

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

**INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER
ENDED 30 JUNE 2010**

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|--|--|--|--|---|
| | CURRENT YEAR QUARTER 30 JUNE 2010 RM'000 | PRECEDING YEAR CORRESPONDING QUARTER 30 JUNE 2009 RM'000 | CURRENT YEAR TO-DATE 30 JUNE 2010 RM'000 | PRECEDING YEAR CORRESPONDING PERIOD 30 JUNE 2009 RM'000 |
| Revenue | 9,669 | 11,263 | 20,822 | 22,321 |
| Cost of sales | (6,974) | (6,563) | (13,901) | (13,467) |
| Gross profit | <u>2,695</u> | <u>4,700</u> | <u>6,921</u> | <u>8,854</u> |
| Administrative expenses | (2,522) | (3,144) | (5,065) | (6,415) |
| Other expenses | (632) | (201) | (905) | (849) |
| EBITDA* | <u>(459)</u> | <u>1,355</u> | <u>951</u> | <u>1,590</u> |
| Other income | 111 | 105 | 703 | 323 |
| Finance costs | (118) | (95) | (220) | (195) |
| Depreciation and amortisation | (606) | (840) | (1,239) | (1,686) |
| Share of results of associates | 410 | 184 | 829 | 391 |
| (Loss)/profit before taxation | <u>(662)</u> | <u>709</u> | <u>1,024</u> | <u>423</u> |
| Taxation | - | - | - | - |
| (Loss)/profit for the period | <u>(662)</u> | <u>709</u> | <u>1,024</u> | <u>423</u> |
| Other comprehensive income | | | | |
| Exchange difference on translating foreign operations | 184 | (871) | (410) | (481) |
| Total comprehensive income | <u>(478)</u> | <u>(162)</u> | <u>614</u> | <u>(58)</u> |
| Total (loss)/profit attributable to: | | | | |
| Equity holders of the parent | (662) | 455 | 1,024 | 169 |
| Minority interests | - | 254 | - | 254 |
| | <u>(662)</u> | <u>709</u> | <u>1,024</u> | <u>423</u> |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the parent | (478) | (416) | 614 | (312) |
| Minority interests | - | 254 | - | 254 |
| | <u>(478)</u> | <u>(162)</u> | <u>614</u> | <u>(58)</u> |
| Profit/(loss) per share attributable to equity holders of the parent | | | | |
| - Basic/diluted (sen) | <u>(0.34)</u> | <u>0.34</u> | <u>0.53</u> | <u>0.13</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 2009 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

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STATEMENT OF FINANCIAL POSITION

| | AS AT 30 JUNE 2010 (UNAUDITED) RM'000 | AS AT 31 DECEMBER 2009 (AUDITED) RM'000 |
|---|--|--|
| Non-current assets | | |
| Plant and equipment | 1,221 | 1,593 |
| Intangible assets | 7,335 | 8,399 |
| Investments in associates | 7,780 | 6,915 |
| Other investment | - | 713 |
| Deferred tax assets | 1,288 | 1,315 |
| Current assets | | |
| Trade and other receivables | 10,516 | 12,789 |
| Tax recoverable | 314 | 216 |
| Cash and bank balances | 21,281 | 8,443 |
| | <u>32,111</u> | <u>21,448</u> |
| Current liabilities | | |
| Borrowings | 2,311 | 1,730 |
| Trade and other payables | 10,165 | 11,463 |
| | <u>12,476</u> | <u>13,193</u> |
| Net current assets | <u>19,635</u> | <u>8,255</u> |
| | <u>37,259</u> | <u>27,190</u> |
| Financed by: | | |
| Capital and reserves | | |
| Equity attributable to equity holders of the parent | | |
| Share capital | 24,283 | 13,612 |
| Share premium | 53,298 | 61,212 |
| Treasury shares | (1,511) | (3,375) |
| Warrant reserve | 9,620 | 7,428 |
| Capital redemption reserve | 2,642 | - |
| Other reserves | 24,198 | 24,608 |
| Accumulated losses | (79,814) | (80,838) |
| | <u>32,716</u> | <u>22,647</u> |
| Minority interests | <u>2</u> | <u>2</u> |
| Total equity | 32,718 | 22,649 |
| Non-current liabilities | | |
| Borrowings | 4,541 | 4,541 |
| | <u>37,259</u> | <u>27,190</u> |
| Net assets per share attributable to ordinary equity holders of the parent (sen) | <u>17</u> | <u>18</u> |

The unaudited condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER
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STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| | Share Capital RM'000 | Share Premium RM'000 | Treasury Shares RM'000 | Non-Distributable Warrant Reserves RM'000 | Capital Redemption Reserve RM'000 | Other Reserves RM'000 | Distributable (Accumulated Losses)/ Retained Earnings RM'000 | Total RM'000 | Minority Interests RM'000 | Total Equity RM'000 |
|--|----------------------------|----------------------------|------------------------------|--|---|-----------------------------|---|-----------------|---------------------------------|---------------------------|
| Six (6) months period ended 30 June 2010 | | | | | | | | | | |
| At 1 January 2010 | 13,612 | 61,212 | (3,375) | 7,428 | - | 24,608 | (80,838) | 22,647 | 2 | 22,649 |
| Share of associates' reserves | - | - | - | - | - | - | - | - | - | - |
| Net income/(expense) recognised directly in equity | 13,612 | 61,212 | (3,375) | 7,428 | - | 24,608 | (80,838) | 22,647 | 2 | 22,649 |
| Total comprehensive income for the period | - | - | - | - | - | (410) | 1,024 | 614 | - | 614 |
| Total recognised income and expense for the period | 13,612 | 61,212 | (3,375) | 7,428 | - | 24,198 | (79,814) | 23,261 | 2 | 23,263 |
| Issuance of ordinary shares pursuant to rights issue with free warrants | 13,313 | (2,773) | - | 2,192 | - | - | - | 12,732 | - | 12,732 |
| Treasury shares : | | | | | | | | | | |
| Purchased | - | - | (7,250) | - | - | - | - | (7,250) | - | (7,250) |
| Sold | - | 1,507 | 2,512 | - | - | - | - | 4,019 | - | 4,019 |
| Transaction costs | - | - | (46) | - | - | - | - | (46) | - | (46) |
| Cancellation of treasury shares: | | | | | | | | | | |
| Issued capital diminished transfer to capital redemption reserve | (2,642) | - | - | - | 2,642 | - | - | - | - | - |
| Cost of treasury shares cancelled by utilised share premium | - | (6,648) | 6,648 | - | - | - | - | - | - | - |
| At 30 June 2010 | <u>24,283</u> | <u>53,298</u> | <u>(1,511)</u> | <u>9,620</u> | <u>2,642</u> | <u>24,198</u> | <u>(79,814)</u> | <u>32,716</u> | <u>2</u> | <u>32,718</u> |
| Six (6) months period ended 30 June 2009 | | | | | | | | | | |
| At 1 January 2009 | 13,612 | 61,212 | (634) | 7,428 | - | 25,106 | (15,593) | 91,131 | 202 | 91,333 |
| Share of associates' reserves | - | - | - | - | - | 45 | - | 45 | - | 45 |
| Net income/(expense) recognised directly in equity | 13,612 | 61,212 | (634) | 7,428 | - | 25,151 | (15,593) | 91,176 | 202 | 91,378 |
| Total comprehensive income for the period | - | - | - | - | - | (481) | 169 | (312) | 254 | (58) |
| Total recognised income and expense for the period | 13,612 | 61,212 | (634) | 7,428 | - | 24,670 | (15,424) | 90,864 | 456 | 91,320 |
| Disposal of a subsidiary | - | - | - | - | - | - | - | - | (254) | (254) |
| Treasury shares : | | | | | | | | | | |
| Purchased | - | - | (1,844) | - | - | - | - | (1,844) | - | (1,844) |
| Transaction costs | - | - | (11) | - | - | - | - | (11) | - | (11) |
| At 30 June 2009 | <u>13,612</u> | <u>61,212</u> | <u>(2,489)</u> | <u>7,428</u> | <u>-</u> | <u>24,670</u> | <u>(15,424)</u> | <u>89,009</u> | <u>202</u> | <u>89,211</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 2009 and the accompanying explanatory notes attached to the interim financial statements on pages 5 to 12.

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STATEMENT OF CASH FLOWS

| | SIX (6) MONTHS ENDED 30 JUNE 2010 RM'000 | SIX (6) MONTHS ENDED 30 JUNE 2009 RM'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before taxation | 1,024 | 423 |
| Adjustments for non-cash item: | | |
| Non-cash items | 1,191 | 915 |
| Non-operating items | 122 | 89 |
| Plant and equipment written off | 2 | 1 |
| Loss on disposals of interests in subsidiaries | - | 192 |
| Gain on disposal of investment | (520) | - |
| Share of results of associates | (829) | (391) |
| Profit before working capital changes | 990 | 1,229 |
| Changes in working capital: | | |
| Decrease in inventories | - | 69 |
| Net change in current assets | 2,273 | (597) |
| Net change in current liabilities | (1,298) | (608) |
| Cash generated from operations | 1,965 | 93 |
| Tax paid | (98) | 124 |
| Net cash generated from operating activities | 1,867 | 217 |
| Cash flows from investing activities | | |
| Acquisition of subsidiaries | (65) | - |
| Investment in associate | (37) | - |
| Proceed from disposal of investment | 1,233 | - |
| Acquisition of plant and equipment | (74) | (115) |
| Disposals of interest in subsidiaries | - | 116 |
| Interest received | 98 | 106 |
| Net cash generated from investing activities | 1,155 | 107 |
| Cash flows from financing activities | | |
| Proceeds from issuance of new shares | 13,313 | - |
| Listing expenses | (581) | - |
| Proceeds from borrowing | 1,384 | - |
| Loan repayment | (760) | (500) |
| Purchase of treasury shares | (4,784) | (1,855) |
| Resale of treasury shares | 1,507 | - |
| Interest paid | (220) | (195) |
| Repayment of hire purchase | (43) | (39) |
| Net cash generated from/(used in) financing activities | 9,816 | (2,589) |
| Net increase/(decrease) in cash and cash equivalents | 12,838 | (2,265) |
| Cash and cash equivalents at 1 January | 8,443 | 9,566 |
| Cash and cash equivalents at end of period (i) | 21,281 | 7,301 |

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 | 21,281 | 9,768 |
| Bank overdraft | - | (2,467) |
| | 21,281 | 7,301 |

The unaudited condensed consolidated cash flow statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2009 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 ACE Market.

The interim financial report should be read in conjunction with the latest audited financial statements of mTouche Technology Berhad (“MTB or Company”) and its subsidiaries (“Group”) for the financial year ended (“FYE”) 31 December 2009.

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 2009.

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 2009. The adoption of the following FRS will be effective in the relevant financial period:

| | | Effective for financial period beginning on or after |
|----------------------|--|---|
| Amendment to FRS 132 | Financial Instruments: Classification of Rights Issues | 1 March 2010 |
| FRS 3 | Business Combinations (revised) | 1 July 2010 |
| FRS 127 | Consolidated and Separate Financial Statements (amended) | 1 July 2010 |
| Amendment to FRS 5 | Non-current Assets Held for Sale and Discontinued Operations | 1 July 2010 |
| Amendment to FRS 138 | Intangible Assets | 1 July 2010 |

The adoption of the abovementioned FRSs will 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 2009 was not subject to any audit qualification.

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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.

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 material 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

The shareholders of MTB had given their approval for MTB to buy back its own shares at the Extraordinary General Meeting held on 26 August 2008 and such authority was further renewed at the 6th Annual General Meeting of MTB held on 14 May 2010. During the 6 months period ended 30 June 2010, MTB bought back from the open market, 28,989,400 ordinary shares of RM0.10 each at an average price of RM0.252 per share. The total consideration for the shares bought during the period ended 30 June 2010, including transaction cost was RM7,295,468.39 and was financed by internally generated fund. The shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965.

During the 6 months period ended 30 June 2010, the Company sold 8,943,000 treasury shares in the open market. The average selling price of the treasury shares was RM0.448 per share.

On 6 May 2010, the Company had cancelled 26,422,000 ordinary shares of RM0.10 each for total cost of RM6,647,646 by utilising share premium account. Pursuant to Section 67A(3E) of the Companies Act, 1965, the Company is required to create a capital redemption reserve for the issued capital diminished.

A8. Dividends Paid or Proposed

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

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

Segmental information by geographical segments for the six (6) months period ended 30 June 2010.

| | Matured markets RM'000 | Emerging markets RM'000 | Elimination RM'000 | Total RM'000 |
|-------------------------------|---------------------------------------|--|-------------------------------|-------------------------|
| Revenue | | | | |
| Sales to external customers | 15,522 | 5,300 | - | 20,822 |
| Inter-segment sales | 217 | - | (217) | - |
| Total revenue | <u>15,739</u> | <u>5,300</u> | <u>(217)</u> | <u>20822</u> |
| Results | | | | |
| Segment results | (1,231) | 1,426 | - | 195 |
| Share of result of associates | 829 | - | - | 829 |
| Profit before taxation | | | | 1,024 |
| Taxation | | | | - |
| Profit for the period | | | | <u>1,024</u> |

Segmental information by geographical segments for the six (6) months period ended 30 June 2009.

| | Matured markets RM'000 | Emerging markets RM'000 | Elimination RM'000 | Total RM'000 |
|--------------------------------|---------------------------------------|--|-------------------------------|-------------------------|
| Revenue | | | | |
| Sales to external customers | 11,310 | 11,011 | - | 22,321 |
| Inter-segment sales | - | - | - | - |
| Total revenue | <u>11,310</u> | <u>11,011</u> | <u>-</u> | <u>22,321</u> |
| Results | | | | |
| Segment results | 4,554 | 355 | (4,877) | 32 |
| Share of results of associates | 802 | (411) | - | 391 |
| Loss before taxation | | | | 423 |
| Taxation | | | | - |
| Loss for the period | | | | <u>423</u> |

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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 18 June 2010, MTB had announced the acquisition of additional 49,677 ordinary shares of Philippine Peso (“PHP”) 100 each, representing 59.99% of the issued and paid-up share capital of mTouche Technology Philippines, Inc (“MTPI”) from Angelio F. Verzo for a total consideration of PHP100 (equivalent to approximately RM7.00) (“Acquisition”). With the Acquisition, MTPI will become a 99.99% owned subsidiary of MTB

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

The Directors of MTB are of the opinion that there are no related party transactions which would have material impact on the financial position and the business of the Group during the current financial quarter.

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

B1. Review of Performance

For the cumulative quarter ended 30 June 2010, the Group achieve revenue of approximately RM20.8 million, EBITDA of RM0.9 million and Profit Before Taxation (“PBT”) of RM1.0 million. There were no material expenses incurred for the current quarter.

B2. Material Changes in Profit Before Taxation In Comparison to the Previous Quarter

The Group record negative EBITDA of RM0.4 million and Loss Before Taxation (“LBT”) of RM0.6 million in the current quarter as compare to EBITDA of RM1.4 million and PBT of RM1.7 million in the previous quarter. There were no material expenses incurred in the quarter under review.

B3. Future Prospect

The Group will continue to focus on its core mobile messaging services and drive our existing and new products across our nine (9) countries of operation.

Premised on the above and barring any unforeseen circumstances, the Directors of MTB are optimistic of achieving satisfactory performance for the financial year 2010.

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 30.6.2010 RM'000 | Preceding year corresponding quarter 30.6.2009 RM'000 | Current year to date 30.6.2010 RM'000 | Preceding year corresponding period 30.6.2009 RM'000 |
| Current tax benefit/(expense): | | | | |
| Malaysian income tax | - | - | - | - |
| Foreign tax | - | - | - | - |
| Deferred tax | - | - | - | - |
| | - | - | - | - |

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B5. Taxation (con't)

Malaysian income tax is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the year. Taxation for other jurisdiction is calculated at the rate prevailing in the respective jurisdiction.

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

a) Proposed Rights Issue with Warrants

The Rights Issue with Warrants was completed on 19 March 2010.

As at 30 June 2010, the Company had utilised approximately 4% of the proceeds raised from the Rights Issue with Warrants exercise. Details of the utilisation are as follows:

| Nature of Expenses | Proposed Amount RM'000 | Actual Utilisation RM'000 | Unused Amount RM'000 |
|---------------------------|---------------------------------------|--|-------------------------------------|
| Working capital | 12,713 | - | 12,713 |
| Rights issue expenses | 600 | 581 | 19 |
| Total | <u>13,313</u> | <u>581</u> | <u>12732</u> |

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B8. Status of Corporate Proposals (con't)

b) Utilisation of proceeds from the Rights Issue with Warrants completed on 28 January 2008

As at 30 June 2010, the Company had utilised approximately 81% of the proceeds raised from the Rights Issue with Warrants exercise. Details of the utilisation are as follows:

| Nature of Expenses | Proposed Amount RM'000 | Actual Utilisation RM'000 | Unused Amount RM'000 |
|-------------------------------------|---------------------------------------|--|-------------------------------------|
| Working capital | 2,000 | 2,000 | - |
| Acquisition of murabahah loan notes | 18,000 | 18,000 | - |
| Future viable investments | 15,000 | 7,926 | 7,074 |
| Right issue expenses | 1,300 | 1,300 | - |
| Total | 36,300 | 29,226 | - |

B9. Borrowings and Debt Securities

Save as disclosed below, there were no other borrowings or debt securities in the Group as at 30 June 2010.

Short Term Borrowings

| | As at 30.6.2010 RM'000 | As at 30.6.2009 RM'000 |
|---------------|---------------------------------------|---------------------------------------|
| Overdraft | - | 2,467 |
| Borrowing | 1,384 | - |
| Term Loan | 899 | 489 |
| Hire Purchase | 28 | 44 |
| | 2,311 | 3,000 |

Long Term Borrowings

| | As at 30.6.2010 RM'000 | As at 30.6.2009 RM'000 |
|---------------|---------------------------------------|---------------------------------------|
| Term Loan | 4,541 | 3,213 |
| Hire Purchase | - | 71 |
| | 4,541 | 3,284 |

The overdraft and term loan are secured by deposits placed with a licensed bank. The overdraft has been converted to term loan.

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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.

B13. (Loss)/Profit Per Share

The basic (loss)/profit per share has been calculated based on the (loss)/profit 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, excluding treasury shares held by the Company.

| | Second quarter ended | | Accumulated six months ended | |
|--|---------------------------------|------------------|---|------------------|
| | 30.6.2010 | 30.6.2009 | 30.6.2010 | 30.6.2009 |
| (Loss)/profit for the period attributable to the ordinary equity holder (RM'000) | (662) | 455 | 1,024 | 176 |
| Weighted average number of ordinary shares in issue ('000) | 194,161 | 133,388 | 194,161 | 133,388 |
| Basic (loss)/profit per share attributable to equity holders (sen) | (0.34) | 0.34 | 0.53 | 0.13 |