM6.94 per Cellcast Share via an off-market transaction.

**Proposed Acquisition of 70% equity interest in Rayson Management Limited ("RML")**

On 10 November 2006, MTB announced the proposed acquisition of 35,000 ordinary shares of US Dollar ("USD") 1.00 each, representing 70% of the issued and paid-up share capital of RML, for a total cash consideration of USD760,870.

**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 Green Packet Bhd ("GPB") and OSK Ventures International Berhad ("OSKVI") to form a new company, GMO Global Limited ("GMO") to undertake investments in relation to the cellular communication and Wireless Value-Added Services 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.

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 for a total consideration of USD3,040,000.

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**A12. Changes in Composition of the Group (con't)**

On 18 August 2006, MTB announced that the Company had entered into a Share Exchange Agreement (“SEA”) with GBP, OSKVI, GMO Limited (“GMOL”), Monitor Holdings Limited (“MHL”) and Primary Holdings Limited (“PHL”) whereby GMOL shall acquire the entire issued and paid-up share capital of GMO, a 40% jointly controlled entity of MTB. Pursuant to the SEA, GMOL had on the even date acquired from MTB its 40% equity interest in GMO for a total consideration of £2,027,932 (equivalent to approximately USD3,621,307 based on the exchange rate of USD1.00 : £ 0.56) to be satisfied by way of share swap which will entail the issuance of 1,199,960 shares of £1.00 each in GMOL (“GMOL Shares”) at an issue price of £1.60 per GMOL Share, to be credited as fully paid-up.

Upon completion of the Proposed Acquisition by GMOL, the MTB, GPB and OSKVI acquired the remaining 100 GMOL Shares, at par from the existing shareholders, namely MHL and PHL, in the proportion of their respective shareholdings in GMOL after the Proposed Acquisition by GMOL. In this regard, MTB will acquire 40 GMOL Shares for a total consideration of £40.00.

Following the completion of the acquisition of GMO by GMOL, GMOL had implemented a share split on the basis of every one (1) share of £1.00 each in GMOL into ten (10) new shares of £0.10 each (“New GMOL Shares”). Upon completion of the share split exercise and in conjunction with the listing of GMOL on the Alternative Investment Market (“AIM”) of the London Stock Exchange, GMOL had undertaken a public issue of 10,000,000 new GMOL Shares, representing approximately 25% of the enlarged issued and paid-up share capital of GMOL, at a subscription issue price of £0.50 each. Thereafter, GMOL became a 30% associate company of MTB.

Subsequent to the listing, under a pre-listing option arrangement, 100,000 new GMOL shares were issued to an external party which resulted in MTB’s equity interest being further diluted to 29.92%.

- b) 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.

On 28 September 2006, MTB announced that Cellcast SEA Limited was incorporated on 27 September 2006 in Hong Kong.

- c) On 27 September 2006, MTB announced the incorporation of mTouche (Vietnam) Co. Ltd with a paid up capital of USD100,000 divided into 100,000 ordinary shares of USD1.00 each.

The intended business activities of mTouche (Vietnam) Co., Ltd are provision of mobile messaging technologies.

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**A13. Contingent Assets or Liabilities**

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

**B. ADDITIONAL INFORMATION REQUIRED BY BURSA SECURITIES' LISTING REQUIREMENTS**

**B1. Review of Performance**

For the nine (9) months financial period ended 30 September 2006, the Group recorded revenue and profit before taxation ("PBT") of approximately RM37.7 million and RM19.3 million respectively. This represents an increase of approximately 72.2% and 212.7% respectively as compared to the preceding year corresponding period. Higher revenue achieved was mainly attributed to the overall improved performance from all existing subsidiaries and associates. The increase in PBT is mainly due to the gain on dilution in share of net assets of GMO of RM5.2 million as mentioned in A12 (a).

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

For the financial quarter ended 30 September 2006, the Group recorded PBT of approximately RM9.3 million (Q2'06: RM5.2 million). The increased in the PBT is mainly due to the gain on dilution in share of net assets of GMO as mentioned in B1 above.

**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**

	<b>Individual Quarter</b>		<b>Cumulative Quarter</b>	
	<b>Current year Quarter 30.9.2006 RM'000</b>	<b>Preceding year corresponding quarter 30.9.2005 RM'000</b>	<b>Current year to date 30.9.2006 RM'000</b>	<b>Preceding year corresponding period 30.9.2005 RM'000</b>
Current tax:				
Malaysian income tax				
- Group	-	(118)	10	44
Foreign tax	1	-	826	-
	<u>1</u>	<u>(118)</u>	<u>836</u>	<u>44</u>
Deferred tax	-	-	-	-
	<u>1</u>	<u>(118)</u>	<u>836</u>	<u>44</u>

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 current quarter ended 30 September 2006, the foreign income tax provision is in respect of Inova Venture Pte Ltd. 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, Thailand and Australia 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. The proposed private placement was completed on 16 August 2006.

**b) Utilisation of proceeds from Private Placement exercise on 19 December 2005**

As at 30 September 2006, the Company has fully utilised the proceeds raised from the Private Placement exercise on 19 December 2005.

**c) Utilisation of proceeds from Private Placement exercise on 16 August 2006**

As at 30 September 2006, the Company has utilised approximately 11.3% of the proceeds raised from the Private Placement exercise on 16 August 2006.

	<b>Proposed Amount RM’000</b>	<b>Actual Utilisation RM’000</b>	<b>Unused Amount RM’000</b>
<b>Nature of Expenses</b>			
Future viable investment	22,188	1,292	20,896
Placement expenses	500	1,277	(777)
Total	22,688	2,569	20,119

Note:

1. The Private Placement was completed on 16 August 2006 and the Company had incurred an additional RM777,000 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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**B8. Status of Corporate Proposal (con't)**

**c) Utilisation of proceeds from Private Placement exercise on 16 August 2006**

2. Approximately RM1.2 million has been utilised for the investment and other incidental costs of the acquisition of 20% equity interest in IdotTV Sdn. Bhd. and incorporation of new subsidiary in Australia, Vietnam and India.

**B9. Borrowings and Debt Securities**

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

<b>Hire purchase payables</b>	<b>As at 30.9.2006 RM'000</b>	<b>As at 30.9.2005 RM'000</b>
Payable within 12 months		
- Malaysia	20	-
- Singapore (RM equivalent)	30	115
	<u>50</u>	<u>115</u>
Payable after 12 months		
- Malaysia	298	-
- Singapore (RM equivalent)	30	57
	<u>328</u>	<u>57</u>

The foreign exchange rate as at 30 September 2006 was SGD1.00 : RM2.3221 (30 September 2005: SGD1.00 : RM2.2315).

**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)**

	<b>Third quarter ended</b>		<b>9 months ended</b>	
	<b>30.9.2006</b>	<b>30.9.2005</b>	<b>30.9.2006</b>	<b>30.9.2005</b>
Profit for the period attributable to the ordinary equity holder of the parent (RM'000)	9,321	3,113	16,894	6,144
Weighted average number of ordinary shares in issue ('000)	86,625	75,000	83,890	75,000
Basic earnings per share attributable to equity holders of the parent (sen)	10.8	4.1	20.0	8.2

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