

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

**INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER
AND NINE MONTHS ENDED 30 SEPTEMBER 2008**

CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER 30 SEPTEMBER 2008 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30 SEPTEMBER 2007 RM'000	CURRENT YEAR TO-DATE 30 SEPTEMBER 2008 RM'000	PRECEDING YEAR CORRESPONDING PERIOD 30 SEPTEMBER 2007 RM'000
Revenue	10,477	12,156	28,561	38,303
Cost of sales	(6,737)	(5,279)	(15,853)	(15,916)
Gross Profit	<u>3,740</u>	<u>6,877</u>	<u>12,708</u>	<u>22,387</u>
Administrative expenses	(3,426)	(2,824)	(9,870)	(8,880)
Other expenses	799	(1,870)	(4,482)	(6,624)
EBITDA*	<u>1,113</u>	<u>2,183</u>	<u>(1,644)</u>	<u>6,883</u>
Other income	2,024	1,580	3,650	1,919
Finance costs	(85)	(1,429)	(295)	(1,462)
Depreciation and amortisation	(1,297)	(727)	(3,490)	(1,816)
Share of results of jointly controlled entity	-	(172)	-	(274)
Share of results of associates	(1,443)	(355)	(2,748)	258
Profit/(loss) before taxation	<u>312</u>	<u>1,080</u>	<u>(4,527)</u>	<u>5,508</u>
Taxation	385	(177)	(223)	(248)
Profit/(loss) for the period	<u>697</u>	<u>903</u>	<u>(4,750)</u>	<u>5,260</u>
Attributable to:				
Equity holders of the parent	917	1,022	(4,228)	5,401
Minority interests	(220)	(119)	(522)	(141)
	<u>697</u>	<u>903</u>	<u>(4,750)</u>	<u>5,260</u>
Earnings per share attributable to equity holders of the parent				
- Basic (sen)	<u>0.7</u>	<u>1.1</u>	<u>(3.2)</u>	<u>6.0</u>
- Diluted (sen)	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>

* - EBITDA denotes "Earnings Before Interest, Tax, Depreciation and Amortisation"

The unaudited condensed consolidated income statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	AS AT 30 SEPTEMBER 2008 (UNAUDITED) RM'000	AS AT 31 DECEMBER 2007 (AUDITED) RM'000
Non-current assets		
Plant and equipment	2,266	2,560
Intangible assets	33,670	32,204
Investment in associates	47,375	23,005
Other investments	3,202	25,441
Deferred tax assets	1,418	1,394
Current assets		
Inventories	147	354
Trade receivables	10,919	15,290
Other receivables	7,536	4,830
Cash and bank balances	14,497	5,886
	<u>33,099</u>	<u>26,360</u>
Current liabilities		
Trade payables	5,162	5,564
Other payables	6,022	16,120
Borrowings	7,392	13,006
Hire purchase payable	20	79
Tax payable	367	88
	<u>18,963</u>	<u>34,857</u>
Net current assets/(liabilities)	<u>14,136</u>	<u>(8,497)</u>
	<u>102,067</u>	<u>76,107</u>
Financed by:		
Capital and reserves		
Equity attributable to equity holders of the parent		
Share capital	13,612	9,075
Share premium	68,640	37,631
Other reserves	(1,565)	(2,802)
Retained earnings	19,552	22,833
	<u>100,239</u>	<u>66,737</u>
Minority Interests	1,675	2,214
Total equity	<u>101,914</u>	<u>68,951</u>
Non-current liabilities		
Hire purchase payable	153	153
Amount owing to a director	-	7,003
	<u>102,067</u>	<u>76,107</u>
Net assets per share attributable to ordinary equity holders of the parent (sen)	<u>78</u>	<u>74</u>

The unaudited condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital RM'000	Non- Distributable Share Premium RM'000	Non- Distributable Other Reserves RM'000	Distributable Retained Earnings RM'000	Total RM'000	Minority Interests RM'000	Total Equity RM'000
<u>Nine (9) months period ended 30 September 2008</u>							
At 1 January 2008	9,075	37,631	(2,802)	22,833	66,737	2,214	68,951
Arising from translation of foreign currency	-	-	1,237	-	1,237	-	1,237
Net income/(expense) recognised directly in equity	9,075	37,631	(1,565)	22,833	67,974	2,214	70,188
Loss for the period	-	-	-	(4,228)	(4,228)	(522)	(4,750)
Total recognised income and expense for the period	9,075	37,631	(1,565)	18,605	63,746	1,692	65,438
Issuance of ordinary share right issue	4,537	31,009	-	-	35,546	-	35,546
Acquisition of a subsidiary	-	-	-	947	947	(17)	930
At 30 September 2008	<u>13,612</u>	<u>68,640</u>	<u>(1,565)</u>	<u>19,552</u>	<u>100,239</u>	<u>1,675</u>	<u>101,914</u>
<u>Nine (9) months period ended 30 September 2007</u>							
At 1 January 2007	9,075	37,631	(1,316)	33,237	78,627	4,315	82,942
Arising from translation of foreign currency	-	-	(1,326)	-	(1,326)	-	(1,326)
Net income/(expense) recognised directly in equity	9,075	37,631	(2,642)	33,237	77,301	4,315	81,616
Profit for the period	-	-	-	5,401	5,401	(141)	5,260
Total recognised income and expense for the period	9,075	37,631	(2,642)	38,638	82,702	4,174	86,876
Acquisition of a subsidiary	-	-	-	-	-	42	42
At 30 September 2007	<u>9,075</u>	<u>37,631</u>	<u>(2,642)</u>	<u>38,638</u>	<u>82,702</u>	<u>4,216</u>	<u>86,918</u>

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)

	NINE (9) MONTHS ENDED 30 SEPTEMBER 2008 RM'000	NINE (9) MONTHS ENDED 30 SEPTEMBER 2007 RM'000
Cash flows from operating activities		
(Loss)/Profit before taxation	(4,527)	5,508
		28,561
Adjustments for non-cash item:		
Non-cash items	3,459	539
Non-operating items	32	1
Provision for doubtful debts	3,079	-
Plant and equipment written off	1,019	-
Share of results of jointly controlled entity	-	274
Share of results of associates	2,748	(258)
Profit before working capital changes	<u>5,810</u>	<u>34,625</u>
Changes in working capital:		
Decrease in inventories	207	-
Net change in current assets	(1,295)	8,732
Net change in current liabilities	(2,610)	(1,894)
Cash generated from operations	<u>2,112</u>	<u>41,463</u>
Tax paid	(63)	(122)
Net cash generated from operating activities	<u>2,049</u>	<u>41,341</u>
		-
Cash flows from investing activities		
Acquisition of subsidiaries	(3,106)	3
Investment in associate	(4,878)	-
Other Investment	-	(3,325)
Acquisition of plant and equipment	(2,893)	(18,523)
Acquisition of intangible assets	(5,399)	-
Proceed from disposal of plant and equipment	-	(3)
Interest received	263	67
Payment made to a director	(7,003)	-
Net cash used in investing activities	<u>(23,016)</u>	<u>(21,781)</u>
Cash flows from financing activities		
Proceed from issuance of ordinary shares	36,300	-
Listing expenses	(754)	-
Proceed from term loan	5,000	-
Loan repayment	(532)	-
Interest paid	(295)	(68)
Repayment of hire purchase	(59)	(89)
Net cash generated from / (used in) financing activities	<u>39,660</u>	<u>(157)</u>
Net increase/(decrease) in cash and cash equivalents	18,693	19,403
Cash and cash equivalents at 1 January	(7,120)	12,707
Cash and cash equivalents at end of period (i)	<u>11,573</u>	<u>32,110</u>

i) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

Cash and bank balances	14,497	33,488
Bank Overdraft	(2,924)	(1,378)
	<u>11,573</u>	<u>32,110</u>

The unaudited condensed consolidated cash flow statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2007 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

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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 Chapter 9, Part K 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 (“FYE”) 31 December 2007.

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 FYE 31 December 2007.

A2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2007 except for the adoption of the following revised FRS effective for financial year beginning 1 January 2008:

FRS 107	Cash Flow Statements
FRS 112	Income Taxes
FRS 118	Revenue
FRS 134	Interim Financial Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets

The Group has not adopted FRS 139 Financial Instruments: Recognition and Measurement as the effective date has been deferred to 1 January 2010.

The adoption of the abovementioned FRSs does not result in significant changes in accounting policies of the Group.

A3. Auditors’ Report on the Preceding Annual Financial Statements

The auditor’s report on the latest audited financial statements for the FYE 31 December 2007 was not subject to any audit qualification.

A4. Seasonal or Cyclical Factors of Interim Operations

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 materials changes in estimates of amounts reported in prior financial years, which may have a material effect in the current quarter results.

A7. Issuance and Repayment of 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. Dividends Paid or Proposed

There were no dividends declared and paid for the current quarter under review.

A9. Segmental Information

The management determines that its geographical segments comprise the following markets which have similar characteristics:

- (i) Matured markets – countries which the Group has achieved stable penetration rate including Malaysia and Singapore.
- (ii) Emerging markets – countries with potential growth and penetration rate including Hong Kong, People's Republic of China, Indonesia, Thailand, Vietnam, Philippines and India.

Segmental information by geographical segments for the nine (9) months period ended 30 September 2008

	Matured markets RM'000	Emerging markets RM'000	Elimination RM'000	Total RM'000
Revenue				
Sales to external customers	14,136	14,425	-	28,561
Inter-segment sales	-	-	-	-
Total revenue	14,136	14,425	-	28,561
Results				
Segment results	(4,139)	3,155	(795)	(1,779)
Share of results of associates	(2,748)	-	-	(2,748)
Loss before taxation				(4,527)
Taxation				(223)
Loss for the period				(4,750)

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A9. Segmental Information (con't)

Segmental information by geographical segments for the nine months period ended 30 September 2007

	Matured markets RM'000	Emerging markets RM'000	Elimination RM'000	Total RM'000
Revenue				
Sales to external customers	26,548	11,755	-	38,303
Inter-segment sales	1,858	-	(1,858)	-
Total revenue	<u>28,406</u>	<u>11,755</u>	<u>(1,858)</u>	<u>38,303</u>
Results				
Segment results	1,880	4,119	(475)	5,524
Share of results of associates	258	-	-	258
Share of results of jointly controlled entities	<u>(274)</u>	<u>-</u>	<u>-</u>	<u>(274)</u>
Profit before tax				5,508
Taxation				<u>(248)</u>
Profit for the period				<u>5,260</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

There were no material events subsequent to the end of the current quarter.

A12. Changes in Composition of the Group

On 3 September 2008, MTB had announced the conversion of the Murabahah Loan Notes ("MLN") issued by GMO Limited ("GMOL") into ordinary shares of GMOL at 7 pence per share. Subsequent to the aforesaid conversion, the Company now holds total of 73,436,873 ordinary shares representing 37.91% of the equity interest in GMOL an increase of 7.98% from 29.93%.

On 22 October 2008, MTB had announced that the Company's wholly owned subsidiary, Rayson Management Limited, which is held through mTouche (HK) Limited, a wholly owned subsidiary of MTB, had deregistered Teleglobal Network Limited ("TeleGlobal") under Section 291AA(9) of the Hong Kong Companies Ordinance and has ceased to be a subsidiary of the company.

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A13. Contingent Assets or Changes on Contingent Liabilities

There were no contingent assets or contingent liabilities since the last annual balance sheet date.

A14. Significant Related Party Transaction

Save as disclosed below, the Directors of MTB are of the opinion that there are no other related party transactions which would have material impact on the financial position and the business of the Group during the current financial quarter.

The significant related party transaction by Inova Venture Pte Ltd (“Inova”), a subsidiary of MTB with Green Packet Berhad, a substantial shareholder of Inova holding 20% of the equity interest of Inova is as follows:

Transaction Party	Nature of transaction	9 months ended 30 September 2008	
		SGD'000	RM Equivalent RM'000
Green Packet Berhad	Distribution of Inova's products and solutions	334	783

The foreign exchange rate as at 30 September 2008 was SGD1.00 : RM2.3458

B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENT OF BURSA SECURITIES FOR THE MESDAQ MARKET

B1. Review of Performance

For the third quarter and nine (9) months financial period ended 30 September 2008, the Group recorded revenue of approximately RM10.5 million and RM28.6 million respectively. During this nine (9) months period, the Group's core mobile messaging business continues to achieve stable growth. However, discontinued sales of Voice Over Internet Protocol (“VOIP”) related products and services led to an overall lower Group revenue. The Group recorded positive EBITDA of approximately RM1.1 million and Profit Before Taxation (“PBT”) of approximately RM0.3 million for the third quarter ended 30 September 2008. Excluding share of results of GMO Limited (“GMOL”), an associate company, the Group recorded PBT of RM1.7 million in Q3'08 as compared to Q3'07 of RM1.4 million.

The performance of GMOL continues to improve steadily in terms of revenue but expenses incurred relating to the conversion of the MLN issued by GMOL into ordinary shares of GMOL as mentioned in paragraph A12 as well as higher financial and operational costs resulted in losses for the period under review.

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B2. Material Changes in Profit Before Taxation (“PBT”) In Comparison to the Previous Quarter

The Group’s performance for the financial quarter ended 30 September 2008 has improved as compared to the previous quarter with an increase in revenue and PBT with continuous production innovation, launch of new products and expanded distribution channels. The Group recorded EBITDA of RM1.1 million and PBT of RM0.3 million in the current quarter. There were no material expenses incurred in the third quarter under review. Excluding the share of results of GMOL, the Group recorded a profit of RM1.7 million.

B3. Future Prospect

Moving forward, despite the anticipated global economic crisis, the Group will focus more on its core mobile messaging services which are operationally profitable and drive our existing and new products across our eight (8) countries of operation.

Premised on the above and barring any unforeseen circumstances, the Directors of MTB are optimistic of achieving growth for the financial year 2008.

B4. Variance on Profit Forecast

Not applicable as the Group has not issued any profit forecast.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30.09.2008 RM’000	Preceding year corresponding quarter 30.09.2007 RM’000	Current year to date 30.09.2008 RM’000	Preceding year corresponding period 30.09.2007 RM’000
Current tax:				
Malaysian income tax				
- Group	385	(177)	-	(248)
Foreign tax	-	-	(223)	-
	385	(177)	(223)	(248)
Deferred tax	-	-	-	-
	385	(177)	(223)	(248)

Malaysian income tax is calculated at the Malaysian statutory tax rate of 26% of the estimated assessable profit for the year. Taxation for other jurisdiction is calculated at the rate prevailing in the respective jurisdiction.

For the period ended 30 Sept 2008 the provision for taxation arose from company operating in Thailand.

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B5. Taxation (con't)

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. Profits on Sale of Unquoted Investments and/or Properties

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

B7. Purchase or Disposal of Quoted Securities

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

B8. Status of Corporate Proposals

Proposed Rights Issue with Warrants, Proposed Bonus Issue and Proposed Increase in Authorised Share Capital.

The Increase in Authorised Share Capital and the Rights Issue with Warrants were completed on 16 November 2007 and 28 January 2008 respectively while the Bonus Issue is currently pending implementation.

As at 30 September 2008, the Company had utilised approximately 79% of the proceeds raised from the Rights Issue with Warrants exercise which was completed on 28 January 2008. Details of the utilisation are as follows:

	Proposed Amount RM'000	Actual Utilisation RM'000	Unused Amount RM'000
Nature of Expenses			
Working Capital	2,000	2,000	-
Acquisition of MLN	18,000	18,000	-
Future viable investments	15,000	7,275	7,725
Right Issue expenses	1,300	1,300	-
Total	36,300	28,575	7,725

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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 September 2008.

Short Term Borrowing

	As at 30.09.2008 RM'000	As at 30.09.2007 RM'000
Overdraft	2,923	1,378
	2,923	1,378

Long Term Borrowing

Term Loan (secured)	As at 30.09.2008 RM'000	As at 30.09.2007 RM'000
Operating	4,469	-
	4,469	-

The term loan is secured by deposits placed with a licensed bank.

Hire purchase payable (secured)

	As at 30.09.2008 RM'000	As at 30.09.2007 RM'000
Malaysia		
- Payable within 12 months	20	16
- Payable after 12 months	153	232

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 and financial year under review.

B12. Dividends

No interim/final dividend was declared during the current quarter under review.

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B13. Earnings/(Loss) Per Share

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

	Third quarter ended		Accumulated nine months ended	
	30.9.2008	30.9.2007	30.9.2008	30.9.2007
Profit/(loss) for the period attributable to the ordinary equity holder (RM'000)	917	1,022	(4,228)	5,401
Weighted average number of ordinary shares in issue ('000)	131,488	90,750	131,488	90,750
Basic earnings/(loss) per share attributable to equity holders (sen)	0.7	1.1	(3.2)	6.0
